# Titon Holdings Plc
## 2007 Annual Report & Accounts

# Annual Report and Financial Statements

for the year ended 30 September 2007

## Contents

# Chairman's Statement

## Financial Performance

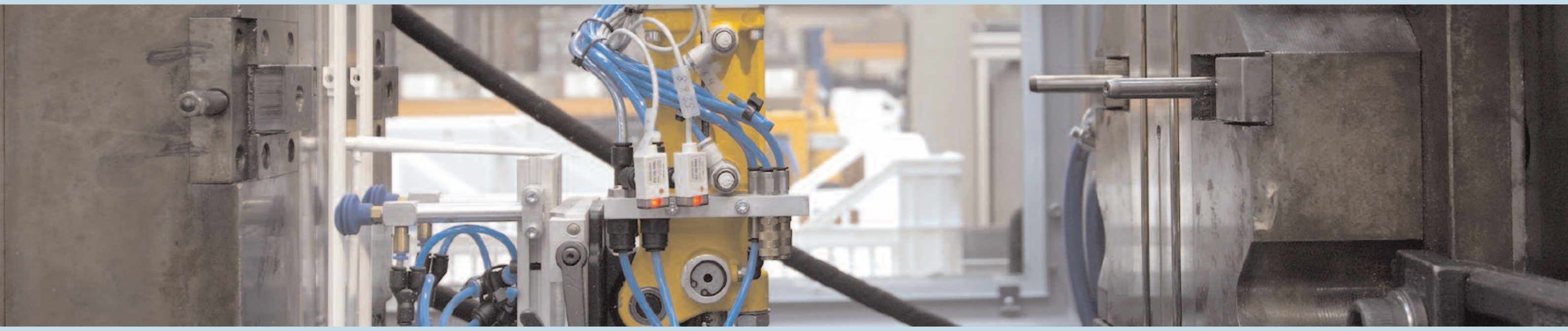
**Profit before tax for the year to 30 September 2007 was 48.3% down at £0.46 million (2006: £0.89 million), on Revenue 4.2% higher at £17.29 million (2006: £16.60 million). Due to a lower tax charge, earnings per share were only 34% lower at 4.2p (2006: 6.4p). Year end cash reserves have reduced to £1.67 million (2006: £2.07 million).**


Launch campaign for Trimvent Select Xtra

The Directors have spent a considerable time this year on determining the amount of the final dividend to be proposed to shareholders. We are aware of the significance of the dividend to shareholders, as we have previously acknowledged. However, the financial results for the year do not permit us to maintain the final dividend at the same level as last year and unfortunately, it is necessary for us to reduce it to an amount more closely aligned with this year's earnings per share. We are also concerned about conserving the cash reserves of the Group to ensure that we are positioned to take advantage of new opportunities as they arise.

As a major shareholder in the Company, I have benefited from the dividends paid to shareholders in recent years. Given this, and the need to reduce the final dividend this year, I have decided that, on this occasion, I will waive my entitlement to the final dividend on my personally owned 2,012,802 shares. This means that the final dividend proposed can be increased to 2.3p per share (2006: 4.8p) for all other shareholders rather than 1.9p per share if I received the final dividend on my shareholding. This final dividend of 2.3p per share, when added to the interim dividend paid in May 2007, makes a total for the year of 4.6p (2006: 7.1p). The dividend will be payable on 22 February 2008 to shareholders on the register on 1 February 2008. The ex dividend date is 30 January 2008.

> *"We are aware of the significance of the dividend to shareholders..."*



> *"...we were able to implement a price increase on our own manufactured products..."*

## Trading Commentary

This has been a disappointing trading year for Titon. Although the first half-year was in line with market expectations, the second period showed very low levels of profit, whilst sales growth was curtailed by subdued markets, both at home and abroad. In August, the Company issued a trading update to make shareholders aware of the disappointing second half performance and I am now able to report that the final outcome for the year of Profit before tax of £0.46m was in line with the forecast made at the time.

