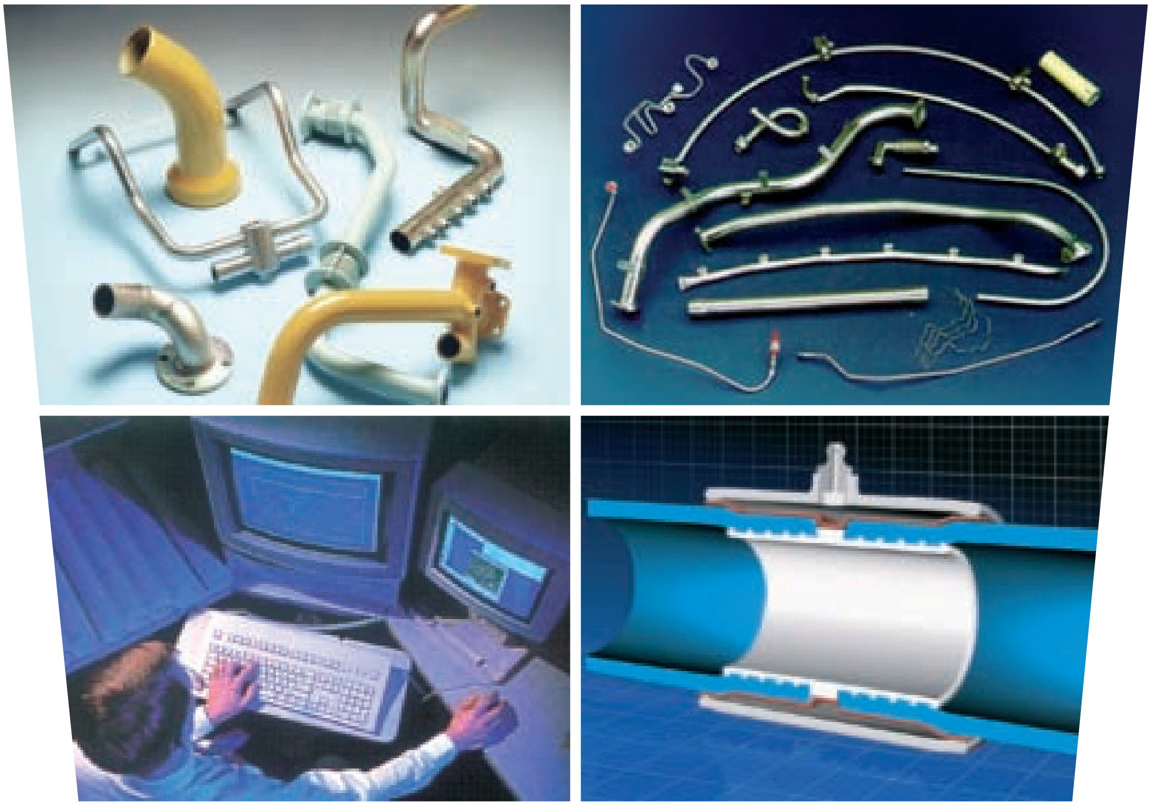
# Tricorn Group plc



## Annual Report and Accounts

## 2006

# Our Group

AIM listed Tricorn Group plc is the holding company for a group of companies that develop and manufacture products and services for the engineering sector.

Under a new senior management team the Group has been significantly reshaped over the last 3 years and costs reduced with considerable success. It is not surprising that with a policy based on customer satisfaction, quality and price competitiveness, its customer base includes major blue chip companies with world-wide activities and reputations.

## Malvern Tubular Components Limited

MTC is a specialist manufacturer of tubular components and assemblies. Its customer base is blue chip / international companies in industries such as power generation, commercial vehicle, radiant heating and measurement systems. QS9000 and ISO14001 approved, the company is continuing to invest in lean manufacturing, increased capacity and sourcing components from low cost countries.

*www.mtc.uk.com*

## RMDG Aerospace Ltd (formerly Tecalemit Aerospace Ltd)

RMDG Aerospace,acquired in June 2006, supplies the aerospace industry with a specialised range of rigid pipes and specific fittings. Its components are found in a wide range of aircraft and are recognised for their excellence world wide.

The high level of expertise of its engineers combined with the latest inspection and testing equipment enables it to research and test new solutions to meet the stringent design criteria required by our clients.

RMDG have an extensive list of quality approvals including ISO 9001/EN 9100.

*www.rmdg.co.uk*

## Redman Fittings Limited

The innovative Redman jointing system is patented world-wide and provides a fast, effective method of joining polyethylene pipes, typically as used in the utility industry. It develops and supplies major OEM's with bespoke jointing solutions for a variety of pipe systems as well as supplying the utilities industry both directly and through its growing distribution network.

*www.redmanfittings.com*

## Issquared Limited

Provides engineering consultancy and development services to the utility industry including product development feasibility studies, pipeline inspection and condition assessment.

# Year in brief

- Excellent progress on all fronts
- Sales **£6,202k** (£6,075k 2005)
- Operating profit* **£654k** (£279k 2005)
- Operating cash flow **£935k** (£315k 2005)
- Adjusted earnings per share** **2.06p** (0.33p 2005)
- Acquisition of Tecalemit Aerospace

* before goodwill amortisation

** basic earnings per share before 2005 exceptional items

# Contents

# Chairman's Statement

**. . . with operating profit exceeding 10% of sales for the first time.**

The year ended 31 March 2006 has seen encouraging results for the Tricorn Group with operating profit exceeding 10% of sales for the first time and operating cash flow reaching 146% of operating profit. Earnings per share were 2.06p (2005: 1.06p loss).

The core business **Malvern Tubular Components** (MTC), our tube manipulation specialist, grew by 6% primarily through market share gains. This progress was assisted by the MTC factory achieving record levels of quality and delivery reliability to our customers during the year as part of our focus on improving customer value.

Productivity in the MTC factory improved by a further 15% during the year and we continued to extend our component purchases in lower cost countries as another arm of our drive to continually reduce our cost base.

**Redman Fittings** (Redman) moved into profit for the first time in the last six months of the year as improved product designs and operational processes took effect. This was despite a small drop in sales as the water industry activity dropped sharply following the regulatory review. Activity is now returning to normal levels and Redman is expected to make a useful contribution to Group profits going forward.

**ISSquared** (ISS) our small design consultancy for the water industry successfully completed its design project for a Pipe Line Inspection Vehicle and returned a profit for the year. We have now decided to combine ISS and Redman as one water industry focussed company employing the design expertise of ISS to support the fittings program and withdrawing from external design consultancy.

On June 6 we announced the acquisition of Tecalemit Aerospace for the cash consideration of £1.6m. Tecalemit is a tube manipulating company similar to Malvern Tubular Components but specialising in the Aerospace industry as opposed to MTC's focus on the Power Generation sector. In 2005 Tecalemit had sales of £4.6m and profit before tax of £4k.

The lessons and techniques used to drive forward the MTC performance will now be used to develop the Tecalemit business and this together with the very strong outlook for growth in the Aerospace sector make Tecalemit a very attractive add-on to the Tricorn Group.

