

ANNUAL REPORT

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**Avingtrans plc**  
engineering technology group

Avingtrans plc is engaged in the provision of highly engineered components and services to the energy, medical, scientific and research communities, traffic management, automation, machinery and aerospace industries worldwide.

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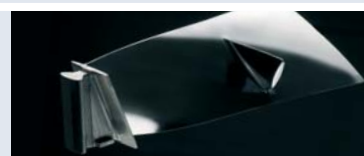
• **Metalcraft – UK and China**

Designing, fabricating and machining safety-critical equipment for major energy, science, medical and research projects, worldwide.



• **Crown International – UK**

Design, manufacture, repair and service of the ‘CrownPole™’, used in conjunction with roadside safety cameras, advanced railway signal systems and road signage poles for motorways and major trunk roads.



• **C&H Precision Finishers Ltd – UK**

Specialist polishing and finishing of turbine and compressor blades and vanes for the aeroengine and power generation industries.



• **Sigma - UK and China**

Offering a range of services to the global aerospace market including rigid and flexible pipe assemblies for customers inc. Rolls Royce, GE & Meggitt. Also, a purpose built China-based prismatic component manufacturing facility.



• **Jena Tec – Germany, UK, USA & China**

Specialists in rotating bearing technology, Jena Tec design, manufacture, distribute and service ballscrews and spindles from it’s facilities in Germany, UK, USA and a representative office in China. Through Moss Group, Jena provides specialist automation products and services.

**ANNUAL REPORT  
YEAR ENDED 31 MAY 2011**

**I N T R O D U C T I O N**

**Commenting on the results, Roger McDowell, Chairman said:**

“ Whilst 2011 was not a ‘vintage year’, I’m sure that shareholders will join me in a small toast to a much improved performance in the last 12 months. I am glad to report a result in line with previously upgraded market expectations. After an arduous financial year in 2010, the majority of our markets continued to regenerate positively. Global recovery has certainly played its part, but above all it is our hard work on capability enhancements over the last two years that has paid off. Long term contracts with global OEMs that are not dependent on the UK economy are very important to our future and potential further good news is in the pipeline.

As anticipated at the half year, we are pleased to confirm a return to our progressive dividend policy, with our commitment to pay a final dividend in line with expectations and a firm intention to continue with dividend payments in future. ”



The Board of Directors, left to right,  
back row: Peter Kenny, Graham Thornton, Jeremy Hamer  
front row: Stephen King, Roger McDowell, Steve McQuillan.

**F I N A N C I A L H I G H L I G H T S**

- Turnover of £36,260,000 (2010: 28,578,000)
- Profit before tax £1,422,000 (2010: £470,000)
- Earnings before interest, tax, amortisation\* and exceptional items £1,869,000 (2010: £928,000)
- Adjusted diluted earnings per share 5.5p (2010: 3.0p)
- Gearing 28.9% (2009: 36.1%)

\*Amortisation of intangible assets from business combinations

**O P E R A T I O N A L H I G H L I G H T S**

- Sigma’s long term contract wins underpinned a strong annual result for Aerospace.
- Sigma China moved into profit for the year.
- C&H commenced new services, following the earlier £5m contract extension with Rolls Royce.
- Metalcraft’s H2 performance improved, production of Siemens next generation MRI will commence in 2012.
- Crown impacted by significant delays to roadside contracts. New product prospects remain bright.
- Jena Tec won a £1.8m contract for a European medical equipment OEM, starting in 2012.
- Jena Tec experienced strong on-going global order intake with sales increasing by 56% and EBIT 9.7%.

# Company information

## Directors

R S McDowell (Non-executive Chairman)  
S McQuillan (Chief Executive Officer)  
S M King (Chief Financial Officer)  
P J Kenny  
J J Hamer (Non-executive)  
G K Thornton (Non-executive)

## Secretary

S M King

## Registered Office

Precision House  
Derby Road Industrial Estate  
Sandiacre  
Nottingham  
NG10 5HU

## Website

[www.avingtrans.plc.uk](http://www.avingtrans.plc.uk)

## Registered Number

1968354

## Auditors

Grant Thornton UK LLP  
Chartered Accountants  
Registered Auditors  
Enterprise House  
115 Edmund Street  
Birmingham  
B3 2HJ

## Registrars

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
West Yorkshire  
HD8 0LA

## Bankers

HSBC Bank plc  
130 New Street  
Birmingham  
B2 4JU

## Nominated Advisor

FinnCap  
60 New Broad Street  
London  
EC2M 1JJ

## Solicitors

Shakespeares LLP  
Somerset House  
Temple Street  
Birmingham  
B2 5DJ

## Nominated Broker

FinnCap  
60 New Broad Street  
London  
EC2M 1JJ

## Chairman's Statement

To paraphrase Harold Wilson, a year is a long time in engineering - and what a difference twelve months has made. Indeed, since first drafting this note, global markets have shown that we live in unpredictable times. Nonetheless, although it could not be described as a 'vintage year', 2011 was highly positive, in comparison with the previous period. It is pleasing to report a result in line with previously upgraded market expectations. Our net debt position is markedly better than the market expected, setting us on a firm footing for the year to come, given global uncertainty. I am also pleased to confirm a return to payment of a dividend with the results, as anticipated at the half year.

Generally speaking, the trends observed in our three divisions continued throughout the second half and on into the new financial year, though there are some signs of less certain conditions and the rate of growth is slowing in a number of areas. Our cost cutting strategy, coupled with our determination to retain essential skills, has certainly assisted with the ramp-up in output required of us in 2011. Our OEM partners have entrusted us with a number of additional long term contracts this year and our improving results reflect the initiation of these projects. Whilst the flurry of contract wins announced in the first half of 2011 was not mirrored in the second half, we are confident that our future prospects are bright.

Core markets in Energy Infrastructure, Civil Aerospace and Medical Imaging, coupled with a rejuvenated Machine Tools sector, continue to provide the bulk of our revenues. Relationships with customers such as Siemens, Rolls Royce and Cummins continue to grow and develop in ways that we expect will lead to further new business in 2012. End user markets remained robust, particularly in Asia, where much of the final output is exported. Of course, the recovery cycle will continue to be variable across our three divisions and dependent on the activity of our customer base. However, as before, the quality of this blue chip clientele gives us confidence that we are well-placed for further market growth.

Group revenues rebounded by well over £7m – largely regaining the ground ceded in the previous year. As a result, we were in the happy position of being able to recruit additional skilled staff in most businesses, whilst keeping a close eye on costs, so as not to introduce any unnecessary slack in the system for the future. With Metalcraft and Jena Tec operations in China now fully on-stream, as well as a newly profitable Sigma China facility, we remain optimistic about our prospects there and in Asia more broadly. Cautious increases in capital investments recommenced, as we anticipated lengthening delivery cycles for machine tools.

Strong customer relationships are obviously of great importance to us and, as such, we were delighted to be awarded the supplier of the year title by Siemens Magnet Technology, the division that supplies systems for MRI scanners. Similarly, other major customers like Rolls Royce and GE professed themselves to be very satisfied with our quality and delivery performance. This customer service ethic is now deeply embedded in our operations.

The three-legged stool that has borne us sturdily through the recession thus far offers a stable structure in the coming period to address our main markets – namely, Aerospace, Energy, Medical and Specialist Industrial. Each of our core businesses is developing product and service offerings that will enhance shareholder value and delight our customers in the coming years. However, this is not to imply that we will rigidly maintain all of our business entities in their current form. In the coming year, we will be proactively seeking M&A opportunities, so investors should not be surprised if we look to complete appropriate complementary acquisitions that strengthen our strategy.

As before, we believe we are targeting the right growth markets and developing excellent supply partnerships with the market leaders in those sectors. This allows us to bring broader products and services to those customers from our specialist niches, which - coupled with our deeper manufacturing and design skills - means we are ready to take maximum advantage of any opportunities, as they arise.

Our people have responded to the rapidly changing business conditions with an energy and relish that have cemented our performance improvement. I would like to express my sincere thanks to them for their continuing hard work and commitment to Avingtrans during this period.

**Roger McDowell**  
Chairman  
13 September 2011

# Business Review

## Group Performance

### Financial Performance

Full year Group **revenue** was 27% higher than the prior year, coming in at £36.3m (2010: £28.6m). The overall result was almost an exact mirror image of the previous 12 months, with all of our businesses seeing marked improvements, except for Crown, which suffered from delays in Government decisions concerning road infrastructure.

The rebound in turnover naturally flowed through to **profit** with **gross margins** recovering, up to 29% (2010: 26%) and **operating profit** recovering significantly, more than doubling to £1.7m (2010: £0.8m). EBITDA was enhanced by 32% to £3.3m (2010: £2.5m).

The effective rate of **taxation** was 11.3% (2010: 29.7% credit) predominately due to use of losses brought forward in the US and research and development credits in the UK.

**Adjusted diluted earnings per share**, for the period ending 31 May 2011, was up to 5.5p (2010: 3.0p) based on 25.5m (diluted weighted average) shares, with an increased **return on net assets** of 5.5% (2010: 2.8%).

The **cash flow** from operations was £3.0m in the period (2010: £3.8m) although 2010 was flattered by the successful £0.9 warranty claim. However, net indebtedness at year end was £6.6m, some 15% lower than at the prior year end (2010: £7.8m). Balance sheet gearing was also much improved, down to 29% from 36% at 31 May 2010. In addition, continued investment in the business of £1.3m shows that capital investment was prudently controlled as we began to ramp up once more.

As previously noted, the Board supports a progressive **dividend** policy and is pleased to be able to recommend at the AGM the reintroduction of a final dividend of 0.4 pence per share (2010: Nil pence per share). This will be paid on 9 December 2011 to shareholders on the register at 21 October 2011. The Board will keep the dividend position under review, taking account of the on-going changes in the trading positions in our markets.

The Group has a number of exciting opportunities across all of its operations which should deliver further long term growth and shareholder value. The continued backing of our investors, coupled with ongoing supportive relationships with the Group's principal bankers, means we expect to have more than adequate financial resources to continue to invest in the business. We also continue to develop relationships with new and potential stakeholders as the capital markets ease and the return to dividend should expand this potential base further.

### Strategy

Our strategy is largely unchanged from last year. Avingtrans is a precision engineering group, operating in differentiated, specialist niches in the supply chains of many of the world's best known engineering OEMs, for example: Rolls Royce, Siemens, Cummins, E.ON, etc. The core strategy is to build market-leading niche positions in our defined sectors, namely, the medical, energy, aerospace and specialist industrial markets. The three strategic thrusts remain:

- **Customers:** developing our key accounts and partnering or acquiring assets to provide customers with integrated product and service offerings, with optimum quality, delivery and value for money characteristics.
- **Channels:** developing new channel partners in new territories and markets with existing product capabilities
- **Capabilities:** strengthening core group know-how in design and manufacturing, to reduce costs and deepen our value added to our customers.

Each of the three main businesses – Metalcraft, Jena Tec and Sigma – has the capability to engineer products in Europe and produce those products partly or wholly in China, allowing us to access low cost sourcing at minimum risk for our customers, as well as positioning us robustly in the development of the Chinese and Asian markets for our products. Metalcraft and Jena Tec businesses are now well established in China and Sigma forms an integrated supply chain business in the UK and in China within one unit. C&H and Crown continue to be developed from the UK only.

We have increased our capability to manage outsourced manufacturing programmes of increasing complexity, thus accessing business of greater duration and value, with the prospect of higher sales and reduced annual volatility.

# Business Review (continued)

## Operations

### Aerospace Division (Sigma and C&H)

Sigma and C&H clocked up their best year yet, as Aerospace reached take-off speed and delivered a very creditable result, with sales at £12.7m. Sigma in China broke through into profit for the whole year for the first time and Sigma UK began to see the benefit of the long term contracts won in the previous year. C&H continued to grow, with the Rolls Royce relationship developing well and new opportunities gradually emerging as a result of the £5m contract extension announced in February.

Civil Aerospace is defying global uncertainties at present, assisted by long lead times. Boeing recently announced further increases in the production rate of the 737 and the 787 Dreamliner is finally ready to launch. The Paris Airshow in June saw Airbus taking record orders and other players starting to assert their market positions – eg Comac with the C919 and Embraer with the 190 regional jet. The on-going optimism in the industry is feeding into the supply chain and we saw our turnover increase by 19% in the Division, with momentum carrying on into the new year.

In consequence, our capital expenditure in Sigma China was reinvigorated, as demand outstripped our growth capacity. Whilst we are pleased with the growth there, we are keen to ensure that organisational control keeps pace with output, since any loss of control could be costly in terms of quality and delivery to our customers. Careful capital spend will continue into the new year and we plan to commence pipe assembly production in China during 2012, since this is the next logical step in the development of Sigma in China.

Sigma China and the UK are operating as an integrated unit and this is definitely winning business for us. The contract wins with Eaton and Meggitt that we announced earlier in the period contributed positively to the improved result at Sigma UK in particular and we expect that the on-going market development will result in further new business from these customers.

Overall, Sigma is making excellent progress in becoming a strategic supplier for our OEM partners and using Lean manufacturing tools to transition the business into a world-class Aero components business. We are very encouraged to note that new enquiries are increasingly coming from testimonies of existing customers recommending Sigma to third parties, including their other supply chain partners. Sigma's quality reputation is now class leading and this will doubtless produce further new business in the future.

Recent business wins have highlighted the importance of the USA to this division and we expect to develop some direct presence in the US for Sigma over the next 12-18 months, either organically, or through acquisition.

C&H delivered an excellent performance, well in excess of budget. We are delighting our customers with our service response and adding new capabilities to expand the range of services provided, thus differentiating ourselves from our competition. In particular, we have added new measurement capabilities which increase the value added to our customers and simplify their supply and logistics processes. Both C&H facilities are running well and we have recently recruited an experienced new manager for the Cheltenham unit to press forward with expansion prospects there.