As reported at the time of the trading update, our margins during the year have been adversely impacted by a number of factors. These include increases in raw material prices, the knock on effects of the Building Regulation changes, the initial costs of moving our zinc die-casting production to Eastern Europe, and the problems in the US housing market combined with the weakness of the US Dollar.

The increases in raw material prices were significant in many instances, and have been compounded by cost increases in other areas such as power and carriage. I am pleased to report that, in response to this, as the financial year ended, we were able to implement a price increase on our own manufactured products, which will be fully effective during 2008.

Furthermore, the Group continues to seek reductions in prices from our suppliers to assist in improving gross margins. The improved effects of both of these initiatives, together with the savings forecast for outsourcing our die-casting operations, are encouraging.


Titon Background Ventilation Calculator

Latest Trickle Ventilators Brochure

# Chairman's Statement (continued)

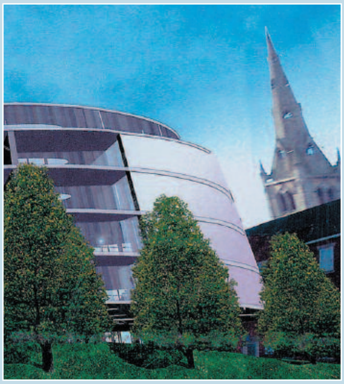
The changes to the Building Regulations that occurred in the previous year have also had a major impact on profitability during 2006/7. In order to assist with compliance with the new Regulations, we have introduced several new ranges of background ventilators. These new ranges have higher ventilation flows and will replace many of the existing ranges. During the year we have introduced these new ranges running them concurrently with existing products in order to provide a smooth changeover for our customers. The duplication of products has led to inefficiencies within our production processes, which are now being eliminated as the older products are withdrawn.

Our Export Sales have also been under pressure during the year, with the weakness of the US Dollar and the housing market in the USA having a detrimental effect on our trading. We have also experienced subdued trading in our European market towards the latter part of the reporting year. Total Export Sales ended the year at £2,010,000 (2006: £2,173,000). In response to the continued dollar weakness, we have implemented a substantial price increase on our US business from January 2008.

The Board is committed to establishing Titon as a leading supplier of ventilation systems and I am pleased to report continued growth in this respect. The market for powered ventilation systems in the UK is expanding as increased air tightness standards for dwellings make these systems more popular. The 'Code for Sustainable Homes' will drive the market towards energy efficient solutions, creating further opportunities for suppliers such as Titon to offer professionally specified and expertly installed systems. We are continually looking for new opportunities in this market.

*"...we have introduced several new ranges of background ventilators."*

*"Further cost reductions will occur during the year..."*



Sonair acoustic ventilators

## Employees

Our average number of employees over the year increased slightly to 260 (2006: 255). This increase was largely due to taking on temporary factory staff to build up stocks prior to moving our die-casting facilities and to dealing with the product range changes explained above. Employee numbers have, however, been reduced over recent months and currently stand at 246.

Due to the reduced level of profit we have postponed this year's October staff pay award until April 2008, when it will be considered again. On behalf of the Board I would like to thank all of our team for their patience and understanding as we address the profitability issue.

## Prospects

The increases in selling prices and the reduction in costs are being aggressively driven and closely monitored by the Board. Further cost reductions will occur during the year as current contractual commitments end.

The UK window market, into which we predominantly sell, remains subdued although we do expect our export sales to return to growth next year. Although the UK new build market is entering a period of uncertainty, we are confident that any decline in sales of our traditional window ventilation products will be offset by improved sales of powered ventilation systems.

**John Anderson**

Chairman

6 December 2007

# Directors' Report

The Directors present their report and the Group financial statements for the year ended 30 September 2007.

## Results and dividends

The consolidated income statement is set out on page 24 and shows a profit after tax of £444,000 (2006: £675,000) for the year.