The outlook for the Group as a whole remains very positive with the power generation sector remaining strong, aerospace expanding and our drive for reduced costs continuing to be successful.

We will continue to look for acquisition opportunities where the Tricorn Management expertise can add significant value.

Finally, I would like to thank our employees, customers, suppliers and shareholders for their continuing support.

**Nick Paul**
Chairman
6 June 2006

# Directors, Secretary and Advisors

| | |
|---|---|
| **Company registration number:** | 1999619 |
| **Registered office:** | Spring Lane<br>Malvern Link<br>Malvern<br>Worcestershire<br>WR14 1DA |
| **Directors:** | Nicholas Campbell Paul (Chairman and Non-Executive Director)<br>Steven William Cooper (Chief Executive)<br>Michael Ian Welburn (Group Sales Director)<br>Noel Silverthorne (Technical Director)<br>Roger Allsop (Non-Executive Director)<br>Jeffrey Rubins F.C.A. (Non-Executive Director) |
| **Secretary:** | Michael Greensmith |
| **Nominated Adviser and Broker:** | Collins Stewart Limited<br>9th Floor<br>88 Wood Street<br>London<br>EC2V 7QR |
| **Bankers:** | National Westminster Bank plc<br>1st Floor St John's House<br>Church Street<br>Bromsgrove<br>Worcestershire<br>B61 8DN |
| **Solicitors:** | Orme Dykes & Yates<br>National Westminster Bank Chambers<br>The Homend<br>Ledbury<br>Herefordshire<br>HR8 1AB |
| **Auditors:** | Grant Thornton UK LLP<br>Registered Auditors<br>Chartered Accountants<br>Enterprise House<br>115 Edmund Street<br>Birmingham<br>B3 2HJ |
| **Registrars:** | Neville Registrars Limited<br>Neville House<br>18 Laurel Lane<br>Halesowen<br>West Midlands<br>B63 3DA |

# Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 March 2006.

**Principal activity**
Tricorn Group plc is the parent company of a group of specialist engineering subsidiaries whose activities incorporate high precision tube manipulation, systems engineering and specialist fittings.

**Business review**
A review of the progress of the Group during the year, and its prospects for the future, are included in the Chairman's report.

There was a profit for the year after taxation amounting to £638,318 (2005 loss: £329,158). The Directors do not recommend the payment of a dividend.

**Financial risk management objectives and policies**
The Group's principal financial instruments comprise an invoice discounting facility, hire purchase and finance lease contracts, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. The Group does not enter into derivative transactions.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, commodity price risk, foreign currency risk, and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk
The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating facilities. The Group finances specific large plant acquisitions via hire purchase or finance lease contracts. The Group keeps sufficient funds on deposit at variable rates of interest to finance future acquisitions.

Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of deposits, overdrafts, invoice discounting and finance lease and hire purchase contracts. Money on deposit is held on treasury reserve, partly to finance working capital and also to help finance future acquisitions.

Commodity price risk
The Group's exposure to the price of steel is high, therefore selling prices are monitored regularly to reduce the impact of such risk and opportunities to reduce material costs are explored constantly. The Group has partly responded to this risk by sourcing materials in low cost countries.

Foreign currency risk
Certain purchases are made in foreign currencies, but the Group's sales are all within the United Kingdom and consequently the Group is not significantly exposed to currency risk. The Group does not hedge any transactions, and foreign exchange differences on retranslation of foreign currency assets and liabilities are taken to the profit and loss account of the Group.

Credit risk
The Group trades with only recognised, creditworthy third parties. It is the Group policy that all customers who wish to trade on credit terms are subject to credit vetting procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

**Directors**
The present membership of the Board is set out below. All served on the Board throughout the year.

The interests of the Directors and their families in the shares of the Company as at 1 April 2005 and 31 March 2006 were as follows:

| | **Ordinary shares of 10p each** | |
|---|---|---|
| | ***2006*** | 2005 |
| N C Paul | **300,000** | 300,000 |
| J Rubins (1,423,334 beneficial, 76,666 non beneficial) | **1,500,000** | 1,454,666 |
| R Allsop (10,520,000 beneficial, 700,000 non beneficial) | **11,220,000** | 11,220,000 |
| S W Cooper | **200,000** | 200,000 |
| M I Welburn | **100,000** | 100,000 |
| N Silverthorne | **41,250** | 41,250 |

Details of directors' share options are provided in the report on corporate governance.

**Substantial shareholdings**

Apart from the interests of Directors the only interests in excess of 3% of the issued share capital of the Company, which have been notified as at 1 June 2006 were as follows:

| | Ordinary shares of 10p each | Percentage of capital |
|---|---|---|
| Gartmore Investment Limited | **3,122,692** | **10.07%** |
| Marlborough Fund Managers Limited | **2,950,000** | **9.51%** |
| Rock Nominees Limited (Account 500112) | **1,440,150** | **4.64%** |

**Creditor payment policy**

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group companies and their suppliers, provided that all trading terms and conditions have been complied with.

At 31 March 2006 the Group had an average of 58 days (2005: 68 days) purchases outstanding in third party trade creditors.

**Directors' responsibilities for the financial statements**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing those financial statements the Directors are required to:

– select suitable accounting policies and then apply them consistently

– make judgements and estimates that are reasonable and prudent

– state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

– there is no relevant audit information of which the Company's auditors are unaware; and

– the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

**Auditors**

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

By order of the Board

**M I Welburn**
*Director*

6 June 2006

# Corporate Governance

The Group has, since admission to AIM in December 2001, applied principles of corporate governance commensurate with its size.

**Directors**

The Directors support the concept of an effective Board leading and controlling the Group. The Board is responsible for approving the Group's policy and strategy. It meets on a regular basis and has a schedule of matters specifically reserved to it for decision. Management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professional advice at the Company's expense.

The Board consists of three executive Directors, who hold the key operational positions in the Group and three non–executive Directors, who bring a breadth of experience and knowledge. This provides a balance whereby the Board's decision making cannot be dominated by an individual. The Chairman of the Board is N C Paul and the other non–executive directors are R Allsop and J Rubins. The Board approve the strategic decisions of the Group. The Group's business is run on a day to day basis by S W Cooper, M I Welburn and N Silverthorne with S W Cooper having overall responsibility as the Chief Executive.

**Relations with shareholders**

The Group values the views of its shareholders and recognises their interest in the Group's strategy and performance. The Annual General Meeting will be used to communicate with private investors and they are encouraged to participate. The Directors will be available to answer questions. Separate resolutions will be proposed on each issue so that they can be given proper consideration and there will be a resolution to approve the annual report and accounts.

**Internal control**

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investment and the Group's assets and for reviewing its effectiveness. The system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

An audit committee has been established comprising the non–executive Directors, chaired by N C Paul, which will meet at least twice per annum and is responsible for ensuring that the financial performance of the Group is properly monitored and reported on as well as meeting the auditors and reviewing any reports from the auditors regarding accounts and internal control systems.

The Board has considered the need for an internal audit function but has decided the size of the Group does not justify it at present. However, it will keep the decision under annual review.