### Energy and Medical Division (Metalcraft and Crown)

As noted in our interim statement, the Energy and Medical Division recovery has been more sluggish than elsewhere, though the second half at Metalcraft was a clear improvement on the first half, with sales in the second half up by 19% versus the first six months of the year, despite some contract delays in the nuclear decommissioning area. The new MRI product for Siemens has yet to commence volume production, although prototype production has gone well overall, albeit with some programme slippage, largely for reasons beyond our control. Some delay in the programme is inevitable in a challenging technology area like this and we have adjusted our forecasts for the current financial year accordingly. Elsewhere, the return of significant project work was a feature at Metalcraft in the period and a number of contracts were delivered as well as new business secured for the new financial year. Crown's year was very poor indeed and resulted in a loss which held back the divisional performance. However, signs are more encouraging for the new year.

More specifically at Metalcraft, sector developments were as follows:

Medical: Metalcraft won the supplier of the year award in its sector from Siemens and the development of the next generation project is going well overall, as noted above. Contracts with other customers in the sector are also developing as expected: notably, AMS in China is now beginning to ship consistent product volumes.

## Business Review (continued)

Power Systems: as previously reported, the start of the contract with Cummins did not go smoothly and we have been able to add a few months to the contract length, so that the normal running period remains as three years. Cummins business recovered quite strongly in the period and we are now effectively acting as their sole European supplier for generator frames. We have also started looking at what we need to do to supply Cummins in China. Discussions with other possible customers in this sector are making progress, though somewhat slower than we would ideally wish.

*Nuclear:* new build preparations continue and we have quoted several prospects in this sector over the year, as the tier 1 and 2 players jockey for position. The Fukushima nuclear accident in Japan has certainly affected the timeline for new nuclear stations in the UK, with industry commentators forecasting a 6-12 month delay in consequence. Meanwhile, nuclear decommissioning work continues, with the Costain vessels being delivered, Sellafield vitrification plant sales on-going and the Magnox commissioning storage drums also being delivered at the time of reporting. The next stage of the Magnox storage project involves a contract worth an expected £4m and we are working hard to participate in a slice of this business.

*Marine:* for many years, Metalcraft has supplied specialist pressure hulls into the marine market – specifically for rescue mini-submarines and diving support systems. This has developed nicely into a leading niche position for the business and results in a handful of profitable projects each year.

*Metalcraft China* is developing as expected, with the new General Manager taking control of the operations there and securing the base business, as well as probing new opportunities.

Crown International sadly had a very disappointing year as UK safety camera market saturation and delays to new road infrastructure projects conspired to produce a poor result. Crown made a loss in the year, but we continue to believe in the team and in the products that we have designed, which are proven in the field. Prospects are generally still promising, however, we cannot control the timing of these and, therefore, it is difficult to predict when Crown will return to profit. Positive steps have been taken to minimise costs and diversify the product line into adjacent markets, to spread the risk and ensure that future losses are mitigated.

### Industrial Products Division (Jena Tec)

Orders for Jena Tec in the second half were even stronger than in the first half of 2011. This translated into sales of £10.6m, which were 56% ahead of 2010. The order strength came from all regions and sub-sectors served by Jena Tec. As well as general market recovery, another positive driver has been the strength of Asian markets. Jena Tec's direct orders there have increased, but the strength of the region has also led to some of Jena Tec's Asian competitors being unable to deliver in Europe and the USA. This left a gap which we have filled. The Asian supply shortages were compounded by the Japanese tsunami, which interrupted supply chains in a number of markets. Over the current financial period, we are seeing signs that growth is slowing, as equilibrium is restored and possibly also due to global market turbulence.

At the start of 2011, Jena Tec signed its biggest ever contract, worth £1.8m over three years, for a European client in the medical equipment market space. New equipment has been ordered to meet the resulting increased demand for miniature ballscrews and deliveries are now expected to commence in the second half of the current financial period. Further necessary additions to plant and machinery are currently in process, as we seek to consolidate the gains made during the rebound and build further on our widening geographic footprint.

Our US subsidiary had its best ever year, with the work that we undertook over the last two years to expand our distribution network paying dividends and global co-ordination of key account sales now becoming a feature of business at Jena Tec. The Jena Tec office in Shanghai is fully operational and we are winning more business in Asia as a result.

In the UK, the new valve actuation product range launched at the end of 2010 shows promising signs of carving out a profitable niche and we have received first follow-on orders from E.ON for the product. During the period, Jena Tec UK also successfully completed delivery of a £0.6m Tier 1 Automotive project to upgrade specialist engine production facilities, building on the enabling acquisition of Moss Group Automation in 2009.

# Business Review (continued)

## People

There have been no changes at Board or top level management in the period. In the divisions, we have sought to strengthen the management in all three, as business development opportunities have arisen and we map out our strategic path. Each of the businesses has added to the base of skilled engineering and technical personnel across the group. Future skills availability is an ongoing challenge, but each division has at least two options geographically to fish for talent, so we do not believe that we will be unduly constrained by skills availability.

## Outlook

The patchy performance of the UK economy is not expected to have a material impact on Group prospects, except for at Crown, where, as outlined above, its continued dependence on UK Government spending is a source of uncertainty. Of greater concern is the turmoil in the Eurozone and USA, where broader scale economic effects may be detrimental to manufacturing in the mid-term. However, our main sectors - Civil Aerospace, Diagnostic Medical Imaging and Energy Infrastructure – remain relatively less sensitive to events in the Eurozone and US economies and are more dependent on Asian economic development than anything else.

Our clear strategy continues to be our bedrock and to yield significant contract wins that will drive growth over the next 12 months and beyond, assuming that overall global economic conditions do not deteriorate further. Our investment in protected niches within long term structural growth markets enables us to take advantage of new opportunities and emergent new capabilities will differentiate us from the chasing competitive pack.

M&A activity is more to the fore than at any time in the last three years and our strategy has been essential again in guiding us towards possible complementary acquisitions. Whilst we cannot guarantee that this will result in any activity during the current financial period, we will vigorously pursue any option that we believe will enhance shareholder value.

The brand positioning of Sigma, Metalcraft and Jena Tec should give all stakeholders comfort that the Group is well placed in the long run, with the strength we are developing in China becoming more and more decisive in the race to win the OEM partnership contracts that will turn our prospects into profit. We are definitely up for the challenge and determined to become world-beating in our chosen fields.

**Roger McDowell**  
Chairman  
13 September 2011

**Steve McQuillan**  
Chief Executive  
13 September 2011

**Stephen King**  
Chief Financial Officer  
13 September 2011

# Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 May 2011.

## Principal activities and business review

The Group's principal activities are the provision of precision engineering components and services to the energy, medical, scientific and research communities, traffic management, automation, machinery and aerospace industries worldwide. Details of the business review, which forms part of the Report of the Directors, are included on pages 4 to 7. The principal operating subsidiaries of the Group are set out in note 3 to the Company financial statements.

## Key Performance Indicators

	<i>2011</i>	<i>2010</i>
Revenue (£'000)	<b>36,260</b>	28,578
EBITDA (£'000) (Note 2)	<b>3,306</b>	2,518
Profit before tax and amortisation of business combination intangibles (£'000)	<b>1,559</b>	607
Adjusted diluted earnings per share (Note 8)	<b>5.5p</b>	3.0p
Return on net assets	<b>5.5%</b>	2.8%

## Principal risks and uncertainties facing the Group

The principal risks and uncertainties facing the Group include:

- the acceptance by the end customers of its products – the Group mitigates this risk by developing a number of diverse products across its industry sectors;
- changes in customer requirements and in levels of demand in the market – the Group is reliant on the relative strength of the economies in which it operates but the risk is mitigated via the diversity of those markets;
- competitive pressure on pricing – the risk is mitigated by the high level of technological quality offered by the Group's products and its strong relationships with its key customers;
- delays in product design and launch programmes – as the Group's products are technically advanced the timescale of developing new products is uncertain, albeit the Group has sufficient working capital to support this investment;
- fluctuations in manufacturing, delivery performance and costs;
- technological changes – mitigated by continued investment in research and development
- the loss or lack of key personnel;
- changes in government legislation;
- overall economic conditions, in particular the current uncertainty in the Eurozone.

## Going concern

During the year, the Group has effectively managed its working capital and cash flows resulting in an operating cash inflow of £3.0m for the year. At 31 May 2011, the Group has net debt of £6.6m (2010 £7.8m) and net assets of £22.9m (2010: £21.7m). As discussed in more detail in the Chairman's statement and business review, looking into 2011/12 and beyond, the Group has a number of exciting opportunities across all of its operations that should deliver growth and shareholder value.

The Directors have prepared detailed cash flow forecasts for the Group for the period extending to 31 May 2014, which indicate that the Group expects to have adequate financial resources to continue in business and work within its current banking arrangements to deliver on its short term strategic objectives. Coupled with an ongoing supportive relationship with the Group's principal bankers, HSBC, the Directors continue to adopt the going concern basis in preparing the Annual Report and accounts.

## Results and dividends

The Group's profit for the year before tax amounted to £1,422,000 (2010: £470,000). A final dividend of 0.4p is proposed for the year ended 31 May 2011 (2010: £Nil).

# Report of the Directors (continued)

## Substantial shareholdings

As at 13 September 2011, the following had notified the Company that they held or were beneficially interested in 3% or more of the Company's issued ordinary share capital:

	<i>Number of shares '000</i>	<i>Percentage of issued share capital owned</i>
Nigel Wray	3,891	15.3%
R S McDowell's Pension Fund	2,286	9.0%
P McDowell's Pension Fund	2,286	9.0%
Helium Special Situations Fund	2,045	8.0%
Funds managed by Unicorn Asset Management Limited	1,661	6.5%
Octopus Asset Management	1,420	5.6%
Funds managed by SVG Investment Managers	1,000	3.9%
Aviva	835	3.3%
Maven Capital Partners UK LLP	834	3.3%
K M Baker	832	3.3%

## Directors and their interests

The present Directors of the Company and those that served during the year are set out on page 1. Their interests in the share capital of the Company are set out below.

	<i>Ordinary shares of 5p each</i>	
	<i>31 May 2011</i>	<i>31 May 2010</i>
R S McDowell	<b>2,286,409</b>	2,258,909
J J Hamer	<b>114,500</b>	114,500
S McQuillan	<b>55,000</b>	55,000
S M King	<b>50,000</b>	50,000
P J Kenny	<b>40,000</b>	40,000
G K Thornton	<b>40,000</b>	20,000

## Share options

The Directors' interests with respect to options to acquire ordinary shares are detailed in the Report of the Directors on Remuneration.

## Interest in contracts

No Director was materially interested in any contract during the year.

## Financial instruments

The Group's operations expose it to a variety of financial risks including the effects of changes in interest rates on debt, foreign currency exchange rates, credit risk and liquidity risk.

The Group's principal financial instruments comprise cash and bank deposits, bank loans and overdrafts and obligations under finance leases together with trade receivables and trade payables that arise directly from its operations. The Group has not entered into derivative transactions, with the exception of foreign exchange contracts in the normal course of trade, nor does it trade in financial instruments as a matter of policy.

Information about the use of financial instruments by the Group is given in note 19 to the financial statements.

# Report of the Directors (continued)

## Environment

The Group's policy with regard to the environment is to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. Our operations are conducted such that we comply with all legal requirements relating to the environment in all areas where we carry out our business. During the period covered by this report the Group has not incurred any significant fines or penalties or been investigated for any significant breach of environmental regulations.

## Research and development

During the year £297,000 (2010: £445,000) of development costs were capitalised as intangible assets. This was predominately at Metalcraft in relation to alternative energy production and new customer MRI designs; Sigma UK relating to the development of new designs for rigid pipes and Jena Ultrasonic & "Plug and Play" spindle development.

## Donations

Donations made by the Group during the year for charitable purposes in the United Kingdom amounted to £1,000 (2010: £1,000).

## Supplier payment policy

For all trade payables, it is the policy of the Group and Company, wherever practical, to:

- Agree the terms of payment at the start of business with a supplier
- Ensure that the suppliers are aware of the terms of payment
- Pay in accordance with its contractual and other legal obligations.

At the year end creditor days were 48 (2010: 76) for the Company and 67 days (2010: 70) for the Group.

## Disabled persons

The Group gives full and fair consideration to applications for employment from disabled persons, where they have the necessary abilities and skills for that position, and wherever possible will retrain employees who become disabled, so that they can continue their employment in another position. The Group engage, promote, and train staff on the basis of their capabilities, qualifications and experience, without discrimination, giving all employees an equal opportunity to progress.

## Directors' indemnities

The Company has taken out directors and officers liability insurance for the benefit of its Directors during the year which remains in force at the date of this report.

## Employee involvement

It is the policy of the Group to communicate with employees by employee representation on works and staff committees and by briefing meetings conducted by senior management. Career development is encouraged through suitable training.

# Report of the Directors (continued)

## Statement of 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 regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have to prepare the Group financial statements in accordance with International Financial Reporting Standards as elected by the European Union (IFRSs). The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK accounting standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and of the profit or loss of the Group and Parent company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the Group financial statements, state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- for the Parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the Directors is 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Auditors

Grant Thornton UK LLP ("Grant Thornton") are willing to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

The report of the Directors was approved by the Board on 13 September 2011 and signed on its behalf by:

**S M King**  
Company Secretary

# Corporate governance

The Group is committed to high standards of corporate governance and the Board is accountable to the Company's shareholders for good corporate governance. Although the Group is not required to comply with the UK Corporate Governance Code, this statement describes how the principles of corporate governance are applied to the Group.

## Directors

The Board of Avingtrans plc comprised three Executive Directors and three Non-executive Directors. The Board is chaired by R S McDowell and assisted by the Senior Independent Non-executive Director J J Hamer, who together have primary responsibility for running the Board.