The Directors recommend the payment of a final ordinary dividend of 2.3p (2006: 4.8p) per ordinary share. This, when taken with the interim dividend of 2.3p (2006: 2.3p) per ordinary share paid on 28 June 2007, gives a total dividend of 4.6p (2006: 7.1p) per ordinary share for the year ended 30 September 2007.

## Principal activities, trading review and future developments

The principal activities of the Group are the design, manufacture and marketing of ventilation products and window fittings.

The Group markets a comprehensive range of passive and powered ventilation products to house builders, electrical contractors and window manufacturers. In addition to this, it is a leading supplier of window handles, hinges and locking mechanisms to its window-manufacturing customers.

The Chairman's statement contains a review of trading for the year – supplementary information is provided below.

Revenue per employee for the 2006/7 financial year has remained steady at £66,000 (2006: £65,000) with profit per employee falling to £1,700 (2006: £2,600). Whilst first half year trading was satisfactory, the second half-year saw a marked reduction in profitability. The reasons for this were explained in the August 2007 trading update and can be summarised as follows :

- Large increases in raw material costs during the year, particularly on aluminium and zinc, have adversely affected gross margin. Although other cost pressures on UK manufacturing still remain, the prices of these metals appear to have moderated in recent months. This moderation, in combination with selling price increases implemented towards the end of the 2007, should see margins recover in 2008.

- Production efficiency and overheads were affected by the introduction of new window ventilation products. New, higher performing variants were introduced into most of our ventilation product ranges in order to improve airflow, thus helping our customers to comply with new Building Regulations. Most of the new products have now been launched and customers are changing over to them. As this happens, and the old products are withdrawn, we are seeing an improvement in manufacturing efficiency.

- In June 2007 the Group closed its in-house zinc die-casting plant and began sourcing these components from eastern Europe. In order to ensure continuity of supply during the process, inventories were increased giving rise to additional production costs throughout the summer. The cost of closing this facility during the year was approximately £50,000. The Directors expect to see cost reductions as a result of this action from the 2007/08 financial year onwards.

- Our Export sales fell slightly during the year, particularly in the second half year. Additionally, the profitability of our US business has been affected by the weakness of the US Dollar. Our US subsidiary is implementing significant selling price increases with effect from January 2008, which should result in acceptable margins being restored.

As might be expected, the control of costs within the Group presently has high priority. To this end, a number of potential cost savings and profitability improvements have been identified and are being vigorously pursued.

The Directors believe that a major factor in the progress of the Group over the coming years will be to establish Titon as a major player in the fast expanding ventilation systems market. It has been apparent to the Directors for some while that the 2006 Building Regulations would introduce a considerable amount of diversity and complexity to the manner in which dwellings could be ventilated.

With dwellings now being constructed to comply with these Regulations, we are seeing a substantial increase in the use of whole house ventilation systems, particularly within apartment construction. This change in ventilation approach is providing a major opportunity for us to increase our sales, although some of our more established competitors have a wider product range and a greater market presence. Over the next year we will invest in additional resources and anticipate good growth in this area of the business.

The Group has a high commitment to environmental matters and during the year has implemented a programme to achieve Environmental Management System ISO 14001: 2004 accreditation, which was subsequently granted in October 2007.

There have been no events since the balance sheet date that materially affect the position of the Group.

## Principal risks and uncertainties

The policy that is adopted to identify and manage significant risks is set out on page 21.

The market for the supply of trickle ventilators and other fittings to the UK window industry remains highly competitive. The Group seeks to manage the risk of losing customers to competition through the specification of product with end users and through maintaining strong relationships and local representation with key customers.

The UK market for ventilation is largely determined by regulation. The Group recognises that the pace of bringing forward amendment to regulation will increase and it will, therefore, continue to place a high emphasis on being involved in regulatory developments.

The supply of products from low cost economies poses an ongoing threat to the Group's manufacturing base and profitability. During the past year we have successfully closed our in-house zinc die-casting plant and now source all of these components from eastern Europe and from China. It is inevitable that cost pressures will continue and we will deal with this through additional process improvements, further outsourcing as well as the rationalisation of our product offering.