The key features of the Group's system of internal control are as follows:

– the Group is headed by an effective Board, which leads and controls the Group;

– there is a clear division of responsibilities in running the Board and running the Group's business;

– the Board includes a balance of executive and non-executive Directors; and

– the Board receives and reviews on a timely basis financial and operating information appropriate to be able to discharge its duties.

**Going concern**

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

**International financial reporting standards ("IFRS")**

The Board acknowledges that the London Stock Exchange (LSE) issued revised AIM rules in December 2005, which allows AIM companies to continue to prepare their annual audited accounts in accordance with UK GAAP or IFRS. The Board is also aware that the LSE have indicated that it will require AIM listed companies to use IFRS for accounting periods commencing on or after 1 January 2007 and the Board will keep this matter under review.

**Directors' remuneration**

The Board recognises that Directors' remuneration is of legitimate concern to the shareholders and is committed to following current best practice. The Group operates within a competitive environment, performance depends on the individual contributions of the Directors and employees and it believes in rewarding vision and innovation.

**Policy on executive directors' remuneration**

Detail of individual Directors' remuneration is set out in note 2 to the financial statements. The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain Directors of the calibre necessary to maintain the Group's position and to reward them for enhancing shareholder value and return. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary and reflects the Directors' responsibilities. A separate remuneration committee has been established comprising the non-executive Directors and is chaired by N C Paul.

**Basic annual salary**

The Remuneration Committee reviews each Executive Director's basic salary annually. In deciding upon appropriate levels of remuneration the Board believes that the Group should offer levels of base pay reflecting individual responsibilities and commensurate with similar jobs in other business sectors.

**Annual bonus payments, benefits and pension arrangements**

N Silverthorne shares in a performance related bonus arrangement within Malvern Tubular Components Limited. M I Welburn receives a performance related bonus through Tricorn Group plc.

M I Welburn and N Silverthorne benefit from the provision of private medical insurance.

M I Welburn and N Silverthorne benefit from the provision of company cars.

M I Welburn and N Silverthorne participate in a contributory pension scheme.

S W Cooper receives no benefits in kind.

R Allsop receives no benefits in kind.

N C Paul receives no benefits in kind.

J Rubins receives no benefits in kind.

**Notice periods**

S W Cooper, M I Welburn, N Silverthorne and R Allsop have service agreements with the Group which are terminable on not less than 12 months notice given by either party to the other at any time.

N C Paul and J Rubins have letters of appointment with the Company which are terminable upon 6 months' written notice being given by either party.

**Share option incentives**

The Company has adopted a number of individual unapproved and enterprise management scheme share option agreements to motivate and retain key personnel of the Group.

At 31 March 2006, the following options were held by the Directors:

| | At beginning of period Number | Lapsed during the year Number | **At end of period Number** | Exercise price £ |
|---|---|---|---|---|
| **Unapproved share options** | | | | |
| N C Paul | 200,000 | – | 200,000 | 0.30 |
| J Rubins | 100,000 | – | 100,000 | 0.30 |
| R Allsop | 600,000 | (600,000) | – | 0.20 |
| **Enterprise management scheme (EMI) options** | | | | |
| S W Cooper | 1,000,000 | – | 1,000,000 | 0.10 |
| M I Welburn | 750,000 | – | 750,000 | 0.10 |
| N Silverthorne | 200,000 | – | 200,000 | 0.10 |
| N Silverthorne | 150,000 | – | 150,000 | 0.20 |

N C Paul's and J Rubins' options are exercisable between 1 January 2002 and 31 December 2009.

R Allsop's options which were granted on 23 June 1998 were exercisable between 2 and 7 years after that date, and have therefore lapsed during the year.

# Corporate Governance continued

No performance conditions apply to these unapproved share options.

The approved share options for S W Cooper and M I Welburn were implemented on 1 November 2004.

S W Cooper's EMI share options are to be exercisable in tranches. The first option over 500,000 ordinary shares are to be exercisable before 31 October 2014 at a price of 10p per share with no performance conditions attached. The second option over 250,000 shares are to be exercisable at 10p per share once the mid-market price has been maintained at 20p per share for ten consecutive working days. The third option over 250,000 shares are to be exercisable at 10p per share once the mid-market price has been maintained at 30p per share for ten consecutive working days. All subsequent share disposals are to be limited to one third of the option in any given year without prior Board approval.

M I Welburn has two separate EMI share options. The first option is over 500,000 ordinary shares which are exercisable at 10p per share after 12 months continuous employment and will remain in force for ten years. The second option over 250,000 shares is to be exercisable at 10p per share once the mid-market price has been maintained at 20p per share for ten consecutive working days. All subsequent share disposals will be limited to one third of the option in any given year without prior Board approval.

N Silverthorne was granted an EMI option on his appointment as a director of the Company, effective 1 December 2004. This option is over 200,000 ordinary 10p shares and will remain in force for ten years. He also had 150,000 EMI options prior to his appointment as a director which are exercisable at 20p per share. None of the options have performance conditions attached to them.

The exercise periods for share options were set by the Remuneration Committee in order to incentivise and retain key executives.

The market price of the Company's shares at 31 March 2006 was 16.0p and the range during the year was 10.00p to 18.25p.

# Report of the Independent Auditors

## to the members of Tricorn Group plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Tricorn Group plc for the year ended 31 March 2006 which comprise the principal accounting policies, the group profit and loss account, the Group and Company balance sheets, the Group cash flow statement and notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the directors and auditors**

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether they are properly prepared in accordance with the Companies Act 1985, and whether the information given in, the Chairman's Statement, the Report of the Directors and the Corporate Governance Statement are consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement, the Report of the Directors and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and Parent Company's affairs as at 31 March 2006 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors Report is consistent with the financial statements for the year ended 31 March 2006.

**GRANT THORNTON UK LLP**
Registered Auditors
Chartered Accountants
Birmingham

6 June 2006

The maintenance and integrity of the Tricorn Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

# Principal Accounting Policies

**Basis of accounting**

The financial statements are prepared under the historical cost convention.

In preparing the financial statements for the current year, the Group has adopted the following Financial Reporting Standard:

FRS 25 'Financial Instruments: Disclosure and Presentation'

With the introduction of Financial Reporting Standard 25 there has been a change to the treatment of financial instruments. The new accounting policy detailing the new treatment is set out on page 25. The change in accounting policy does not have an impact on the financial statements for the year ended 31 March 2006 or 2005.

FRS 22 'Earnings per share'

With the introduction of Financial Reporting Standard 22 there has been a change in the disclosure of earnings per share. The adoption of this standard has not changed the presentation of earnings per share on the face of the profit and loss account and in note 6.

**Turnover**

Turnover is the total amount receivable by the Group which is recognised on delivery of goods supplied and the date when services are provided, excluding VAT and trade discounts.

**Basis of consolidation**

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting. Where subsidiary companies are disposed of during the period, the profit or loss attributable to shareholders includes the profits or losses to the date of disposal.