The Managing Director, S McQuillan, had executive responsibilities for the operations, results and strategic development of the Group during the year. S M King is Chief Financial Officer and Company Secretary. The Board structure ensures that no individual or group dominates the decision making process.

The Non-executive Directors are considered to be independent of management and from any business relationship which could materially interfere with their independent judgement. The Senior Independent Non-executive Director is J J Hamer and is available to shareholders if they have concerns.

The Board meets regularly with no less than ten such meetings held in each calendar year. There is a formal schedule of matters specifically reserved to the Board for its decision to enable it to take overall control of the Group's affairs. All Directors have access to the services of the Company Secretary and may take independent professional advice at the Group's expense in the furtherance of their duties. Management has an obligation to provide the Board with appropriate and timely information to enable it to discharge its duties. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings.

The Nominations Committee is responsible for monitoring and reviewing the membership and composition of the Board, including the decision to recommend the appointment or re-appointment of a Director.

The Company's Articles of Association ensure Directors retire at the third Annual General Meeting after the Annual General Meeting at which they were elected and may, if eligible, offer themselves for re-election.

R S McDowell chairs the Nominations Committee, with J J Hamer chairing the Audit Committee and G K Thornton chairing the Remuneration Committee. The Non-executive Directors and the Chairman are members of all the above committees.

## Directors' remuneration

The responsibilities of the Remuneration Committee, together with an explanation of how it applies the Directors' remuneration principles of the Combined Code, are set out in the Report of the Directors on Remuneration on pages 14 to 15.

## Relations with shareholders

The Board attaches a high level of importance to maintaining good relationships with shareholders, whether they are institutions or private investors.

The Board encourages all Directors to attend shareholder meetings and institutional presentations, where they are available for questions from shareholders. This enables the Board to develop an understanding of the views of shareholders.

The Board regards the Annual General Meeting as an opportunity to communicate directly with private investors and actively encourages participative dialogue.

The Company counts all proxy votes and except where a poll is called, it indicates the level of proxies lodged on each resolution and the balance for and against the resolution, after it has been dealt with on a show of hands.

A separate resolution on each substantially separate issue is proposed at the Annual General Meeting. The Chairman of the Board and each of the Chairmen of the Audit, Remuneration and Nomination Committees, are available to answer questions at the Annual General Meeting. All Directors are expected to attend the Annual General Meeting.

## Corporate governance (continued)

In 2009 the Company amended its Articles to include electronic communication with its members. The Annual Report and Financial Statements and Interim Report are automatically uploaded to [www.avaingtrans.plc.uk](http://www.avaingtrans.plc.uk). All members are given the option to receive a paper copy or an email copy of the Annual Report. Notice of the Annual General Meeting is sent to shareholders at least 20 days before the meeting.

### Accountability and Audit

The respective responsibilities of Directors and Auditors are set out on pages 11 and 16. The Board has established an Audit Committee. The Audit Committee's primary responsibilities include monitoring of internal control, approving accounting policies, agreeing the treatment of major accounting issues, appointment and remuneration of the external auditors and reviewing the interim and annual financial statements before submission to the Board. It meets twice a year with the external auditors to review their findings. At these meetings the Non-executive Directors have the opportunity to discuss findings with the auditors in the absence of the Executive Directors.

To follow best practice and in accordance with Ethical Standard 1 issued by the Auditing Practices Board, the external auditors have discussions with the audit committee on the subject of auditor independence and have confirmed their independence in writing.

### Internal control

The Directors acknowledge that they are responsible for ensuring that the Group has in place a system of internal control which is both effective and appropriate to the nature and size of the business.

The Board, through the Audit Committee, has reviewed the operation and effectiveness of the system of internal control throughout the accounting year and the period to the date of approval of the financial statements, although it should be understood that such systems are designed to provide reasonable but not absolute assurance against material misstatement or loss. The Group's system of control includes:

- A comprehensive budgeting system with annual budgets approved by the Directors.
- Monthly monitoring of actual results against budget and regular review of variances.
- Close involvement of Directors who approve all significant transactions.
- Financial and operating control procedures for all management of the Group.
- Identification and appraisal by the Board of the major risks affecting the business and the financial controls.
- Bank facilities and other treasury functions are monitored and policy changes approved by the Board.

The Board has considered the need for an internal audit function and concluded that this would not be appropriate at present due to the size of the Group.

**S M King**

Company Secretary  
13 September 2011

# Report of the Directors on remuneration

## Composition

The Remuneration Committee during the period comprised G K Thornton (Chairman), R S McDowell and J J Hamer.

## Principal function

The remuneration packages, including contract periods of Executive Directors and senior management, are determined by the Remuneration Committee. It ensures that the remuneration packages are appropriate for their responsibilities, taking into consideration the overall financial and business position of the Group. The remuneration of R S McDowell was determined by the two Non-executive Directors.

## Compliance

The Remuneration Committee was both constituted and operated throughout the period in accordance with the principles outlined in Section D of the UK Corporate Governance Code.

## Base salary and benefits

The Committee sets the salary of each Executive Director by reference to the responsibility of the position held, performance of the individual, and external market data. Salaries are reviewed annually.

## Annual performance related bonus

The Company operates a bonus scheme for its Directors which enables it to attract and retain high calibre senior management personnel who make a major contribution to the financial performance of the Group. Bonuses paid under the scheme are accrued under the annual bonus plan approved by the Remuneration Committee.

## Share options

The Committee is responsible for approving grants of share options to the Executive Directors. Options may be exercised between three and ten years from the date the option is granted but only if certain performance criteria are satisfied.

## Pensions

The Company is responsible for the contributions to the defined contribution schemes selected by the Executive Directors. Details of contributions provided in the year are set out in note 5 to the financial statements.

## Service agreements

R S McDowell, S McQuillan, S M King and P J Kenny have service contracts which are terminable on 12 months notice by either party. The Committee consider that these contracts are in line with the market.

## Non-executive Directors

Non-executive Directors' remuneration is reviewed by all members of the Board other than the Non-executive Director under review and takes the form solely of fees. J J Hamer and G Thornton have a letter of appointment terminable on 3 months notice by either party.

## Compensation for loss of office

There are no predetermined special provisions for Executive or Non-executive Directors with regard to compensation in the event of loss of office. The Remuneration Committee considers the circumstances of individual cases of early termination and determines compensation payments accordingly with the aim not to reward poor performance.

## Directors' emoluments

Details of the remuneration of all Directors are set out in note 5 to the financial statements.

## Report of the Directors on remuneration (continued)

### Share options

Details of the share options of all Directors are as follows:

	<i>Date of grant</i>	<i>At 31 May 2000</i>	<i>Granted</i>	<i>Exercised</i>	<i>Lapsed</i>	<i>At 31 May 2011</i>	<i>Weighted Average exercise price £</i>
<b>Executive:</b>							
S McQuillan	8/7/2009	85,000	-	-	-	85,000	0.350
	25/9/2010	-	50,000	-	-	50,000	0.395
		<u>85,000</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>135,000</u>	<u>0.367</u>
S M King	2/10/2003	50,000	-	-	-	50,000	0.400
	25/10/2004	25,000	-	-	-	25,000	0.605
	8/7/2009	85,000	-	-	-	85,000	0.350
	25/9/2010	-	40,000	-	-	40,000	0.395
		<u>160,000</u>	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>0.403</u>
P J Kenny	25/10/2004	50,000	-	-	-	50,000	0.605
	8/7/2009	85,000	-	-	-	85,000	0.350
	25/9/2010	-	20,000	-	-	20,000	0.395
		<u>135,000</u>	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>155,000</u>	<u>0.438</u>

The share options are exercisable between three and ten years from the date of grant if the growth in adjusted basic earnings per share of Avingtrans plc during the three years between grant date and vesting date, is at least equal to the increase in the Retail Price Index during the same period.

### G K Thornton

Chairman of the Remuneration Committee  
13 September 2011

# Independent Auditor's to the Members of Avingtrans plc

We have audited the financial statements of Avingtrans plc for the year ended 31 May 2011 which comprise the principal accounting policies, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated and parent company balance sheets, the consolidated cash flow statement, and related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 11, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 May 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## David Munton

Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants

Birmingham  
13 September 2011

# Principal accounting policies

## Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Company has elected to prepare its Parent Company financial statements in accordance with UK Generally Accepted Accounting Principles (UK GAAP); these are presented on pages 54 to 60.

The financial statements have been prepared under the historical cost convention, modified by the revaluation of investment property.

The following Standards and Interpretations, which are relevant to the Group, have not been applied during the year, were in issue but not yet effective:

- IFRS 9 Financial Instruments (effective 1 January 2013)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013)
- IFRS 13 Fair Value Measurement (effective 1 January 2013)
- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)
- IAS 19 Employee Benefits (Revised June 2011) (effective 1 January 2013)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2013)
- Improvements to IFRS issued May 2010
- Disclosures - Transfers of Financial Assets - Amendments to IFRS 7 (effective 1 July 2011)
- Deferred Tax: Recovery of Underlying Assets - Amendments to IAS 12 Income Taxes (effective 1 January 2012)
- Presentation of Items of Other Comprehensive Income - Amendments to IAS 1 (effective 1 July 2012)

The directors do not consider the above standards will have a material impact on the Group financial statements.

## Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 May 2011. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

All intra-group transactions have been eliminated on consolidation. Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of the fair value of consideration transferred over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

## Business combinations

For business combinations occurring since 1 June 2010, the consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

Goodwill recognised on business combinations is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

Prior to 1 June 2010, business combinations were accounted under the previous version of IFRS 3.

## Principal accounting policies (continued)

### Goodwill

Goodwill, representing the excess of the the fair value of consideration transferred over the fair value of the Group's share of the identifiable net assets acquired, is capitalised and reviewed annually for impairment.

There is no reinstatement of goodwill that was amortised prior to transition to IFRS. Goodwill previously written off to reserves is not written back to the income statement on subsequent disposal.

### Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of risk to the customer.

### Sale of goods

Each of the Group's trading subsidiaries is involved in the supply of goods and follows a consistent accounting policy. This policy is reviewed regularly by the directors to accommodate changes in circumstances. Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods which is generally when goods are despatched, or the product is complete and is ready for delivery, based on specific contract terms.
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold which is generally when goods are despatched, or the product is complete and is ready for delivery, based on specific contract terms.
- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the Group, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### Rendering of services

The Group's revenue in relation to services is primarily from polishing and repairs. These services take place over a short time frame and revenue regarding the rendering of services is recognised when the service has been completed.

### Construction contracts

Contract revenue reflects the contract activity during the year and is measured at the fair value of consideration received or receivable. When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion of the contract at the balance sheet date is assessed by reference to the value of the goods provided to the balance sheet date as a proportion of the total value of the contract.

Where the outcome of a long-term contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred where it is probable that they will be recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

In the case of a fixed price contract, the outcome of a construction contract is deemed to be estimated reliably when all the following conditions are satisfied:

- total contract revenue can be measured reliably:
- it is probable that economic benefits associated with the contract will flow to the Group:
- both the contract costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably, and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

# Principal accounting policies (continued)

## Construction contracts (continued)

The gross amount due from customers for contract work is presented as an asset for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less losses).

Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

## Dividends

Dividends are recognised when the shareholders right to receive payment is established.

Dividend distributions payable to equity shareholders are included in “other short term financial liabilities” when the dividends are approved in general meeting prior to the balance sheet date.

## Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

## Investment properties

Investment properties are properties held to earn rentals and are accounted for using the fair value model. Investment properties are revalued annually and are included in the balance sheet at their open market values which are determined by the Directors. Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in profit or loss. Rental income from operating leases of the Group’s investment properties is recognised on a straight-line basis over the term of the lease.

## Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement. The gain or loss arising from the sale is included in administrative expenses in the income statement.

## Depreciation

Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment other than freehold land by equal annual instalments over their estimated useful economic lives. The rates/periods generally applicable are:

Freehold buildings	2%
Leasehold improvements	Period of lease
Plant and machinery	6.7 - 20%
Fixtures, fittings and tools	12.5%
Motor vehicles	25%
Computer equipment	33%

Material residual value estimates are updated as required, but at least annually.

## Principal accounting policies (continued)

### Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

If the impairment is subsequently reversed, the carrying amount, except for goodwill, is increased to the revised estimate of its recoverable amount, but limited to the carrying amount that would have been determined had no impairment been recognised. Impairment losses in respect of goodwill are not reversed.

### Leased assets

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

### Assets acquired as part of a business combination

In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group.

Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the group are not reliably measurable. Where the individual fair value of the complementary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity.

### Interest

Interest is recognised using the effective interest method, which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

## Principal accounting policies (continued)

### Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if the reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

### Intangible assets

#### *i) Order Book and Customer Relationships*

These intangible assets are amortised on a straight-line basis over the following periods:

- Order Book                      Period of order cover
- Customer relationships      Up to 10 years

The amortisation charge is shown within amortisation of intangibles in the income statement.

#### *ii) Software*

Software is amortised over three years and the amortisation charge is shown within administrative expenses in the income statement.

#### *iii) Intellectual property*

Intellectual property is amortised over a period of 20 years and the amortisation charge is shown within administrative expenses in the income statement.

#### *iv) Research and Development*

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred. Development costs incurred on specific projects are capitalised when all the following conditions are satisfied:

- completion of the intangible asset is technically feasible so that it will be available for use or sale
- the Group intends to complete the intangible asset and use or sell it
- the Group has the ability to use or sell the intangible asset
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

For a project meeting these criteria, subsequent costs incurred will be capitalised until the product or process is available for use, at which point amortisation commences on a straight line basis over the product's estimated useful life. Amortisation costs are shown within administrative expenses.

## Principal accounting policies (continued)

### Intangible assets (continued)

Development costs not meeting the criteria for capitalisation are expensed as incurred.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs incurred on project development along with an appropriate portion of relevant overheads.

### Equity

Share capital represents the nominal value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Capital redemption reserve represents the nominal value of shares cancelled.