Product failure within the marketplace is a key risk area and the Group manages this risk through its BS EN ISO 9001: 2000 accredited quality procedures. Monthly meetings are held that include members of the senior management team where any product complaints received are discussed and appropriate action recommended.

As with any manufacturing organisation, health and safety matters represent an increasing area of risk. The Group employs a full time Health and Safety Officer and has an effective structure to support a robust Health and Safety policy. This includes a Health and Safety Management Committee and Health and Safety Representatives in all areas of the business.

The Group maintains a comprehensive range of insurance policies covering its employees, assets and other risk areas, which are reviewed on an on-going basis.

The Group's exposures to credit and liquidity risks are set out in notes 14 and 19 to the consolidated financial statements.

## Directors' responsibilities

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 1985.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 1985. The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation. The Directors have chosen to prepare financial statements for the Parent Company in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

# Directors' Report (continued)

**Group financial statements**

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- comply with IFRSs and disclose and explain any material departures in the financial statements.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

**Parent Company financial statements**

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

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

## Going concern

The Directors have reviewed the budgets, projected cash flows and other relevant information. On the basis of this review the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

## Market value of land and buildings

The Directors do not consider that there is any significant difference between the market value of freehold land and buildings and their net book value, as shown in the financial statements.

## Research and development

The Directors consider that research and development continues to play an important role in the Group's success. Investment in research and development amounted to £449,000 during the year (2006: £460,000).

## Disabled employees

The Group gives full consideration to the career development and promotion of disabled persons, and to applications for employment from disabled persons, where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

The Group considers the training requirements of each disabled person on an individual basis.

Where an employee becomes disabled during the course of his or her employment, the Group will consider providing that employee with such means, including appropriate training, as will enable the employee to continue to carry out his or her job, where it reasonably can, or will attempt to provide an alternative suitable position.

## Employee involvement

Employees are provided with information about the Group's activities via the Employee Consultative Committee, other staff meetings and staff notice boards. The Group aims to foster an environment in which employees and management can enjoy a free flow of information and ideas.

Staff members are, from time to time, invited to participate in the Group's share option schemes. Participation is based on seniority and length of service.

## Share capital

The ordinary share capital at 30 September 2007 consisted of 10,555,650 Titon Holdings Plc shares of 10p each. There were no changes during the year to the Company's ordinary share capital.

Details of the authorised and issued share capital of the Company as at 30 September 2007 are set out in note 17 of the Notes to the Financial Statements.

## Purchase of own shares

The Company has authority from shareholders to purchase up to 10% of its own ordinary shares in the market. This authority was not used during the year nor in the period to 18 December 2007. The Board intends to seek shareholder approval to renew the authority at this year's Annual General Meeting.

In accordance with the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003, companies are permitted to hold purchased shares rather than cancelling them. The Board has no current intention to purchase shares as treasury shares.

## Substantial shareholders

As at 18 December 2007, the Company had been notified of the following voting interests in its ordinary share capital, disclosable under the Financial Services Authority's Disclosure and Transparency Rules (which replaced part VI of the Companies Act 1985, with effect from 20 January 2007) of the following holdings, other than Directors' holdings, of 3 per cent or more in the ordinary share capital of the Company:

| Name | Shares | % |
|---|---|---|
| Discretionary Unit Fund Managers Ltd | 2,065,000 | 19.6 |
| Mrs A Clipsham | 893,579 | 8.5 |

# Directors' Report (continued)

## Directors and their interests in shares

The Directors of the Company throughout the year and at the year end and their beneficial interests in the ordinary share capital were as follows:

| | 30 September 2007<br>Ordinary shares of 10p each | 30 September 2006<br>Ordinary shares of 10p each |
|---|---|---|
| J N Anderson | 2,237,802 | 2,237,802 |
| T N Anderson | 192,500 | 192,500 |
| R Brighton | 20,000 | 20,000 |
| P W E Fitt | - | - |
| N C Howlett | 13,750 | 13,750 |
| C S Jarvis | 45,000 | 55,000 |
| C J Martin | 63,850 | 63,850 |
| K A Ritchie | 1,077,280 | 1,077,280 |
| D A Ruffell | 71,000 | 71,000 |
| P E O'Sullivan | - | - |

Details of Directors' share options are given in the Directors' Remuneration Report on page 15.