**Goodwill**

Positive goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and amortised on a straight line basis over its useful economic life which is determined separately for each acquisition. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Purchased goodwill first accounted for in accounting periods ending before 23 December 1998, the implementation date of Financial Reporting Standard No 10, was eliminated from the financial statements by immediate write-off on acquisition against reserves. Such goodwill will be charged or credited to the profit and loss account on the subsequent disposal of the business to which it relates.

**Tangible fixed assets**

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost in annual instalments over the estimated useful lives of the assets. The rate of depreciation is as follows:

| | | |
|---|---|---|
| Plant and machinery | – | 10% to 33.3% per annum |
| Motor vehicles | – | 20% per annum |

**Investments**

Investments are stated at cost less provision for any impairment write down. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of section 131 of the Companies Act 1985 apply, cost represents the nominal value of shares issued together with the fair value of any additional consideration given and costs.

**Stocks and work in progress**

Stocks and work in progress are stated at the lower of cost and net realisable value and after making due provisions for slow moving and obsolete stock. Cost represents materials, direct labour and appropriate production overheads. Net realisable value is based on estimated selling price less all further costs to completion and all relevant selling and distribution costs.

**Deferred taxation**

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantially enacted by the balance sheet date.

**Research and development**
Research and development expenditure is charged to the profit and loss account as incurred.

**Pensions cost**
The defined contribution retirement benefits to employees are funded by contributions from the Group. Payments are made to insurance companies. These payments are charged to the profit and loss account as incurred.

**Leasing and hire purchase commitments**
Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligation is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

**Foreign currencies**
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

**Financial instruments**
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate. Interest payable/receivable is accrued and charged/credited to the profit and loss account in the year to which it relates.

**Liquid resources**
Liquid resources represent cash that is available to the Group at more than 24 hours notice.

# Group Profit and Loss Account

for the year ended 31 March 2006

| | Note | **2006 Total £** | 2005 Total £ |
|---|---|---|---|
| **Turnover** | 1 | **6,201,847** | 6,075,096 |
| Cost of sales | | **(3,219,965)** | (3,386,198) |
| **Gross profit** | | **2,981,882** | 2,688,898 |
| Distribution costs | | **(260,764)** | (214,752) |
| Administrative expenses before goodwill amortisation | | **(2,067,298)** | (2,195,598) |
| Amortisation of goodwill | | **(15,000)** | (15,000) |
| Total administrative expenses | | **(2,082,298)** | (2,210,598) |
| Operating profit before goodwill amortisation | | **653,820** | 279,548 |
| Amortisation of goodwill | | **(15,000)** | (15,000) |
| **Operating profit** | | **638,820** | 263,548 |
| Loss on disposal of discontinued operation | 1 | **–** | (431,602) |
| Interest receivable | | **23,347** | 10,567 |
| Interest payable and similar charges | 4 | **(61,455)** | (98,579) |
| **Profit/(loss) on ordinary activities before taxation** | 1 | **600,712** | (256,066) |
| Tax on profit/(loss) on ordinary activities | 5 | **37,606** | (73,092) |
| **Retained profit/(loss) on ordinary activities after taxation** | 17 | **638,318** | (329,158) |
| **Earnings/(loss) per ordinary share** | | | |
| **– basic** | | **2.06p** | (1.06p) |
| **– diluted** | | **2.05p** | |
| **Earnings per ordinary share prior to loss on disposal of discontinued operation** | | | |
| **– basic** | | **2.06p** | 0.33p |
| **– diluted** | | **2.05p** | |

There were no recognised gains or losses other than the loss for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

# Group Balance Sheet

at 31 March 2006

| | Note | 2006 £ | 2005 £ |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 7 | **59,999** | 74,999 |
| Tangible assets | 8 | **543,490** | 685,469 |
| | | **603,489** | 760,468 |
| **Current assets** | | | |
| Stocks | 10 | **577,805** | 721,344 |
| Debtors | 11 | **1,463,760** | 1,552,583 |
| Cash at bank and in hand | 19c | **998,680** | 261,149 |
| | | **3,040,245** | 2,535,076 |
| **Creditors**: amounts falling due within one year | 12 | **(1,384,005)** | (1,646,930) |
| **Net current assets** | | **1,656,240** | 888,146 |
| **Total assets less current liabilities** | | **2,259,729** | 1,648,614 |
| **Creditors**: amounts falling due after more than one year | 13 | **(75,449)** | (86,428) |
| **Provisions for liabilities and charges** | 15 | **(54,651)** | (72,875) |
| | | **2,129,629** | 1,489,311 |
| **Capital and reserves** | | | |
| Called up share capital | 16 | **3,102,000** | 3,100,000 |
| Share premium account | 17 | **1,371,236** | 1,371,236 |
| Merger reserve | 17 | **1,387,533** | 1,387,533 |
| Profit and loss account | 17 | **(3,731,140)** | (4,369,458) |
| **Shareholders' funds – equity interests** | 18 | **2,129,629** | 1,489,311 |

The financial statements were approved by the Board of Directors on 6 June 2006.

**S W Cooper**
*Director*

**M I Welburn**
*Director*

The accompanying accounting policies and notes form an integral part of these financial statements.

# Group Cash Flow Statement

for the year ended 31 March 2006

| | Note | 2006<br>£ | 2005<br>£ |
|---|---|---|---|
| **Net cash inflow from operating activities** | *19a* | **935,555** | 314,891 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | **23,347** | 10,567 |
| Interest paid | | **(46,627)** | (81,917) |
| Finance lease and hire purchase interest paid | | **(14,828)** | (16,662) |
| **Net cash outflow from returns on investments and servicing of finance** | | **(38,108)** | (88,012) |
| **Taxation** | | **40,979** | 76,273 |
| **Capital expenditure and financial investment** | | | |
| Payments to acquire tangible fixed assets | | **(29,969)** | (79,393) |
| Receipts from sales of tangible fixed assets | | **10,610** | 10,771 |
| **Net cash outflow from capital expenditure and financial investment** | | **(19,359)** | (68,622) |
| **Acquisitions and disposals** | | | |
| Sale of business | | **–** | 85,617 |
| **Net cash inflow before financing** | | **919,067** | 320,147 |
| **Management of liquid resources** | | | |
| Funds deposited on treasury reserve | | **(915,142)** | – |
| **Financing** | | | |
| Issue of ordinary share capital | | **2,000** | – |
| Repayment of loans | | **–** | (240,000) |
| Capital element of finance lease rentals | *14* | **(69,437)** | (78,736) |
| **Net cash outflow from financing** | | **(67,437)** | (318,736) |
| **(Decrease)/increase in cash** | *19b, 19c* | **(63,512)** | 1,411 |

The accompanying accounting policies and notes form an integral part of these financial statements.