Merger reserve was created on the acquisition of Sigma UK Limited (formerly B&D Pattern Limited).

Other reserves were created on redemption of preference shares.

Foreign currency translation differences arising on the translation of the Group's foreign entities are included in the translation reserve.

Retained earnings include all current and prior period retained profits. It also includes charges related to share-based employee remuneration.

All transactions with owners of the parent are recorded separately within equity.

### Financial assets

The Group's financial assets include:

- i) trade and other receivables that are classified as loans and receivables
- ii) cash and cash equivalents that are classified as loans and receivables
- iii) unlisted investments classified as available for sale.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised at fair value through profit or loss are recognised at fair value plus transaction costs. Financial assets categorised at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through profit or loss.

Financial assets at fair value through profit or loss include financial assets that are classified as held for trading. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss.

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for any impairment. Any change in their value through impairment or reversal of impairment is recognised in profit or loss.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated discounted future cash flows.

Available for sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are measured at fair value other than shares in unlisted start-up companies that are valued at cost. Gains and losses arising from investments classified as available for sale are recognised in the income statement when they are sold or when the investment is impaired.

# Principal accounting policies (continued)

## Financial assets (continued)

In the case of impairment of available for sale assets, any loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

## Financial liabilities

The Group's financial liabilities include:

- i) trade and other payables that are classified as other financial liabilities
- ii) borrowings that are classified as other financial liabilities
- iii) deferred consideration that is classified as other financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities categorised at fair value through profit or loss are recorded initially at fair value, all transaction costs are recognised immediately in the income statement. All other financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities categorised at fair value through profit or loss are remeasured at each reporting date at fair value, with changes in fair value being recognised in profit or loss. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial liabilities are categorised at fair value through profit or loss where they are classified as held-for-trading.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

## Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held on call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Employee benefits

### Defined contribution pension scheme

The pension costs charged against profits are the contributions payable to the scheme in respect of the accounting period.

### Share based payment

#### Equity settled share-based payment

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 June 2006 are recognised in the financial statements. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

## Principal accounting policies (continued)

### Share based payment

#### Equity settled share-based payment (continued)

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to “retained earnings”.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

### Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in profit or loss in the period in which they arise. Exchange differences on non-monetary items are recognised in other comprehensive income to the extent that they relate to a gain or loss on that non-monetary item recognised in other comprehensive income, otherwise such gains and losses are recognised in profit or loss.

The assets and liabilities in the financial statements of foreign subsidiaries and related goodwill are translated at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at a rate which is considered to be approximate to the rate prevailing at the date of the transaction. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are recognised in other comprehensive income and accumulated in the “translation reserve” in equity. On disposal of a foreign operation the cumulative translation differences (including, if applicable, gains and losses on related hedges) are reclassified from equity to profit or loss when the gain or loss is recognised.

The Group has taken advantage of the exemption in IFRS 1 and has deemed the cumulative translation differences for all foreign operations to be nil at the date of transition to IFRS. The gain or loss on disposal of these operations excludes translation differences that arose before the date of transition to IFRS and includes later translation differences. The Group has also taken advantage of another exemption in IFRS 1 so that it is not required to re-translate goodwill and fair value adjustments that have arisen from the acquisition of foreign subsidiaries prior to adoption of IFRS. These balances continue to be stated at their pre-IFRS adoption values.

### Segmental reporting

A segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses whose operating results are regularly reviewed by the Chief Executive, who is considered to be the chief operating decision maker. The Chief Executive focuses on information by operating division and the Group has therefore identified the following reportable operating segments:

- Aerospace
- Energy and Medical
- Industrial Products

The Chief Executive also reviews information by geographical area and whilst this is considered supplementary to the operating information, it is disclosed in the financial statements to provide additional information. Those areas are:

- United Kingdom
- Europe
- North America
- Rest of World

## Principal accounting policies (continued)

### Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the income statement by equal annual instalments over the expected useful lives of the relevant assets.

Government grants in respect of assistance of a revenue nature are credited to the income statement in the same period as the related expenditure.

### Provisions and contingent liabilities

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has announced the plan's main features to those affected by it.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination.

### Non-operating exceptional items

Exceptional non-operating items are material items which individually or in aggregate need to be disclosed by virtue of their size because of their relevance to understanding the entity's financial performance.

## Critical accounting judgements and key sources of estimation uncertainty

Certain estimates and judgements need to be made by the directors of the Group which affect the results and position of the Group as reported in the financial statements. Estimates and judgements are required for example as at the reporting date not all assets/liabilities have been settled which requires a number of estimates and assumptions to be made.

The major areas of estimation within the financial statements are as follows:

### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate applied in order to calculate present value.

### Recoverability of internally-generated intangible assets

During the year, management reconsidered the recoverability of its internally-generated intangible assets ensuring that the projects continue to progress in a satisfactory manner, and that customer reaction has reconfirmed management's previous estimates of anticipated revenue streams from the projects.

### Useful economic life and book value of the intangible assets recognised on consolidation

The useful economic life over which the acquired intangible assets are amortised represents the Directors' judgement of the period over which order book and customer relationships will provide benefit to the Group. Whether capitalised development costs are subsequently impaired requires an estimation of the future discounted cashflows of the associated product.

## **Principal accounting policies (continued)**

### **Recoverability of WIP, trade receivables and accrued income**

Judgement is applied in assessing the recoverable amount of balances relating to ongoing contracts that are incomplete at the date of approval of the financial statements.

The major areas for judgements within the financial statements are as follows:

### **Recognition of intangible assets**

The criteria for capitalising development costs are set out above and the Directors have to apply their judgment in deciding whether costs meet these criteria.

### **Consolidation of 100% of Sigma Precision Components Limited (“Sigma”)**

Sigma has been accounted for as if it were 100% owned for the purposes of the Group’s consolidation although the business is currently only 93% owned by the Group. There is a call and put option enabling or requiring the Company to purchase the remaining 7% of the issued share capital in October 2011. The terms of these options mean that it is almost certain that either the put or call option will be exercised and hence the Group has consolidated 100% of Sigma.

### **Deferred tax asset**

Judgment is applied in assessing whether a deferred tax asset is recognised on carried forward losses based on anticipated profit streams, as set out in Note 20.

## Consolidated income statement

For the year ended 31 May 2011

	<i>Note</i>	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Revenue	1	36,260	28,578
Cost of sales		<b>(25,609)</b>	(21,124)
<b>Gross profit</b>		<b>10,651</b>	7,454
Distribution costs		<b>(1,209)</b>	(806)
Administrative expenses		<b>(7,540)</b>	(6,488)
Share based payment expense		<b>(28)</b>	(19)
Warranty claim	2	-	932
Restructuring costs		<b>(5)</b>	(145)
Amortisation of intangibles from business combinations		<b>(137)</b>	(137)
<b>Operating profit</b>	1	<b>1,732</b>	791
Finance income	3	-	11
Finance costs	4	<b>(310)</b>	(332)
<b>Profit before taxation</b>		<b>1,422</b>	470
Taxation	7	<b>(161)</b>	137
<b>Profit for the financial year</b>		<b>1,261</b>	607
<b>Earnings per share:</b>			
Total and continuing operations			
- Basic	8	<b>4.9p</b>	2.4p
- Diluted	8	<b>4.9p</b>	2.4p

## Consolidated statement of comprehensive income

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Profit for the year	1,261	607
Other comprehensive income for the year, net of tax:		
Exchange differences on translation of foreign operations	<b>(117)</b>	(8)
<b>Total comprehensive income for the year</b>	<b>1,144</b>	599

The principal accounting policies and notes on pages 31 to 53 form part of these financial statements.

## Consolidated statement of changes in equity

For the year ended 31 May 2011

	<i>Share capital account £'000</i>	<i>Share premium account £'000</i>	<i>Capital redemp- tion reserve £'000</i>	<i>Merger reserve £'000</i>	<i>Trans- lation reserve £'000</i>	<i>Other reserves £'000</i>	<i>Retained earnings £'000</i>	<i>Total £'000</i>
At 1 June 2009	1,274	9,534	814	402	636	180	8,228	21,068
Share-based payments	-	-	-	-	-	-	19	19
Transactions with owners	-	-	-	-	-	-	19	19
Profit for the year	-	-	-	-	-	-	607	607
Other comprehensive income								
Exchange rate loss	-	-	-	-	(8)	-	-	(8)
Total comprehensive income for the year	-	-	-	-	(8)	-	607	599
Balance at 31 May 2010	1,274	9,534	814	402	628	180	8,854	21,686
At 1 June 2010	1,274	9,534	814	402	628	180	8,854	21,686
Share-based payments	-	-	-	-	-	-	28	28
Transactions with owners	-	-	-	-	-	-	28	28
Profit for the year	-	-	-	-	-	-	1,261	1,261
Other comprehensive income								
Exchange rate loss	-	-	-	-	(117)	-	-	(117)
Total comprehensive income for the year	-	-	-	-	(117)	-	1,261	1,144
<b>Balance at 31 May 2011</b>	<b>1,274</b>	<b>9,534</b>	<b>814</b>	<b>402</b>	<b>511</b>	<b>180</b>	<b>10,143</b>	<b>22,858</b>

The principal accounting policies and notes on pages 31 to 53 form part of these financial statements.

# Consolidated balance sheet

For the year ended 31 May 2011

	<i>Note</i>	<b>2011</b> £'000	2010 £'000
<b>Non current assets</b>			
Goodwill	9	10,242	10,242
Other intangible assets	10	1,983	2,050
Property, plant and equipment	11	9,983	10,090
Investment property	12	600	600
Deferred tax	20	39	39
Available for sale financial assets	13	219	219
		<u>23,066</u>	<u>23,240</u>
<b>Current assets</b>			
Inventories	1	7,820	6,634
Trade and other receivables	16	8,854	7,479
Current tax asset	7	122	64
Cash and cash equivalents		1,716	1,097
		<u>18,512</u>	<u>15,274</u>
<b>Total assets</b>		<u><b>41,578</b></u>	<u><b>38,514</b></u>
<b>Current liabilities</b>			
Trade and other payables	16	(8,310)	(5,849)
Obligations under finance leases	18	(871)	(810)
Borrowings	17	(2,754)	(3,040)
Current tax liabilities	7	(804)	(479)
<b>Total current liabilities</b>		<u><b>(12,739)</b></u>	<u><b>(10,178)</b></u>
<b>Non current liabilities</b>			
Borrowings	17	(3,139)	(3,600)
Obligations under finance leases	18	(1,565)	(1,483)
Deferred tax	20	(1,277)	(1,413)
Deferred consideration		-	(154)
<b>Total non-current liabilities</b>		<u><b>(5,981)</b></u>	<u><b>(6,650)</b></u>
<b>Total liabilities</b>		<u><b>(18,720)</b></u>	<u><b>(16,828)</b></u>
<b>Net assets</b>		<u><b>22,858</b></u>	<u><b>21,686</b></u>
<b>Equity</b>			
Share capital	21	1,274	1,274
Share premium account		9,534	9,534
Capital redemption reserve		814	814
Merger reserve		402	402
Translation reserve		511	628
Other reserves		180	180
Retained earnings		10,143	8,854
<b>Total equity attributable to equity holders of the parent</b>		<u><b>22,858</b></u>	<u><b>21,686</b></u>

The principal accounting policies and notes on pages 31 to 53 form part of these financial statements.

The financial statements were approved by the Board of Directors on 13 September 2011 and signed on its behalf by:

**S M King**  
Director  
Company number: 1968354

# Consolidated statement of cash flow

For the year ended 31 May 2011

	<i>Note</i>	<b>2011</b> £'000	2010 £'000
<b>Operating activities</b>			
Cash flows from operating activities	23	<b>2,984</b>	3,756
Finance costs paid		<b>(310)</b>	(332)
Income tax (paid)/repaid		<b>(37)</b>	94
<b>Net cash inflow from operating activities</b>		<b>2,637</b>	3,518
<b>Investing activities</b>			
Finance income		-	11
Purchase of intangible assets		<b>(353)</b>	(448)
Purchase of property, plant and equipment		<b>(982)</b>	(864)
Proceeds from sale of property, plant and equipment		<b>72</b>	76
<b>Net cash used in investing activities</b>		<b>(1,263)</b>	(1,225)
<b>Financing activities</b>			
Repayments of borrowings		<b>(661)</b>	(667)
Repayments of obligations under finance leases		<b>(957)</b>	(1,226)
Borrowings raised		<b>1,071</b>	580
<b>Net cash outflow from financing activities</b>		<b>(547)</b>	(1,313)
<b>Net increase in cash and cash equivalents</b>		<b>827</b>	980
Cash and cash equivalents at beginning of year		<b>(1,279)</b>	(2,255)
Effect of foreign exchange rate changes		<b>(112)</b>	(4)
<b>Cash and cash equivalents at end of year</b>	23	<b>(564)</b>	(1,279)

The principal accounting policies and notes on pages 31 to 53 form part of these financial statements.

# Notes to the annual report

For the year ended 31 May 2011

## 1. Segmental analysis

For management purposes, the Group is currently organised into three main segments - Aerospace, Energy and Medical and Industrial Products. These divisions are the basis on which the Group reports to the Chief Executive.

Principal activities are as follows:

- Aerospace - manufacture of rigid pipe assemblies and prismatic components for aero engines and precision polishing of aircraft components.
- Energy and Medical - manufacture of machined and fabricated vacuum components for the energy, medical, science and research communities. Design and manufacture of fabricated poles and cabinets for roadside safety cameras and rail track signalling.
- Industrial Products - design, manufacture, distribution and service of precision ballscrews, spindles and related linear and rotary products servicing the original equipment and after markets in global industry.