# Company Balance Sheet

for the year ended 31 March 2006

| | Note | 2006 £ | 2005 £ |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 8 | **414** | 13,700 |
| Investments | 9 | **2,443,017** | 2,442,019 |
| | | **2,443,431** | 2,455,719 |
| **Current assets** | | | |
| Debtors | 11 | **1,331,310** | 898,594 |
| Cash at bank and in hand | | **920,147** | 221,550 |
| | | **2,051,457** | 1,120,144 |
| **Creditors**: amounts falling due within one year | 12 | **(450,424)** | (117,887) |
| **Net current assets** | | **1,801,033** | 1,002,257 |
| **Total assets less current liabilities and net assets** | | **4,244,464** | 3,457,976 |
| **Capital and reserves** | | | |
| Called up share capital | 16 | **3,102,000** | 3,100,000 |
| Share premium account | 17 | **1,371,236** | 1,371,236 |
| Merger reserve | 17 | **1,592,500** | 1,592,500 |
| Profit and loss account | 17 | **(1,821,272)** | (2,605,760) |
| **Shareholders' funds – equity interests** | | **4,244,464** | 3,457,976 |

The financial statements were approved by the Board of Directors on 6 June 2006.

**S W Cooper**
*Director*

**M I Welburn**
*Director*

The accompanying accounting policies and notes form an integral part of these financial statements.

# Notes to the Financial Statements

for the year ended 31 March 2006

## 1 Turnover and profit/(loss) on ordinary activities before taxation

The turnover is attributable to the principal activities and is all within the UK.

The profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):

| | ***2006*** | 2005 |
|---|---|---|
| | **£** | £ |
| Auditors' remuneration – audit services | **22,000** | 19,750 |
| – tax services | **8,500** | 10,000 |
| Research and development costs | **72,406** | 243,204 |
| Depreciation of tangible fixed assets: | | |
| Owned assets | **171,452** | 127,172 |
| Assets held under finance leases and hire purchase contracts | **23,139** | 35,828 |
| Loss on sale of tangible fixed assets | **1,955** | 3,599 |
| Loss on sale of business | **–** | 431,602 |
| Amortisation of goodwill | **15,000** | 15,000 |
| Operating lease rentals – land and buildings | **170,281** | 192,155 |
| – plant and equipment | **3,486** | 4,900 |
| – motor vehicles | **33,540** | 35,516 |

## 2 Directors' emoluments

| | | | ***2006*** | | | | | 2005 | |
|---|---|---|---|---|---|---|---|---|---|
| | ***Basic*** | ***Bonus*** | ***Benefits in kind*** | ***Pension*** | ***Total*** | Basic | Benefits in kind | Pension | Total |
| | **£** | **£** | **£** | **£** | **£** | £ | £ | £ | £ |
| N C Paul | **15,000** | **–** | **–** | **–** | **15,000** | 15,000 | – | – | 15,000 |
| J Rubins | **8,535** | **–** | **–** | **–** | **8,535** | 11,595 | – | – | 11,595 |
| R Allsop | **15,000** | **–** | **–** | **–** | **15,000** | 15,000 | 986 | – | 15,986 |
| S W Cooper | **75,381** | **–** | **–** | **–** | **75,381** | 60,000 | 10,670 | – | 70,670 |
| M I Welburn | **83,200** | **25,806** | **8,016** | **5,824** | **122,846** | 80,000 | 7,565 | 5,133 | 92,698 |
| N Silverthorne+ | **49,883** | **14,947** | **4,575** | **3,750** | **73,155** | 17,179 | 2,230 | 1,171 | 20,580 |
| | **246,999** | **40,753** | **12,591** | **9,574** | **309,917** | 198,774 | 21,451 | 6,304 | 226,529 |

+ remuneration from the date of appointment on 1 December 2004.

## 3 Staff costs

| | ***2006*** | 2005 |
|---|---|---|
| | **£** | £ |
| Wages and salaries | **2,105,358** | 2,332,183 |
| Social security costs | **191,802** | 224,410 |
| Other pension costs | **56,091** | 72,231 |
| | **2,353,251** | 2,628,824 |

The average weekly number of employees during the year was made up as follows:

| | ***2006*** | 2005 |
|---|---|---|
| | ***Number*** | Number |
| Production | **72** | 82 |
| Sales, distribution and administration | **23** | 28 |
| | **95** | 110 |

**4 Interest payable and similar charges**

| | **2006** | 2005 |
|---|---|---|
| | **£** | £ |
| Bank overdrafts and invoice discounting charges | **46,627** | 58,739 |
| Interest on finance leases and hire purchase contracts | **14,828** | 16,662 |
| Other interest charges | **–** | 23,178 |
| | **61,455** | 98,579 |

**5 Tax on loss on ordinary activities**

(a) The taxation (credit)/charge is made up as follows:

| | **2006** | 2005 |
|---|---|---|
| | **£** | £ |
| Current corporation tax | **21,596** | – |
| Adjustment in respect of prior year – research and development tax credit | **(40,978)** | 217 |
| Total current tax (note 5b) | **(19,382)** | 217 |
| Deferred taxation (note 15) | **(18,224)** | 72,875 |
| | **(37,606)** | 73,092 |

Unrealised tax losses of approximately £596,000 (2005: £1,020,000) remain available to offset against future taxable trading profits.

(b) The tax assessed for the period is lower/higher than the standard rate of corporation tax in the UK (30 per cent).

The differences are explained below:

| | **2006** | 2005 |
|---|---|---|
| | **£** | £ |
| Profit/(loss) on ordinary activities before tax | **600,712** | (256,066) |
| Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%) | **180,214** | (76,819) |
| *Effects of:* | | |
| Expenses not deductible for tax purposes | **(10,442)** | 187,150 |
| Depreciation for year in excess of capital allowances | **14,440** | (8,636) |
| Utilisation of tax losses | **(158,131)** | (100,195) |
| Adjustment in respect of prior year | **(40,978)** | 217 |
| Effects of other tax rates | **(4,485)** | (1,500) |
| *Current tax (credit)/charge for year* | **(19,382)** | 217 |

# Notes to the Financial Statements

continued

**6 Earnings/(loss) per share**

The calculation of the basic earnings/(loss) per share is based on the profit/(loss) on ordinary activities after tax and on the weighted average number of ordinary shares in issue during the year. The adjusted earnings per share is calculated excluding the impact of the loss on disposal of discontinued operations.

The profits/(losses) and weighted average number of shares used in the calculations are set out below:

| | *Profit* | *Weighted average number of shares* | *2006 Earnings per share* | Loss | Weighted average number of shares | 2005 Loss per share |
|---|---|---|---|---|---|---|
| | *£* | | *pence* | £ | | pence |
| **Basic earnings/(loss) per share** | **638,318** | **31,000,641** | **2.06** | (329,158) | 31,000,000 | (1.06) |
| Loss on disposal of discontinued operations | | | | 431,602 | | 1.39 |
| **Adjusted earnings per share** | **638,318** | **31,000,641** | **2.06** | 102,444 | 31,000,000 | 0.33 |

The share options in issue are dilutive in 2006 and anti dilutive in 2005. The share options in 2005 are anti-dilutive due to the exercise price being in excess of the average market price during that year.