Information about these businesses is presented below:

Year ended 31 May 2011	<i>Aerospace</i> £'000	<i>Energy and Medical</i> £'000	<i>Industrial Products</i> £'000	<i>Unallocated Central items</i> £'000	<i>Total</i> £'000
<b>Revenue</b>	12,711	12,963	10,586	-	36,260
Operating profit/(loss)	962	206	1,032	(468)	1,732
Net finance costs					(310)
Taxation					(161)
<b>Profit after tax</b>					1,261
Segment non-current assets	9,699	9,347	3,748	272	23,066
Segment assets	16,261	16,575	8,384	358	41,578
Segment liabilities	(6,345)	(5,364)	(3,020)	(3,991)	(18,720)
<b>Net assets/(liabilities)</b>	9,916	11,211	5,364	(3,633)	22,858

Unallocated assets/(liabilities) consist primarily of interest bearing assets and liabilities and income tax assets and liabilities.

# Notes to the annual report (continued)

For the year ended 31 May 2011

## 1. Segmental analysis (continued)

Year ended 31 May 2010	<i>Aerospace</i> £'000	<i>Energy and Medical</i> £'000	<i>Industrial Products</i> £'000	<i>Unallocated Central items</i> £'000	<i>Total</i> £'000
<b>Revenue</b>	9,632	12,177	6,769	-	28,578
Operating profit/(loss)	132	(58)	83	634	791
Net finance costs					(321)
Taxation					137
<b>Profit after tax</b>					607
Segment non-current assets	9,641	9,490	3,854	255	23,240
Segment assets	14,640	15,662	7,895	317	38,514
Segment liabilities	(4,513)	(4,666)	(2,790)	(4,859)	(16,828)
<b>Net assets/(liabilities)</b>	10,127	10,996	5,105	(4,542)	21,686

Unallocated central items include £932,000 income in respect of a warranty claim detailed in Note 2.

## Geographical

The following tables provides an analysis of the Group's revenue by destination and non-current assets by geographical market:

	<i>2011</i> <i>Revenue</i> £'000	<i>2010</i> <i>Revenue</i> £'000	<i>2011</i> <i>Non-current</i> <i>assets</i> £'000	<i>2010</i> <i>Non-current</i> <i>assets</i> £'000
United Kingdom	26,721	22,251	18,117	18,176
Europe	8,038	5,176	3,111	3,250
North America	2,318	1,559	3	5
Rest of World	1,366	750	1,835	1,809
Eliminations	(2,183)	(1,158)	-	-
	<b>36,260</b>	<b>28,578</b>	<b>23,066</b>	<b>23,240</b>

The Group has revenue of £5,634,000 (Aerospace) and £5,162,000 (Energy & Medical) with single external customers under common control, which each represent more than 10% of the Group's revenue.

# Notes to the annual report (continued)

For the year ended 31 May 2011

## 2. Profit before taxation

Profit before taxation is stated after charging/(crediting):

	<i>2011</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>
Depreciation of property, plant and equipment	1,153	1,387
Profit on disposal of property, plant and equipment	(72)	(51)
Amortisation of internally generated intangible assets	284	203
Amortisation of intangible assets from business combinations	137	137
Cost of inventories recognised as an expense	24,174	18,590
Loss/(gains) of foreign exchange transactions	100	24
Staff costs (Note 6)	14,547	12,779
Operating lease rentals:		
- Land and buildings	744	762
- Machinery	206	205
	<u>          </u>	<u>          </u>

### Auditors remuneration

	<i>2011</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>
Services to the Company and its subsidiaries		
Fees payable to the Company's auditor for the audit of the financial statements	15	15
Fees payable to the Company's auditor and its associates for other services:		
- Audit of the financial statements of the Company's subsidiaries and associates pursuant to legislation	50	45
- Other services relating to taxation	20	20
- All other services	1	1
	<u>          </u>	<u>          </u>

Fees payable to the Company's auditor Grant Thornton UK LLP and its associates for non-audit services to the Company itself are not disclosed in the individual financial statements of the Company because the Group financial statements are required by the Companies (Disclosure of Auditor Remuneration) Regulations 2005, regulation 5(i), to disclose such fees on a consolidated basis.

### Earnings before interest, tax, depreciation and amortisation

	<i>2011</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>
Profit before tax	1,422	470
Finance income	-	(11)
Finance cost	310	332
Amortisation of intangible assets from business combinations	137	137
Earnings before interest, tax and amortisation ('EBITA')	<u>1,869</u>	<u>928</u>
Depreciation	1,153	1,387
Amortisation of other intangible assets	284	203
Earnings before interest, tax, depreciation and amortisation ('EBITDA')	<u>3,306</u>	<u>2,518</u>

## Notes to the annual report (continued)

For the year ended 31 May 2011

### 2. Profit before taxation (continued)

#### Warranty claim

The Group received the following amounts during the 2010 financial year from the former owners of Sigma Precision Components UK Limited (formerly B&D Patterns Limited) in settlement of a warranty claim, which are disclosed as operating exceptional items.

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Settlement amount	-	1,250
Costs	-	(318)
	<u>-</u>	<u>932</u>
	<u><u>-</u></u>	<u><u>932</u></u>
<b>3. Finance income</b>		
	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
From other non-current asset investments	-	11
	<u>-</u>	<u>11</u>
	<u><u>-</u></u>	<u><u>11</u></u>
<b>4. Finance costs</b>		
	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	<b>112</b>	91
Interest on bank loans and overdrafts wholly repayable after five years	<b>90</b>	96
Interest on finance lease agreements	<b>108</b>	145
	<u>310</u>	<u>332</u>
	<u><u>310</u></u>	<u><u>332</u></u>

# Notes to the annual report (continued)

For the year ended 31 May 2011

## 5. Directors' emoluments

Particulars of directors' emoluments are as follows:

	<i>Salary and fees £'000</i>	<i>Benefits £'000</i>	<i>Total 2011 £'000</i>	<i>Total 2010 £'000</i>	<i>Pension Total 2011 £'000</i>	<i>Pension Total 2010 £'000</i>
<b>Non-executive:</b>						
R S McDowell	60	-	<b>60</b>	48	-	-
J J Hamer	26	-	<b>26</b>	30	-	-
GK Thornton	25	-	<b>25</b>	16	-	-
<b>Executive:</b>						
S McQuillan	200	1	<b>201</b>	181	<b>20</b>	20
S M King	123	1	<b>124</b>	117	<b>19</b>	19
P J Kenny	98	11	<b>109</b>	115	<b>16</b>	17
Total emoluments	<u>532</u>	<u>13</u>	<u><b>545</b></u>	<u>507</u>	<u><b>55</b></u>	<u>56</u>

The fees of J J Hamer and GK Thornton were paid to Fin Dec Limited and RG Associates respectively.

The non-cash benefits comprise the provision of private health insurance for S McQuillan and S M King and the provision of a car for P J Kenny. The number of Directors who are accruing benefits under money purchase schemes is three (2010: three).

The 2010 emoluments for GK Thornton were for 10 months.

Employers National Insurance Contributions made relating to director's emoluments were £47,000 (2010: £42,000).

## Notes to the annual report (continued)

For the year ended 31 May 2011

### 6. Employees

Particulars of employees, including Executive Directors:

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Wages and salaries	12,767	11,059
Social security costs	1,522	1,465
Other pension costs	230	236
Share-based payment expense	28	19
	<u>14,547</u>	<u>12,779</u>

The average monthly number of employees (including Executive Directors) during the year was:

	<i>2011</i> <i>Number</i>	<i>2010</i> <i>Number</i>
Production	452	437
Selling and distribution	27	26
Administration	94	91
	<u>573</u>	<u>554</u>

The remuneration of the Directors and Senior Management, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Short term employee benefits	717	663
Post-employment benefits	74	62
Share-based payments	15	10
	<u>791</u>	<u>735</u>

## Notes to the annual report (continued)

For the year ended 31 May 2011

### 7. Taxation

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Current tax	297	(113)
Deferred tax	(136)	(24)
	<u>161</u>	<u>(137)</u>

Corporation tax is calculated at 27.67% (2010: 28%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Profit before taxation	1,422	470
Theoretical tax at UK corporation tax rate of 27.67% (2010: 28%)	393	132
Effects of:		
Adjustment in respect of foreign tax rates	38	(20)
Other expenditure that is not tax deductible/income that is not taxable	61	210
Unprovided losses	-	45
Utilisation of overseas losses not recognised	(40)	(16)
Adjustments in respect of prior years	(232)	(302)
Losses carried back	37	75
Non-taxable warranty claim	-	(261)
Change in deferred tax rate	(96)	-
Total tax charge/(credit)	<u>161</u>	<u>(137)</u>

The Group has tax losses carried forward of approximately £1.0million at 31 May 2011 (2010: £1.1 million) that may be relievable against future profits.

The Group's corporation tax assets and liabilities can be summarised as follows:

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
<b>Current tax assets</b>		
UK Corporation tax	118	41
Overseas tax	4	23
	<u>122</u>	<u>64</u>
<b>Current tax liabilities</b>		
UK Corporation tax	534	218
Overseas tax	270	261
	<u>804</u>	<u>479</u>

## Notes to the annual report (continued)

For the year ended 31 May 2011

### 8. Earnings per ordinary share

Basic and diluted earnings per share have been calculated in accordance with IAS 33 which requires that earnings should be based on the net profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares, being the EMI and CSOP share options.

	<i>2011</i> <i>Number</i>	<i>2010</i> <i>Number</i>
Weighted average number of shares – basic	<b>25,480,577</b>	25,480,577
Share option adjustment	<b>232,427</b>	44,478
	<hr/>	<hr/>
Weighted average number of shares – diluted	<b>25,713,004</b>	25,525,055
	<hr/> <hr/>	<hr/> <hr/>
	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Earnings attributable to shareholders	<b>1,261</b>	607
Share-based payments	<b>28</b>	19
Amortisation of acquisition related of intangibles	<b>137</b>	137
	<hr/>	<hr/>
Adjusted earnings attributable to shareholders	<b>1,426</b>	763
	<hr/> <hr/>	<hr/> <hr/>
Basic earnings per share	<b>4.9p</b>	2.4p
Adjusted basic earnings per share	<b>5.6p</b>	3.0p
Diluted earnings per share	<b>4.9p</b>	2.4p
Adjusted diluted earnings per share	<b>5.5p</b>	3.0p

The Directors believe that the above adjusted earnings per share calculation is a more appropriate reflection of the Group performance.

There are 115,000 share options at 31 May 2011 (2010: 170,000) that are not included within diluted earnings per share because they are anti-dilutive.

# Notes to the annual report (continued)

For the year ended 31 May 2011

## 9. Goodwill

	<i>Total £000</i>
<b>Cost</b>	
At 1 June 2009, 1 June 2010 and 31 May 2011	<b>10,242</b>
<b>Accumulated impairment losses</b>	
At 1 June 2009, 1 June 2010 and 31 May 2011	-
<b>Net book value</b>	
At 31 May 2011	<b>10,242</b>
At 31 May 2010	10,242

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	<i>2011 £'000</i>	<i>2010 £'000</i>
<b>Aerospace</b>		
- Sigma Precision Components UK Limited (formerly B&D Patterns Limited)	<b>2,688</b>	2,688
- C&H Precision Components Limited	<b>161</b>	161
- Sigma Precision Components Limited	<b>770</b>	770
<b>Energy and Medical</b>		
- Stainless Metalcraft (Chatteris) Limited	<b>4,395</b>	4,395
- Crown (UK) Limited	<b>1,005</b>	1,005
<b>Industrial Products</b>	<b>1,223</b>	1,223
	<b>10,242</b>	10,242

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. There are no material differences between the key assumptions applied to each of the significant CGUs. Management have sensitised the key assumptions within what is considered a reasonably possible range and have concluded that this would not result in the individual significant CGU's carrying amount exceeding their recoverable amount.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and derive cash flows for the following two years based on an estimated growth rate of 4 per cent. This rate does not exceed the average long-term growth rate for the relevant markets. Whilst a five year horizon is shorter than the expected remaining life of the relevant CGUs, the directors consider this a suitable period to apply in performing impairment reviews due to the inherent uncertainty in further extrapolating three year forecasts.

The rate used to discount the forecast cash flows is 10 per cent derived from the Group's WACC, adjusted to reflect currency and price risk and the inherent risk of operating in differing geographical markets. This rate has been applied consistently between CGUs based on similar overall levels of aggregate risk within each of the CGU's respective markets.

## Notes to the annual report (continued)

For the year ended 31 May 2011

### 10. Other intangible assets

	<i>Customer relationships</i> £'000	<i>Order book</i> £'000	<i>Development costs</i> £'000	<i>Intellectual property</i> £'000	<i>Software</i> £'000	<i>Total</i> £'000
<b>Cost</b>						
At 1 June 2009	4,026	219	982	49	253	5,529
Additions	-	-	445	-	3	448
Exchange adjustments	-	-	-	-	(3)	(3)
At 1 June 2010	4,026	219	1,427	49	253	5,974
Additions	-	-	297	1	55	353
Exchange adjustments	-	-	-	-	4	4
<b>At 31 May 2011</b>	<b>4,026</b>	<b>219</b>	<b>1,724</b>	<b>50</b>	<b>312</b>	<b>6,331</b>
<b>Accumulated amortisation</b>						
At 1 June 2009	3,031	219	185	-	153	3,588
Charge for the year	137	-	165	3	35	340
Exchange adjustments	-	-	-	-	(4)	(4)
At 1 June 2010	3,168	219	350	3	184	3,924
Charge for the year	137	-	243	2	39	421
Exchange adjustments	-	-	-	-	3	3
<b>At 31 May 2011</b>	<b>3,305</b>	<b>219</b>	<b>593</b>	<b>5</b>	<b>226</b>	<b>4,348</b>
<b>Net book value at 31 May 2011</b>	<b>721</b>	<b>-</b>	<b>1,131</b>	<b>45</b>	<b>86</b>	<b>1,983</b>
Net book value at 31 May 2010	858	-	1,077	46	69	2,050

The customer relationships relate to the value attributed to relationships with customers of Sigma Precision Components UK Limited upon acquisition of this business by Avingtrans. The remaining amortisation period for these assets is 5.3 years.

## Notes to the annual report (continued)

For the year ended 31 May 2011

### 11. Property, plant and equipment

	<i>Freehold land and buildings £'000</i>	<i>Leasehold improve- ments £'000</i>	<i>Plant and machinery £'000</i>	<i>Equipment and motor vehicles £'000</i>	<i>Total £'000</i>
<b>Cost</b>					
At 1 June 2009	5,248	283	9,615	1,369	16,515
Additions	14	-	769	81	864
Disposals	-	-	(58)	(52)	(110)
Exchange adjustments	-	-	(168)	(20)	(188)
Transferred to investment property	(623)	-	-	-	(623)
At 1 June 2010	4,639	283	10,158	1,378	16,458
Additions	-	-	724	258	982
Disposals	-	(23)	(109)	(41)	(173)
Exchange adjustments	-	-	163	20	183
<b>At 31 May 2011</b>	<b>4,639</b>	<b>260</b>	<b>10,936</b>	<b>1,615</b>	<b>17,450</b>
<b>Depreciation</b>					
At 1 June 2009	221	54	4,362	570	5,207
Charge in the year	54	34	1,110	189	1,387
Disposals	-	-	(33)	(52)	(85)
Exchange adjustments	-	-	(104)	(14)	(118)
Transferred to investment property	(23)	-	-	-	(23)
At 1 June 2010	252	88	5,335	693	6,368
Charge in the year	54	35	886	178	1,153
Disposals	-	(23)	(109)	(41)	(173)
Exchange adjustments	-	-	106	13	119
<b>At 31 May 2011</b>	<b>306</b>	<b>100</b>	<b>6,218</b>	<b>843</b>	<b>7,467</b>
<b>Net book value at 31 May 2011</b>	<b>4,333</b>	<b>160</b>	<b>4,718</b>	<b>772</b>	<b>9,983</b>
Net book value at 31 May 2010	4,387	195	4,823	685	10,090
<b>Leased assets</b>					
The net book value of assets held under finance leases are as follows:					
	<i>Freehold land and buildings £'000</i>	<i>Leasehold improve- ments £'000</i>	<i>Plant and machinery £'000</i>	<i>Equipment and motor vehicles £'000</i>	<i>Total £'000</i>
<b>Net book value</b>					
<b>At 31 May 2011</b>	<b>8</b>	<b>-</b>	<b>2,631</b>	<b>185</b>	<b>2,824</b>
At 31 May 2010	8	-	2,704	148	2,860

Depreciation charged on assets held under finance leases was £415,000 (2010: £545,000).

## Notes to the annual report (continued)

For the year ended 31 May 2011

### 12. Investment property

	<i>Total £'000</i>
<b>Cost</b>	
At 1 June 2009	-
Transfer from property, plant and equipment	600
<b>At 31 May 2010 and 31 May 11</b>	<u>600</u>
<b>Amounts provided</b>	
At 1 June 2009, 1 June 2010 and 31 May 2011	-
<b>Net book value</b>	
<b>At 31 May 2011</b>	<u>600</u>
At 31 May 2010	<u>600</u>

Freehold property was reclassified as investment property due to an end in owner-occupation and the commencement of an operating lease with a third party. The future minimum lease payments receivable under this lease are £39,000 (within 1 year) and £34,000 (between 1 and 5 years). The directors consider the fair value of the investment property to not be materially different to its carrying value based on their knowledge of the local market. Rental income of £39,000 (2010: £35,000) has been received in relation to the property.

### 13. Available for sale financial assets

	<i>Unlisted Investments £'000</i>
<b>Cost</b>	
<b>At 1 June 2010 and 31 May 2011</b>	<u>219</u>
<b>Provision</b>	
<b>At 1 June 2010 and 31 May 2011</b>	-
<b>Net book value at 31 May 2011</b>	<u>219</u>
Net book value at 31 May 2010	<u>219</u>

The unlisted investment relates to a 7% holding in Vehicle Occupancy Limited. Per IAS 39 this investment should be re-valued to fair value at each reporting date, however Vehicle Occupancy Limited has a call option over the Group's shareholding to acquire those shares at cost and the fair value cannot be measured reliably as this is an unlisted start-up company, so is valued at cost. The directors expect the option to be exercised in the foreseeable future.

## Notes to the annual report (continued)

For the year ended 31 May 2010

### 14. Inventories

	<i>2011</i> £'000	<i>2010</i> £'000
Raw materials and consumables	2,989	2,525
Work in progress	4,162	3,289
Finished goods	669	820
	<u>7,820</u>	<u>6,634</u>

The replacement cost of the above stocks would not be significantly different from the values stated.

### 15. Trade and other receivables

	<i>2011</i> £'000	<i>2010</i> £'000
Amounts falling due within one year		
Trade receivables	6,956	6,702
Allowance for doubtful debts	(289)	(212)
	<u>6,667</u>	<u>6,490</u>
Other receivables	253	51
Prepayments and accrued income	1,601	938
Amounts receivable under long term contracts	333	-
	<u>8,854</u>	<u>7,479</u>

The average credit period taken on sales of goods is 56 days (2010: 58 days) in respect of the Group. No interest is generally charged on the receivables until legal action is taken. Thereafter, interest is charged at 8% above bank base rate on the outstanding balance.

The Group has impaired all trade receivables to the present value of estimated future cash receipts where it considers the collection of the receivable is doubtful.

The Group's maximum exposure to credit risk is limited to trade receivables net of allowance for doubtful debts.

#### Ageing of past due but not impaired receivables

	<i>2011</i> £'000	<i>2010</i> £'000
60 - 90 days	157	171
90 - 120 days	135	126
120+ days	335	635
<b>Total</b>	<u>627</u>	<u>932</u>

## Notes to the annual report (continued)

For the year ended 31 May 2011

### 15. Trade and other receivables (continued)

#### Movement in the allowance for doubtful debts

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Balance at the beginning of the year	212	251
Impairment losses recognised	167	5
Amounts written off as uncollectible	(8)	(20)
Amounts recovered	(84)	(21)
Exchange adjustments	2	(3)
<b>Balance carried forward</b>	<b>289</b>	<b>212</b>

Included in the allowance for doubtful debts are individually impaired receivables.

#### Ageing of impaired receivables:

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
120+ days	289	212
<b>Total</b>	<b>289</b>	<b>212</b>

The Directors consider that the carrying amount of trade and other receivables approximates to fair value.

### 16. Trade and other payables

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Trade payables	5,364	3,944
Other tax and social security	1,449	1,188
Other payables	556	302
Deferred consideration	154	46
Accruals	787	369
	<b>8,310</b>	<b>5,849</b>

### 17. Borrowings

#### Secured borrowings

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Bank overdrafts	2,280	2,376
Bank loans	3,613	4,264
Total borrowings	<b>5,893</b>	<b>6,640</b>
<b>Amount due for settlement within 12 months</b>	<b>2,754</b>	<b>3,040</b>
<b>Amount due for settlement after 12 months</b>	<b>3,139</b>	<b>3,600</b>

# Notes to the annual report (continued)

For the year ended 31 May 2011

## 17. Borrowings (continued)

	<i>2011</i> £'000	<i>2010</i> £'000
Bank loans due within one to two years	283	474
Bank loans due within two to five years	898	873
Bank loans due after five years:	1,958	2,253
	<u>3,139</u>	<u>3,600</u>

Bank loans of £3,613,000 (2010: £4,264,000) are secured on certain assets of the Group.

Bank overdrafts of £71,000 (2010: £276,000) are secured on the assets of Jenaer Gewindetechnik GmbH. £2,209,000 (2010: £1,372,000) of bank overdrafts are secured on certain trade receivables of UK group companies. At 31 May 2011 the Group had £2,647,000 (2010: £1,576,000) of undrawn committed borrowing facilities expiring within one year which the Directors expect be renewed. All borrowings were at variable rates relative to local base rates.

## 18. Obligations under finance leases

	<i>Minimum lease payments</i>		<i>Present value of minimum lease payments</i>	
	<i>2011</i> £'000	<i>2010</i> £'000	<i>2011</i> £'000	<i>2010</i> £'000
Amounts due within one year	941	893	871	810
Amounts due in two to five years	1,679	1,630	1,565	1,483
Amounts due after five years	-	-	-	-
<b>Total obligations under finance leases</b>	<u>2,620</u>	<u>2,523</u>	<u>2,436</u>	<u>2,293</u>
Less future finance charges	(184)	(230)	-	-
<b>Present value of lease obligations</b>	<u>2,436</u>	<u>2,293</u>	<u>2,436</u>	<u>2,293</u>

Finance lease liabilities are secured on the related assets

At 31 May 2011 the Group had £952,000 of fixed hire purchase and finance lease liabilities (2010: £1,349,000), the weighted average interest rate is 5.4% (2010: 5.7%) and the weighted average period until maturity is 39 months (2010: 47 months). All finance lease liabilities were at variable rates relative to local base rates.

## 19. Financial instruments

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 17 and 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Board closely monitor current and forecast balances at monthly Board meetings to allow the Group to maximise return to shareholders by way of dividends, whilst maintaining suitable amounts of liquid funds and facilities to allow acquisitions to be funded as opportunities arise and continued investment in property, plant and equipment and research and development. The level of dividends are set by the Board to meet the expectations of the shareholders based on cash generated by the Group.

# Notes to the annual report (continued)

For the year ended 31 May 2011

## 19. Financial instruments (continued)

The gearing ratio at the year-end is as follows:

	<i>2011</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>
Debt	<b>(8,329)</b>	(8,933)
Cash and cash equivalents	<b>1,716</b>	1,097
Net debt	<b>(6,613)</b>	(7,836)
Equity	<b>22,858</b>	21,686
Net debt to equity ratio	<b>28.9%</b>	36.1%

Debt is defined as long and short-term borrowings, as detailed in notes 17 and 18. Equity includes all capital and reserves of the Group attributable to equity holders of the parent. The Group is not subject to externally imposed capital requirements.

### Categories of financial instruments

	<i>Carrying value</i>	
	<i>2011</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>
<b>Financial assets</b>		
Loans and receivables comprising:		
Trade receivables	<b>6,667</b>	6,490
Other receivables	<b>253</b>	51
Cash and cash equivalents	<b>1,716</b>	1,097
	<b>8,636</b>	7,638
Available for sale financial assets	<b>219</b>	219
	<b>8,855</b>	7,857
<b>Financial liabilities</b>		
Trade and other payables - held at amortised cost comprising:		
Trade payables and deferred consideration	<b>5,518</b>	3,990
Accruals	<b>787</b>	369
Other payables	<b>556</b>	302
	<b>6,861</b>	4,661
Borrowings - held at amortised cost comprising:		
Borrowings	<b>5,893</b>	6,640
	<b>5,893</b>	6,640
Deferred consideration - held at amortised cost	<b>-</b>	154
	<b>12,754</b>	11,455
Undiscounted contractual maturity of financial liabilities:		
Amounts due within one year	<b>9,801</b>	8,328
Amounts due in two to five years	<b>3,118</b>	3,269
Amounts due after five years	<b>2,116</b>	2,633
	<b>15,035</b>	14,230
Less future finance charges	<b>(731)</b>	(904)
<b>Financial liabilities at carrying value</b>	<b>14,304</b>	13,326

The fair value of the financial instruments set out above is not materially different to the book value

# Notes to the annual report (continued)

For the year ended 31 May 2011

## 19. Financial instruments (continued)

### Financial risk management objectives

Management monitor and manage the financial risks relating to the operations of the Group. These risks include currency risk, interest rate risk, credit risk, liquidity risk and cash flow interest rate risk.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates particularly in US dollars and the Euro.

### Foreign currency risk management

The Group's principal exposure to exchange rate fluctuations arises on the translation of overseas net assets and profits into sterling for accounting purposes. The Group has investments principally denominated in the Euro and the US dollar. Wherever possible, translation exposure is reduced by matching of the assets with borrowings in Euros and US dollars.

The Group enters into forward foreign currency contracts to eliminate exposures on certain material sales or purchases denominated in foreign currency once a significant commitment has been made.

The Group has no forward sale contracts (2010: none) to manage the transactional currency exposure on certain contracts outstanding as at 31 May 2011.

The following table details the Group's sensitivity to a 10% increase and decrease in Sterling against the relevant foreign currencies on overseas assets. These charges are considered to be reasonably possible based on observation of current market conditions.

	<i>Euro currency impact</i>		<i>US dollar currency impact</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Impact (+/-) on				
Profit for the financial year/equity	<b>59</b>	19	<b>(9)</b>	12

### Interest rate risk management

The Group finances its operations where necessary through bank loans, overdrafts and finance lease facilities. The bank loans and overdrafts are at floating rates principally at negotiated margins using pooling of the Group's requirements to achieve this. The finance lease facilities are held at both fixed and floating rates.

If interest rates on floating rate borrowings (i.e. cash and cash equivalents and bank overdrafts attracting interest at floating rates) were to change by + or - 1% the impact on the results in the income statement and equity would be an increase/decrease of £53,000. These charges are considered to be reasonably possible based on observation of current market conditions.

### Price risk management

Where possible the Group enters into long term contracts with suppliers with price escalators to mitigate any significant exposure to materials and utilities price risk.

# Notes to the annual report (continued)

For the year ended 31 May 2010

## 19. Financial instruments (continued)

### Credit risk management

The Group's principal financial assets are bank balances, cash, and trade receivables.

The Group's credit risk is attributable to its trade receivables. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Apart from two major customers which represent 14.6% (2010: 17%) and 10.8% (2010: 2.2%) of trade receivables, the Group has no other significant concentration of receivables.