The diluted earnings per share is calculated as follows:

| | *Profit £* | *2006 Weighted average number of shares* | *Earnings per share pence* |
|---|---|---|---|
| Basic earnings per shares | **638,318** | **31,000,641** | **2.06** |
| Dilutive shares | | **187,053** | |
| Diluted earnings per shares | **638,318** | **31,187,694** | **2.05** |

**7 Intangible fixed assets**

| | **Goodwill £** |
|---|---|
| Cost | |
| At 1 April 2005 and 31 March 2006 | 757,531 |
| Amortisation and write down | |
| At 1 April 2005 | 682,532 |
| Provided in the year | 15,000 |
| At 31 March 2006 | **697,532** |
| Net book amount at 31 March 2006 | **59,999** |
| Net book amount at 31 March 2005 | 74,999 |

The goodwill arose on the acquisition of Redman Fittings Limited and is being amortised evenly over the Directors' estimate of its useful economic life of 10 years. Of the total goodwill cost, £607,531 is fully amortised.

**8 Tangible fixed assets**

| **Group** | **Plant and machinery** | **Motor vehicles** | **Total** |
|---|---|---|---|
| | **£** | **£** | **£** |
| Cost | | | |
| At 1 April 2005 | 2,773,347 | 105,785 | 2,879,132 |
| Additions | 65,176 | – | 65,176 |
| Disposals | (816) | (32,115) | (32,931) |
| At 31 March 2006 | **2,837,707** | **73,670** | **2,911,377** |
| Depreciation | | | |
| At 1 April 2005 | 2,118,733 | 74,929 | 2,193,662 |
| Provided in the year | 185,407 | 9,184 | 194,591 |
| Eliminated on disposals | (526) | (19,840) | (20,366) |
| At 31 March 2006 | **2,303,614** | **64,273** | **2,367,887** |
| Net book amount at 31 March 2006 | **534,093** | **9,397** | **543,490** |
| Net book amount at 31 March 2005 | 654,613 | 30,856 | 685,469 |

The net book value of fixed assets includes £153,580 (2005: £273,263) in respect of assets held under finance leases and hire purchase contracts.

| **Company** | **Plant and machinery** | **Motor vehicles** | **Total** |
|---|---|---|---|
| | **£** | **£** | **£** |
| Cost | | | |
| At 1 April 2005 | 12,567 | 22,320 | 34,887 |
| Disposals | – | (22,320) | (22,320) |
| At 31 March 2006 | **12,567** | **–** | **12,567** |
| Depreciation | | | |
| At 1 April 2005 | 11,143 | 10,044 | 21,187 |
| Provided in the year | 1,010 | – | 1,010 |
| Disposals | – | (10,044) | (10,044) |
| At 31 March 2006 | **12,153** | **–** | **12,153** |
| Net book amount at 31 March 2006 | **414** | **–** | **414** |
| Net book amount at 31 March 2005 | 1,424 | 12,276 | 13,700 |

The net book value of motor vehicles includes £Nil (2005: £12,276) in respect of vehicles held under hire purchase contracts.

# Notes to the Financial Statements

continued

## 9 Investments

| Company | Subsidiary undertakings £ |
|---|---|
| Cost | |
| 1 April 2005 | 3,724,270 |
| Addition | 998 |
| 31 March 2006 | **3,725,268** |
| Amounts written off at 1 April 2005 and 31 March 2006 | 1,282,251 |
| Net book amount at 31 March 2006 | **2,443,017** |
| Net book amount at 31 March 2005 | 2,442,019 |

The addition in the year relates to further share capital issued by Redman Fittings Limited.

Details of the investments in which the Group or the Company holds 20% or more of the nominal value of the share capital at 31 March 2006 are as follows:

| Subsidiary undertaking | Holding | Proportion of voting rights and shares held | Nature of business |
|---|---|---|---|
| MTC Holdings Limited | Ordinary shares | 100% | Intermediate holding company |
| Malvern Tubular Components Limited * | Ordinary shares | 100% | Manufacturer of tubular components |
| Redman Fittings Limited | Ordinary shares | 100% | Sales and marketing company for specialist pipe fittings |
| ISSquared Limited | Ordinary shares | 100% | Systems engineering and pipeline project management |
| Searchwell Limited | Ordinary shares | 100% | Dormant |
| Integrated Statistical Solutions Limited | Ordinary shares | 100% | Dormant |

* held by a subsidiary undertaking

## 10 Stocks

| Group | ***2006* £** | 2006 £ |
|---|---|---|
| Raw materials | **365,200** | 379,327 |
| Work in progress | **72,735** | 131,094 |
| Finished goods | **139,870** | 210,923 |
| | **577,805** | 721,344 |

## 11 Debtors

| | Group | | Company | |
|---|---|---|---|---|
| | ***2006* £** | 2005 £ | ***2006* £** | 2005 £ |
| Trade debtors | **1,331,218** | 1,452,788 | **–** | – |
| Amounts owed by subsidiary undertakings | **–** | – | **1,279,949** | 870,059 |
| Other debtors | **25,146** | 3,730 | **6,268** | 875 |
| Prepayments and accrued income | **107,396** | 96,065 | **45,093** | 27,660 |
| | **1,463,760** | 1,552,583 | **1,331,310** | 898,594 |

## 12 Creditors: amounts falling due within one year

| | Group 2006 £ | Group 2005 £ | Company 2006 £ | Company 2005 £ |
|---|---|---|---|---|
| Invoice discounting facility | **373,777** | 487,876 | **–** | – |
| Trade creditors | **448,270** | 578,045 | **38,943** | 49,104 |
| Obligations under finance leases and hire purchase contracts (note 14) | **39,341** | 62,592 | **–** | 1,944 |
| Amounts owed to subsidiary undertakings | **–** | – | **309,062** | 3,361 |
| Corporation tax | **21,596** | – | **–** | – |
| Other taxes and social security | **211,056** | 193,538 | **11,466** | 8,528 |
| Accruals and deferred income | **289,965** | 324,879 | **90,953** | 54,950 |
| | **1,384,005** | 1,646,930 | **450,424** | 117,887 |

The invoice discounting facility of £373,777 (2005: £487,876) is secured upon trade debtors.

## 13 Creditors: amounts falling due after more than one year

| | Group 2006 £ | Group 2005 £ | Company 2006 £ | Company 2005 £ |
|---|---|---|---|---|
| Obligations under finance leases and hire purchase contracts (note 14) | **75,449** | 86,428 | **–** | – |

## 14 Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows:

| | Group 2006 £ | Group 2005 £ | Company 2006 £ | Company 2005 £ |
|---|---|---|---|---|
| Amounts payable: | | | | |
| within one year | **46,455** | 76,259 | **–** | 2,224 |
| within two to five years | **89,332** | 103,969 | **–** | – |
| | **135,787** | 180,228 | **–** | 2,224 |
| Less: finance charges allocated to future periods | **(20,997)** | (31,208) | **–** | (280) |
| | **114,790** | 149,020 | **–** | 1,944 |

**Finance leases are analysed as follows:**

| | Group 2006 £ | Group 2005 £ | Company 2006 £ | Company 2005 £ |
|---|---|---|---|---|
| Current obligations | **39,341** | 62,592 | **–** | 1,944 |
| Non-current obligations | **75,449** | 86,428 | **–** | – |
| | **114,790** | 149,020 | **–** | 1,944 |

# Notes to the Financial Statements

continued

**14 Obligations under finance leases and hire purchase contracts *(continued)***

Analysis of changes in finance leases and hire purchase contracts during the current and previous periods:

| | Group | | Company | |
|---|---|---|---|---|
| | ***2006*** | 2005 | ***2006*** | 2005 |
| | **£** | £ | **£** | £ |
| At 1 April 2005 | **149,020** | 113,906 | **1,944** | 5,278 |
| Inception of new contracts | **35,207** | 113,850 | **–** | – |
| Capital element of rental payments | **(69,437)** | (78,736) | **(1,944)** | (3,334) |
| At 31 March 2006 | **114,790** | 149,020 | **–** | 1,944 |

Obligations under finance leases and hire purchase contracts are secured on the assets to which they relate.