### Liquidity risk management

The Group funds acquisitions through a mixture of equity and long term debt. Short term financing needs are met by working capital facilities.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a monthly 13 week projection. Long-term liquidity needs for up to a 2 year period are projected monthly and reviewed quarterly. The Group maintains cash and working capital facilities to meet its liquidity requirements for up to 30-day periods. Funding in regards to long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

All facilities are secured on the assets of the Group.

## 20. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

### Accelerated tax

	<i>Accelerated tax depreciation £'000</i>	<i>Other temporary differences £'000</i>	<i>Share based payment £'000</i>	<i>Total £'000</i>
At 1 June 2010	1,056	337	5	1,398
(Credit)/charge to income	(16)	(7)	(1)	(24)
At 1 June 2010	1,040	330	4	1,374
Credit to income	(124)	(9)	(3)	(136)
<b>At 31 May 2011</b>	<b>916</b>	<b>321</b>	<b>1</b>	<b>1,238</b>

## Notes to the annual report (continued)

For the year ended 31 May 2011

### 20. Deferred tax (continued)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Deferred tax liabilities	1,277	1,413
Deferred tax assets	(39)	(39)
	<u>1,238</u>	<u>1,374</u>

At the balance sheet date, the Group has unused tax losses of £1.0million (2010: £1.1 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £Nil (2010: £Nil) of such losses. No deferred tax asset has been recognised due to the unpredictability of future profit streams. All losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £Nil (2010: £Nil). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

### 21. Called up share capital

	<i>2011</i>		<i>2010</i>	
	<i>No.</i>	<i>£'000</i>	<i>No.</i>	<i>£'000</i>
Authorised				
Ordinary shares of 5p each	<u>30,000,000</u>	<u>1,500</u>	<u>30,000,000</u>	<u>1,500</u>
Allotted, issued and fully paid				
Ordinary shares of 5p each	<u>25,480,577</u>	<u>1,274</u>	<u>25,480,577</u>	<u>1,274</u>

#### Reconciliation of movement in allotted, issued and fully paid share capital

	<i>No.</i>	<i>£'000</i>
<b>At 31 May 2010 and 31 May 2011</b>	<u><b>25,480,577</b></u>	<u><b>1,274</b></u>

The Company has a share option scheme under which options to subscribe for the Company's shares have been awarded to certain directors and employees. Further details of the scheme are given in note 22.

The market price of the Company's shares at the end of the year was 58.0p (2010: 33.5p). The highest and lowest market prices during the year were 30p and 71.5p respectively (2010: 47p and 31p respectively).

## Notes to the annual report (continued)

For the year ended 31 May 2011

### 22. Share-based payments

#### Post 7 November 2002 options

The following options were granted after 7 November 2002 and had not vested by 1 June 2006. The Group has recognised the fair value of these options in calculating the profit for the current and prior year.

	2011		2010	
	<i>Options (No. '000)</i>	<i>Weighted average exercise price (p)</i>	<i>Options (No. '000)</i>	<i>Weighted average exercise price (p)</i>
Outstanding at the start of the year	860.0	38.85	170.0	54.47
Lapsed during the year	(35.0)	39.93	-	-
Issued during the year	312.5	39.50	690.0	35.00
Outstanding at the end of the year	<u>1,137.5</u>	<u>38.99</u>	<u>860.0</u>	<u>38.85</u>
Exercisable at the end of the year	<u>165.0</u>	<u>54.29</u>	<u>170.0</u>	<u>54.47</u>

The options outstanding at 31 May 2011 had exercise prices in the range 35.0p to 60.5p and a weighted average remaining contractual life of 7.7 years.

The terms of these options are as follows:

<i>Date of grant</i>	<i>Options outstanding at 31 May 2011</i>	<i>Vesting period</i>	<i>Market value at date of grant (p)</i>	<i>Exercise price (p)</i>	<i>Exercise period</i>
2/10/2003	50,000	3 years	40.00	40.00	2/10/2006 to 2/10/2013
25/10/2004	115,000	3 years	60.50	60.50	25/10/2007 to 25/10/2014
8/7/2009	670,000	3 years	35.00	35.00	9/7/2012 to 8/7/2019
24/9/2010	302,500	3 years	39.50	39.50	25/9/2013 to 24/9/2020

The performance condition for each of these options is that the increase in adjusted EPS must be at least equal to the increase in RPI over the vesting period.

# Notes to the annual report (continued)

For the year ended 31 May 2011

## 22. Share-based payments (continued)

All share options are equity settled. The adjusted EPS is the basic earnings per share published in the Preliminary Announcement of Results with adjustments made for amortisation of acquisition related intangibles and costs of share based payments, release of Sigma deferred consideration and the withdrawal of IBA deferred tax charge. Further adjustments to the above performance conditions may be approved by the Remuneration Committee to reflect future changes in accounting standards.

The fair value of the options was calculated by external consultants, Pegg, Franklin & Co and Pinsent Masons.

Options granted with performance conditions are valued using the Black-Scholes model. The inputs into the Black-Scholes model to value these options were as follows:

<i>Scheme: date of grant</i>	<i>2/10/2003</i>	<i>25/10/2004</i>	<i>8/7/2009</i>	<i>25/9/2010</i>
Exercise price(p)	40.00	60.50	35.00	39.50
Expected life of option	3 years	3 years	3 years	3 years
Expected volatility of return to shareholders	40%	40%	45%	50%
Risk free interest rate	5.00%	5.00%	2.33%	1.1%
Expected dividend yield	3.0%	3.0%	1.5%	0.0%

For all awards, recipients are required to remain in employment with the Group over the period until release.

Future volatility at the date of grant has been estimated by reference to the historical volatility at that time.

The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

### Total charge to the income statement in respect of share-based payments

	<i>2011</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>
In respect of:		
Equity settled share options	<b>28</b>	19

There are no share based payment transactions that were expensed immediately. A deferred tax credit of £2,000 (2010: £1,000 credit) was recognised during the year in respect of share based payments.

# Notes to the annual report (continued)

For the year ended 31 May 2011

## 23. Notes to the consolidated cash flow statement

### Cash flows from operating activities:

	<i>2011</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>
<b>Continuing operations</b>		
Profit before income tax	1,422	470
Adjustments for:		
Depreciation	1,153	1,387
Amortisation and impairment of intangible assets	421	340
Profit on disposal of property, plant and equipment	(72)	(51)
Finance income	-	(11)
Finance expenses	310	332
Share based payment charge	28	19
<b>Changes in working capital</b>		
(Increase)/decrease in inventories	(1,121)	174
(Increase)/decrease in trade and other receivables	(1,384)	1,440
Increase/(decrease) in trade and other payables	2,217	(357)
Other non cash changes	10	13
<b>Cashflows from operating activities</b>	<b>2,984</b>	<b>3,756</b>
	<i>2011</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>
<b>Cash and cash equivalents</b>		
Cash	1,716	1,097
Overdrafts	(2,280)	(2,376)
	<b>(564)</b>	<b>(1,279)</b>

## 24. Related party transactions

### *Remuneration of key management personnel*

The remuneration of the Directors is set out in note 6 in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the Director's Remuneration Report on pages 14 to 15.

## 25. Financial commitments

### a) Capital commitments

Commitments for capital expenditure were as follows:

	<i>2011</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>
Contracted for, but not provided in the accounts	579	94

# Notes to the annual report (continued)

For the year ended 31 May 2011

## 25. Financial commitments (continued)

### b) Operating lease commitments

The Group has entered into commercial leases on certain properties, motor vehicles and items of plant and equipment. At the balance sheet date, the Group had outstanding commitments for minimum lease payments under non-cancellable operating leases, which fall due as follows:

	<i>2011</i> £'000	<i>2010</i> £'000
Land and buildings lease obligation falling due:s		
Within one year	<b>691</b>	721
In the second to fifth years inclusive	<b>2,339</b>	2,888
After five years	-	17
	<u><b>3,030</b></u>	<u>3,626</u>
Other assets lease obligation falling due:s		
Within one year	<b>79</b>	191
In the second to fifth years inclusive	<b>72</b>	109
After five years	<b>2</b>	-
	<u><b>153</b></u>	<u>300</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties, motor vehicles and items of plant and equipment. Leases are negotiated for an average term of 10 of years and rentals are fixed for an average of 5 of years with an option to extend for a further 5 years at the then prevailing market rate.

# Company balance sheet

For the year ended 31 May 2011

	<i>Note</i>	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
<b>Fixed assets</b>			
Investments	3	<b>14,866</b>	15,520
		<u>14,866</u>	<u>15,520</u>
<b>Current assets</b>			
Debtors: amounts falling due within one year	4	<b>8,852</b>	9,517
Debtors: amounts falling due after one year	4	<b>1,134</b>	1,134
Cash		<b>57</b>	-
		<u>10,043</u>	<u>10,651</u>
Creditors: amounts falling due within one year	5	<b>(897)</b>	(1,153)
<b>Net current assets</b>		<u><b>9,146</b></u>	<u>9,498</u>
<b>Total assets less current liabilities</b>		<b>24,012</b>	25,018
<b>Creditors: amounts falling due after more than one year</b>	6	<b>(4,142)</b>	(4,727)
<b>Provisions for liabilities</b>	7	<b>(1)</b>	(3)
<b>Net assets</b>		<u><b>19,869</b></u>	<u>20,288</u>
<b>Capital and reserves</b>			
Called up share capital	8	<b>1,274</b>	1,274
Share premium account	9	<b>9,534</b>	9,534
Capital redemption reserve	9	<b>814</b>	814
Merger reserve	9	<b>402</b>	402
Other reserves	9	<b>180</b>	180
Profit and loss account	9	<b>7,665</b>	8,084
<b>Equity shareholders' funds</b>	10	<u><b>19,869</b></u>	<u>20,288</u>

The financial statements were approved by the Board of Directors on 13 September 2011 and signed on its behalf by:

**S M King**  
Director

The notes on pages 55 to 60 form part of these financial statements.

# Notes to the company balance sheet

For the year ended 31 May 2011

## 1. Accounting policies

These financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and the Companies Act 2006. Under section 408(3) of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The loss for the financial year dealt within the financial statements of the holding company was £418,000 (2010: loss £1,806,000).

### Investments

Investments in subsidiary undertakings and participating interests are stated at cost less provision for impairment where necessary to reduce book value to recoverable amount. Publicly traded investments are stated at cost less any provision to arrive at market value. Cost is purchase price including acquisition expenses, but excluding any payment for accrued interest or fixed dividend entitlement.

Investment income is recognised on a received basis.

### Financing costs

In accordance with FRS 4, costs incurred in connection with the issue of shares are deducted from equity. Costs in respect of loans are deducted from loans to arrive at net proceeds. The effective interest method is used to spread these costs over the term of the loan.

### Deferred taxation

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes.

In accordance with FRS 19 deferred tax is not provided on timing differences arising from gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets, being charged to tax if and only when the replacement assets are sold.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

### Share based payments

FRS 20 has been applied to all grants of equity share based payment after 7 November 2002 that were granted, but not vested as of 1 June 2006.

The Company issues equity-settled share-based payments to certain of its employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The other side of the entry is credited to the profit and loss account reserve.

The fair value of awards have been measured by a Black-Scholes model. Adjustments are made to the number of options expected to be exercised to reflect the likelihood that options will not be exercised due to non-market conditions (e.g. staff leaving before the options vest). These estimates are reviewed annually and the original charge revised where appropriate.

Subsidiary companies also issue equity settled share based payments in the parent company to certain employees.

The fair value of options to purchase shares in the parent company which have been issued to employees of subsidiary companies is recognised as an additional cost of investment by the parent company. The other side of the entry is credited to the profit and loss account reserve.

# Notes to the company balance sheet (continued)

For the year ended 31 May 2011

## 1. Accounting policies (continued)

### Translation of foreign currencies

Normal trading activities denominated in foreign currencies are recorded in sterling at actual exchange rates at the date of the transaction or forward exchange rate where applicable. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate year end rates and differences arising are dealt with in the profit and loss account. Exchange differences on any foreign currency borrowings which finance overseas equity investments are treated as movements in reserves.

### Pensions

The Company makes contributions to defined contribution schemes. The cost of providing pension benefits is charged to the profit and loss account as they become payable.

### Equity

Share capital represents the nominal value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Capital redemption reserve represents the nominal value of shares cancelled.

Merger reserve was created on the acquisition of Sigma UK Limited (formerly B&D Pattern Limited).

Other reserves were created on redemption of preference shares.

Retained earnings include all current and prior period retained profits. It also includes charges related to share-based employee remuneration.

## 2. Employees

The only employees of the Company are the directors, whose emoluments are detailed in note 5 to the Consolidated Financial Statements.

## Notes to the company balance sheet (continued)

For the year ended 31 May 2011

### 3. Investments

	<i>Unlisted investments £'000</i>	<i>Group undertakings £'000</i>	<i>Capital Contributions £'000</i>	<i>Total £'000</i>
<b>Cost</b>				
At 1 June 2010	219	18,165	36	18,420
Additions	-	-	20	20
<b>At 31 May 2011</b>	<b>219</b>	<b>18,165</b>	<b>56</b>	<b>18,440</b>
<b>Provision</b>				
At 1 June 2010	-	2,900	-	2,900
Provided during the year	-	674	-	674
<b>At 31 May 2010</b>	<b>-</b>	<b>3,574</b>	<b>-</b>	<b>3,574</b>
<b>Net book value</b>				
<b>At 31 May 2011</b>	<b>219</b>	<b>14,591</b>	<b>56</b>	<b>14,866</b>
At 31 May 2010	219	15,265	36	15,520

The principal subsidiaries of the Company are:

<b>Name</b>	<b>Country of incorporation</b>	<b>Principal activity</b>
Jenaer Gewindetechnik GmbH	Germany	Precision engineering
Jena-Tec Inc	USA	Distributor
Jena Rotary Technology Limited	England and Wales	Precision engineering
C & H Precision Finishers Limited	England and Wales	Precision engineering
Crown UK Limited	England and Wales	Precision engineering
Metalcraft (Chengdu) Limited	China	Precision engineering
Stainless Metalcraft (Chatteris) Limited	England and Wales	Precision engineering
Sigma Precision Components Limited	England and Wales	Precision engineering
Chengdu Sigma Precision Components Limited	China	Precision engineering
Sigma Precision Components UK Limited	England and Wales	Precision engineering
Avingtrans Industrial Products Limited	England and Wales	Holding company
Avingtrans Aerospace Limited	England and Wales	Dormant

The Company owns 100% of the issued share capital of all of the subsidiary undertakings with the exception of Sigma Precision Components Limited which is a 93.2% subsidiary of Avingtrans plc, Chengdu Sigma Precision Components Limited which is a 100% subsidiary of Sigma Precision Components Limited, Jena-Tec Inc which is a 100% subsidiary of Jenaer Gewindetechnik GmbH, Jenaer Gewindetechnik GmbH which is a 100% subsidiary of Avingtrans Industrial Products Limited and Metalcraft (Chengdu) Limited which is a 100% subsidiary of Stainless Metalcraft (Chatteris) Limited.

The Company's investment in Crown UK Limited has been partially impaired in the year due to uncertainty over the timing of this entity returning to profit, as detailed in the Group business review.

## Notes to the company balance sheet (continued)

For the year ended 31 May 2011

### 4. Debtors

	<i>2011</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>
<b>Amounts: falling due within one year</b>		
Amounts owed by group undertakings	8,833	9,455
Other debtors	-	33
Prepayments and accrued income	19	29
	<u>8,852</u>	<u>9,517</u>
<b>Amounts owed by group undertakings</b>	<u>1,134</u>	<u>1,134</u>

Amounts owed by group undertakings falling due after one year are unsecured, interest bearing and are repayable on giving one year's notice.

### 5. Creditors: amounts falling due within one year

	<i>2011</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>
Bank overdraft	-	237
Current portion of long-term loans	474	664
<b>Short-term borrowings</b>	<u>474</u>	<u>901</u>
Trade creditors	35	50
Amounts owed to group undertakings	21	17
Other tax and social security	78	66
Other creditors	42	41
Deferred consideration	154	46
Accruals and deferred income	93	32
	<u>897</u>	<u>1,153</u>

### 6. Creditors: amounts falling due after more than one year

	<i>2011</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>
Long-term loans	3,139	3,600
Deferred consideration	-	154
Amounts owed to group undertakings	1,003	973
	<u>4,142</u>	<u>4,727</u>

Amounts owed to group undertakings falling due after one year are unsecured, interest bearing and are repayable on giving one year's notice.

## Notes to the company balance sheet (continued)

For the year ended 31 May 2011

### 6. Creditors: amounts falling due after more than one year (continued)

The maturity profile of financial liabilities is:

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
<b>Due within one year:</b>		
Bank overdraft	-	237
Current portion of bank loans	474	664
Deferred consideration	154	46
	<u>628</u>	<u>947</u>
<b>Due within one to two years:</b>		
Bank loans	283	474
Amounts owed to group undertakings	1,003	973
Deferred consideration	-	154
	<u>1,286</u>	<u>1,601</u>
<b>Due within two to five years:</b>		
Bank loans	898	873
	<u>898</u>	<u>873</u>
<b>Due after five years:</b>		
Bank loans	1,958	2,253
	<u>1,958</u>	<u>2,253</u>

In accordance with FRS4, offset against the borrowings above are unamortised capitalised finance charges of £44,000 (2010: £54,000).

Details of the borrowing and security arrangements are set out in note 17 of the consolidated financial statements.

### 7. Deferred taxation

Deferred taxation comprises the following:

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Short term timing differences	1	3
	<u>1</u>	<u>3</u>

The movement in the period may be summarised as follows:

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
At 1 June	3	5
Transfer to profit and loss account	(2)	(2)
At 31 May	<u>1</u>	<u>3</u>

# Notes to the company balance sheet (continued)

For the year ended 31 May 2011

## 8. Share capital

Details of the Company's authorised and issued share capital and of movements in the year are given in note 21 to the consolidated financial statements.

## 9. Reserves

	<i>Share premium account £'000</i>	<i>Capital redemption reserve £'000</i>	<i>Merger reserve £'000</i>	<i>Other reserve £'000</i>	<i>Profit and loss account £'000</i>
At 1 June 2010	9,534	814	402	180	8,084
Loss for the financial year	-	-	-	-	(418)
Share based payment	-	-	-	-	28
Exchange movement	-	-	-	-	(29)
<b>At 31 May 2011</b>	<b>9,534</b>	<b>814</b>	<b>402</b>	<b>180</b>	<b>8,339</b>

## 10. Reconciliation of movements in equity shareholders' funds

	<i>2011 £'000</i>	<i>2010 £'000</i>
Loss for the financial year	(418)	(1,806)
Foreign exchange adjustment	(29)	30
Share based payment	28	19
Net change to equity shareholders' funds	(419)	(1,757)
Equity shareholders' funds at 1 June	20,288	22,045
<b>Equity shareholders' funds at 31 May</b>	<b>19,869</b>	<b>20,288</b>

## 11. Financial commitments

The Company had no financial commitments at 31 May 2011 (2010: £nil).

## 12. Related party transactions

Transactions of the Company with Sigma Precision Components Limited ("Sigma"), a 93.2% owned subsidiary were as follows:

	<i>2011 £'000</i>	<i>2010 £'000</i>
Recharges to Sigma	14	86
<b>Balances outstanding as at 31 May</b>		
Inter-company balance owed by Sigma	2,320	2,382

The company has taken the exemption offered by FRS 8 not to disclose transactions with 100% owned subsidiaries.

## Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of Avingtrans Plc will be held at the Holiday Inn, Bostocks Lane, Sandiacre, Nottingham, NG10 5NJ on 24 October 2011 at 10:30am for the following purposes:

1. To receive and adopt the reports of the Directors and the auditors and the financial statements for the year ended 31 May 2011.
2. To declare a final dividend of 0.4p per ordinary share payable on 9 December 2011 payable to shareholders on the register of members on 21 October 2011.
3. To re-elect Steve McQuillan as a Director.
4. To re-elect Peter Kenny as a Director.
5. To reappoint 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 that their remuneration to be fixed by the Directors.

To transact any other ordinary business of an Annual General Meeting and as special business to consider the following Resolutions, Resolutions 6 and 7 being proposed as Ordinary Resolutions and Resolution 8 as a Special Resolution.

6. That the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities as defined in Section 551 of the Companies Act 2006 (the "Act") up to an aggregate nominal value of £420,430 provided that this authority shall expire in whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 15 months from the date of the passing of this Resolution, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities in pursuance of any such offer or agreement as if the authority conferred by this Resolution had not expired, and that this authority shall be in substitution for all previous authorities conferred upon the Directors pursuant to section 551 of the Act.
7. That the Company be generally and unconditionally authorised, in accordance with Article 9 of its Articles of Association and Section 701 of the Act to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 5p each of the Company on such terms and in such manner as the Directors may from time to time determine provided that:
  - a. the maximum number of ordinary shares authorised to be purchased is 2,548,058;
  - b. the minimum price which may be paid for an ordinary share is 5p (exclusive of expenses and advance corporation tax, if any, payable by the Company);
  - c. the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share of the Company derived from the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased (exclusive of expenses and advance corporation tax, if any, payable by the Company); and
  - d. the authority conferred shall expire at the conclusion of the next Annual General Meeting of the Company except that the Company may, prior to such expiry, make a contract to purchase its own shares which will or may be completed or executed wholly or partly after such expiry.

## Notice of Annual General Meeting (continued)

8. That the Directors be empowered pursuant to Section 571 of the Act to allot equity securities (as defined in Section 560(1) of the Act) for cash pursuant to the authority conferred upon them by Resolution 5 as if Section 561 of the Act did not apply to any such allotment provided that such power shall be limited:
- a. to the allotment of equity securities in connection with a rights issue or other offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all the ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them subject to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or legal or practical difficulties under the laws of any territory or the requirements of a regulatory body; and
  - b. to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £127,403 and shall expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 15 months from the date of the passing of this Resolution, except 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 by this Resolution had not expired.

By order of the Board

S M King            **Registered office**  
                         **Precision House**  
                         **Derby Road Industrial Estate**  
                         **Sandiacre**  
                         **Nottingham**  
                         **NG10 5HU**

**Dated 13 September 2011**

# Notice of Annual General Meeting (continued)

## Notes:

### Entitlement to attend and vote

1. Only those members registered on the Company's register of members at 6.00 pm on 20 October 2011; or if this Meeting is adjourned, at 6.00 pm on the day two days prior to the adjourned meeting shall be entitled to attend and vote at the Meeting.

### Attending in person

2. If you wish to attend the Meeting in person, please bring photographic identification with you to the meeting.

### Appointment of proxies

3. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
4. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section. Please read the section "Nominated persons" below.
5. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.
6. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.
7. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

### Appointment of proxy using hard copy proxy form

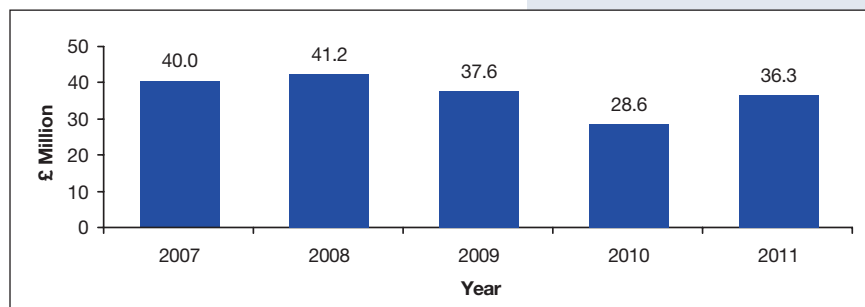
8. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be completed and signed and sent or delivered to Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; and received by Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 20 October 2011.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

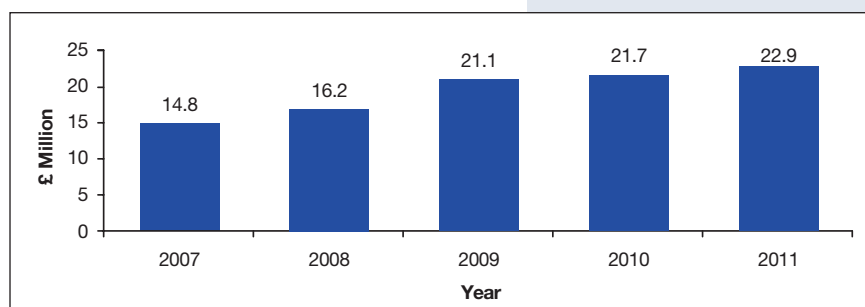
Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

## 5 year performance

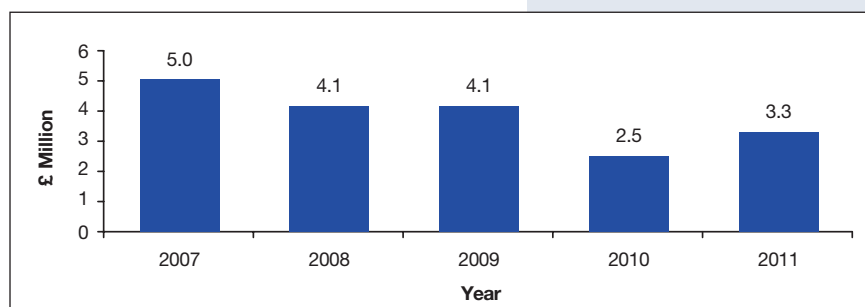
### REVENUE



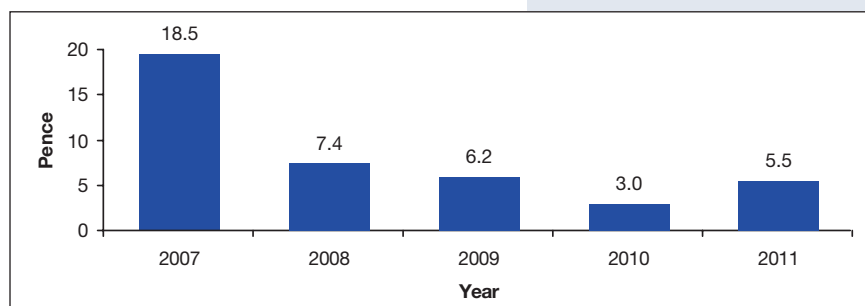
### NET ASSETS



### EBITDA



### EPS - Diluted (adjusted)



The results above are under IAS  
 (International Accounting Standards).  
 Adjusted: adjusted for share based payments and  
 amortisation/impairment of intangibles and exceptionals.

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**Metacraft**

**cröwn**  
INTERNATIONAL

西格码  
Sigma



**JENA**  
**TEC**

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**Avingtrans plc**  
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Tel: 0115 949 9020  
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[www.avingtrans.plc.uk](http://www.avingtrans.plc.uk)

# Notice of Annual General Meeting (continued)

## Appointment of proxy by joint members

9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

## Changing proxy instructions

10. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

## Termination of proxy appointments

11. In order to revoke a proxy instruction you will need to inform the Company using one of the following methods:
  - By sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.
  - In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

In either case, the revocation notice must be received by the Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 20 October 2011 at 10.30am.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

## Issued shares and total voting rights

12. As at 10:30 am on 13 September 2011, the Company's issued share capital comprised 25,480,577 ordinary shares of 5p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 10.30am on 13 September 2011 is 25,480,577.

## Documents on display

13. The following documents will be available for inspection at Precision House, Derby Road Industrial Estate, Derby Road, Sandiacre, Nottingham NG10 5HU from 29 September 2011 until the time of the Meeting and for at least 15 minutes prior to the Meeting and during the Meeting:
  - Copies of the letters of appointment of the directors of the Company.