**15 Provisions for liabilities and charges**

| | Deferred taxation | |
|---|---|---|
| | ***2006*** | 2005 |
| **Group** | **£** | £ |
| At 1 April 2005 | **72,875** | – |
| (Credit)/charge for year (note 5) | **(18,224)** | 72,875 |
| At 31 March 2006 | **54,651** | 72,875 |

The amounts of deferred taxation provided and unprovided in the financial statements are:

| | **Provided** | **Unprovided** | Provided | Unprovided |
|---|---|---|---|---|
| | ***2006*** | ***2006*** | 2005 | 2005 |
| | **£** | **£** | £ | £ |
| Accelerated capital allowances | **62,920** | **(16,467)** | 82,021 | (20,755) |
| Other timing differences | **(8,269)** | **(13,682)** | (9,146) | (1,254,364) |
| | **54,651** | **(30,149)** | 72,875 | (1,275,119) |
| Less: | | | | |
| Trading losses | **–** | **(178,589)** | – | (336,913) |
| | **54,651** | **(208,738)** | 72,875 | (1,612,032) |

**16 Share capital**

| | ***2006*** | 2005 |
|---|---|---|
| | **£** | £ |
| Authorised | | |
| 60,000,000 ordinary shares of 10p each | **6,000,000** | 6,000,000 |
| Allotted, called up and fully paid | | |
| 31,020,000 (2005: 31,000,000) ordinary shares of 10p each | **3,102,000** | 3,100,000 |

An Enterprise Management Incentive share option scheme was implemented on 19 April 2002. Share options over 2,560,000 shares (remaining after lapses) have been issued under this scheme. The details of those issued to Directors are provided in the Corporate Governance Statement. All others may be exercised in three equal tranches after six months, eighteen months and twenty four months from the date of the grant, and no performance conditions apply to these EMI options. The exercise price on these options range from 10p to 20p depending on the date the option was granted. During the year 20,000 shares were issued at par on the exercise of certain EMI options.

## 17 Reserves

| Group | Share premium £ | Merger reserve £ | Profit and loss account £ |
|---|---|---|---|
| At 1 April 2005 | 1,371,236 | 1,387,533 | (4,369,458) |
| Profit for the year | – | – | 638,318 |
| At 31 March 2006 | **1,371,236** | **1,387,533** | **(3,731,140)** |

The merger reserve arose on the acquisition of Integrated Statistical Solutions Limited. The business of this company is now conducted by Redman Fittings Limited.

| Company | | | |
|---|---|---|---|
| At 1 April 2005 | 1,371,236 | 1,592,500 | (2,605,760) |
| Profit for the year | – | – | 784,488 |
| At 31 March 2006 | **1,371,236** | **1,592,500** | **(1,821,272)** |

## 18 Reconciliation of movements in shareholders' funds

| | ***2006*** **£** | 2005 £ |
|---|---|---|
| Profit/(loss) for the year | **638,318** | (329,158) |
| Issue of shares | **2,000** | – |
| Net increase/(reduction) in shareholders' funds | **640,318** | (329,158) |
| Shareholders' funds at 31 March 2005 | **1,489,311** | 1,818,469 |
| **Shareholders' funds at 31 March 2006** | **2,129,629** | 1,489,311 |

## 19 Notes to the statement of group cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

| | ***2006*** **£** | 2005 £ |
|---|---|---|
| Operating profit | **638,820** | 263,548 |
| Depreciation | **194,591** | 163,000 |
| Amortisation | **15,000** | 15,000 |
| Loss on sale of tangible fixed assets | **1,955** | 3,599 |
| Decrease/(increase) in stocks | **143,539** | (49,537) |
| Decrease/(increase) in debtors | **88,823** | (310,441) |
| (Decrease)/increase in creditors | **(147,173)** | 229,722 |
| Net cash inflow from operating activities | **935,555** | 314,891 |

# Notes to the Financial Statements

continued

**19 Notes to the statement of group cash flows *(continued)***

(b) Reconciliation of net cash flow to movement in net debt

| | ***2006*** | 2005 |
|---|---|---|
| | **£** | £ |
| (Decrease)/increase in cash | **(63,512)** | 1,411 |
| Cash used to repay capital element of finance lease and hire purchase contracts | **69,437** | 78,736 |
| Cash outflow from movement in loans | **–** | 240,000 |
| Increase in liquid funds | **915,142** | – |
| | **921,067** | 320,147 |
| New finance leases and hire purchase contracts | **(35,207)** | (113,850) |
| **Movement in net debt** | **885,860** | 206,297 |
| Net debt at 1 April 2005 | **(375,747)** | (582,044) |
| **Net funds/(debt) at 31 March 2006** | **510,113** | (375,747) |

(c) Analysis of changes in net debt

| | At 31 March 2005 | Cash flow | Non-cash movements | ***At 31 March 2006*** |
|---|---|---|---|---|
| | £ | £ | £ | **£** |
| Cash at bank and in hand | 261,149 | (177,611) | – | **83,538** |
| Invoice discounting facility | (487,876) | 114,099 | – | **(373,777)** |
| | (226,727) | (63,512) | – | **(290,239)** |
| Debt | – | | – | **–** |
| Finance leases and hire purchase contracts | (149,020) | 69,437 | (35,207) | **(114,790)** |
| Liquid resources | – | 915,142 | – | **915,142** |
| | (375,747) | 921,067 | (35,207) | **510,113** |

Cash in hand and in bank on the balance sheet comprises:

| | ***2006*** | 2005 |
|---|---|---|
| | **£** | £ |
| Cash at bank | **83,538** | 261,149 |
| Liquid resources | **915,142** | – |
| | **998,680** | 261,149 |

**19 Notes to the statement of group cash flows *(continued)***

(d) Major non-cash transactions

During the year the Group entered into finance lease and hire purchase arrangements in respect of assets with a total capital value at the inception of the contract of £35,207 (2005: £113,850).

**20 Financial instruments**

The Group uses financial instruments, comprising cash, confidential invoice discounting, finance leases, hire purchase contracts, trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group financial instruments are interest rate risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years. The fair value of the Group financial instruments are considered equal to the book value.

**Short term debtors and creditors**

Short term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosure.

**Interest rate risk**

The Group finances its operations through a mixture of bank overdraft, confidential invoice discounting and hire purchase and finance lease contracts. The Group principally uses variable rate finance facilities given the current low level of interest rates in the UK.

The interest rate exposure of the financial liabilities of the Group as at 31 March 2006 was:

| | **Variable** | **Fixed** |
|---|---|---|
| | **£** | **£** |
| 31 March 2006 | **373,777** | **114,790** |
| 31 March 2005 | 487,876 | 149,020 |

The weighted average fixed rates on the loans for the year amounted to 9.1% (2005: 9.1%)

The variable rates are on average 2.25% (2005: 2.25%) over bank base rate.

Fixed rate liabilities are represented by finance leases and hire purchase contracts which continue until October 2009.

**Liquidity risk**

The Group seeks to manage financial risks, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

The overdraft facility of £100,000, was not utilised at 31 March 2006. This is due for renewal by 30 November 2006. Of the invoice discounting facility of £750,000, £376,223 remained unutilised at 31 March 2006. There is no fixed expiry period, but this is kept under review by the provider. Positive cash is held on treasury reserve to maximise the return.

**Currency risk**

The Group operates substantially within the United Kingdom and consequently is not significantly exposed to currency risk. The Group does not hedge any transactions, and foreign exchange differences on retranslation of foreign currency assets and liabilities are taken to the profit and loss account of the Group.

# Notes to the Financial Statements

continued

## 21 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

| | Land and buildings | | Other | |
|---|---|---|---|---|
| | ***2006*** | 2005 | ***2006*** | 2005 |
| **Group** | **£** | £ | **£** | £ |
| Operating leases which expire: | | | | |
| In one year | **15,281** | 15,281 | **4,858** | 3,477 |
| In two to five years | **30,000** | 30,000 | **12,800** | 24,675 |
| After more than five years | **125,000** | 125,000 | **–** | – |
| | **170,281** | 170,281 | **17,658** | 28,152 |

## 22 Pension commitments

The Group operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

## 23 Capital commitments

The Group had no capital commitments at 31 March 2006 or 31 March 2005.

## 24 Contingent liability

The Company has given an unlimited guarantee against the bank borrowings of its subsidiaries. At 31 March 2006 the balances amounted to nil (2005: nil).

## 25 Results of the parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Parent Company is not presented as part of these accounts. The Parent Company's profit for the period amounted to £784,488 (2005 loss : £970,377).

## 26 Related party transactions

During the year a motor vehicle was sold to the wife of a director, S W Cooper. The vehicle was sold for £9,000 which was equal to its net book value. The directors consider this to be the appropriate market value of the vehicle.

## 27 Post balance sheet event

On 6 June 2006 the Group announced the acquisition of Tecalemit Aerospace Limited for a net cash consideration of £1.6m.

# Notice of Annual General Meeting

## Tricorn Group plc

**NOTICE IS HEREBY GIVEN** that the annual general meeting of Tricorn Group plc (the "**Company**") will be held at Malvern Tubular Components Limited, Spring Lane, Malvern, Worcestershire, WR14 1DA on Thursday 14 September 2006 at 10.30 am, the business of which will be:

### ORDINARY BUSINESS

1. To receive and consider the accounts for the financial year ended 31 March 2006, together with the reports of the directors and auditors.
2. To approve the Directors' Remuneration Report for the financial year ended 31 March 2006.
3. That Steven William Cooper (who retires by rotation) be re-elected as a director of the Company.
4. That Jeffrey Rubins (who retires by rotation) be re-elected as a director of the Company.
5. To re-appoint Grant Thornton UK LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the audit committee of the Company to determine their remuneration.

### SPECIAL BUSINESS

6. To consider and, if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

6.1. "That the authorised share capital of the Company be increased from £6,000,000 to £10,000,000 by the creation of an additional 40,000,000 ordinary shares of 10p each".

6.2 "That in substitution for all existing and unexercised authorities and in ratification of all previous allotments, for the purposes of and pursuant to section 80 of the Companies Act 1985 (the "Act"), the directors of the Company be and they are hereby generally and unconditionally authorised and empowered to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to a nominal amount, when aggregated with the nominal amount of the share capital of the Company in issue, of £4,102,000 to such persons at such times and upon such terms and conditions as they may determine (subject always to the articles of association of the Company) provided that this authority and power shall, unless previously renewed, varied or revoked, expire at the conclusion of the next annual general meeting of the Company or 15 months from the date of the passing of this resolution (whichever is the earlier) and provided further that the directors of the Company may before the expiry of such period make any offer, agreement or arrangement which would or might require relevant securities to be allotted after the expiry of such period, and the directors of the Company may then allot relevant securities pursuant to any such offer, agreement or arrangement as if the authority or power hereby conferred had not expired."

# Notice of Annual General Meeting

continued

7. To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution:

"That, subject to the passing of the resolution numbered 6.2 in this notice, in substitution for all existing and unexercised authorities and powers, pursuant to section 95(1) of the Act the directors of the Company be and they are hereby authorised and empowered to allot equity securities (within the meaning of section 94 of the Act) pursuant to the general authority and power conferred by the resolution numbered 6.2 in this notice as if section 89(1) of the Act did not apply to any such allotment provided that this authority and power shall, unless previously renewed, varied or revoked, expire at the conclusion of the next annual general meeting of the Company or 15 months from the date of the passing of this resolution (whichever is the earlier), save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry, and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired and further all previous allotments of the Company be and are hereby ratified notwithstanding the provisions of section 89(1) of the Act or the provisions of the articles of association of the Company."

Registered Office:
Spring Lane
Malvern Link
Malvern
Worcestershire
WR14 1DA
Registered Number 1999619

By Order of the Board

**Michael Greensmith**
Secretary

31 July 2006

**NOTES:**

(1) A member of the Company may appoint one or more proxies to attend and, on a poll, to vote instead of the member. A proxy of a member need not also be a member.

(2) The instrument appointing a proxy, and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited with the Company's Registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA not less than 48 hours before the time for holding the meeting. A Form of Proxy accompanies this document for use by members.

(3) Completion of the Form of Proxy will not preclude a member from attending and voting in person.

(4) Any corporation which is a member of the Company may authorise a person (who need not be a member of the Company) to act as its representative to attend, speak and vote (on a show of hands or a poll) on its behalf.

(5) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 the Company specifies that only those shareholders registered in the Register of Members of the Company as at 10.30a.m. on 12 September 2006 (the "Specified Time") shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their names at that time. Changes to entries on the relevant register of members (the "Register") for certificated or uncertificated shares of the Company after the Specified Time shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting. Should the Annual General Meeting be adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of shareholders to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Annual General Meeting. Should the Annual General Meeting be adjourned for a longer period, to be so entitled, shareholders must have been entered on the Register at the time which is 48 hours before the time fixed for the adjourned Annual General Meeting or, if the Company gives notice of the adjourned Annual General Meeting, at the time specified in the Notice.

(6) There are no directors' service contracts of more than one year's duration.

(7) Copies of Contracts of Service and letters of appointment (including indemnities) between any director and the Company or its subsidiaries are available for inspection at the registered office of the Company during normal business hours and will also be available for inspection at the place of the Annual General Meeting until the conclusion of the Annual General Meeting.

**Tricorn Group plc**
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WR14 1DA

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