There were no changes in Directors' beneficial shareholdings between 30 September 2007 and 18 December 2007.

## Directors' indemnity

The Group has qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

## Donations

During the year the Group made various charitable donations amounting to £1,000 (2006: £1,000).

## Creditor payment policy

The majority of suppliers to the Group are of a long standing nature with whom mutually acceptable payment terms have been established over the relationship period. Generally payments will be made between 30 and 60 days from the end of the month of delivery. In certain circumstances payment terms will be agreed with suppliers as part of the overall terms of a transaction, and will be adhered to by the Group. The Parent Company does not make any trade purchases.

In respect of the Group, year end trade creditors represent 42 days (2006: 49 days) average purchases.

## Annual General Meeting

The Annual General Meeting will be held at the Titon Manufacturing Division premises at Falconer Road, Haverhill, Suffolk, CB9 7XU on 19 February 2008 commencing at 10.00 a.m. A Notice convening the Annual General Meeting of the Company for 2008 may be found on page 54 of this document.

**Authorities to allot shares and disapply pre-emption rights**

Resolution 7, which will be proposed as an Ordinary Resolution, will renew the Directors' authority to allot relevant securities up to an aggregate nominal amount of £250,000 being equivalent to approximately 23.7% of the existing share capital of the Company as at 18 December 2007 (calculated exclusive of treasury shares). The Company does not currently hold any shares in treasury. This authority will expire on the date of the next Annual General Meeting of the Company or on 17 May 2009, whichever shall occur earlier. There is no intention at present of making any issues of shares other than on the exercise of employee share options.

Resolution 8, which will be proposed as a Special Resolution, will renew the disapplication of the statutory pre-emption rights. It will permit the Directors, until the next Annual General Meeting of the Company or on 17 May 2009, whichever shall occur earlier, to allot shares otherwise than in accordance with the statutory pre-emption rights in connection with a rights issue or on an allotment of shares for cash up to an aggregate nominal amount of £50,000 which is equivalent to approximately 4.7% of the existing issued share capital of the Company. The authority sought and the limits set by this Resolution will apply to a sale by the Company of any shares it holds as treasury shares. Under legislation which came into effect in December 2003, companies are allowed to hold shares acquired by way of market purchase as treasury shares, rather than having to cancel them. Treasury shares may then be cancelled, sold for cash or used to meet the Company's obligations under its employee share-based incentive schemes. Any subsequent transfers of treasury shares to satisfy the requirements of employee share-based incentive schemes will be made within the 10% anti-dilution limit for such share issues.

**Authority to repurchase ordinary shares**

Resolution 9, which will be proposed as a Special Resolution, will renew the Company's authority to make market purchases of up to 1,055,565 ordinary shares (representing approximately 10% of its present issued share capital) at a minimum price of 10 pence per share and a maximum price per share of not more than 5% above the average of the middle market values of an ordinary share as derived from the London Stock Exchange Daily Official List for the 5 business days before the purchase is made, such authority to expire on the earlier of 17 May 2009 or the end of the next Annual General Meeting of the Company. Shares repurchased by the Company will be held as treasury shares to the extent the Company may lawfully do so.

This proposal should not be taken as an indication that the Company will purchase shares at any particular price or indeed at all, and the Directors, who currently have no plans to make such purchases, will only consider making purchases if they believe that to do so would result in an increase in earnings per share and that such purchases would be in the best interests of shareholders generally.

The authority sought by Resolution 9 will apply equally to shares to be held by the Company as treasury shares.

As at 18 December 2007, there were options outstanding over 358,650 ordinary shares which, if exercised at that date, would have represented 3.3% of the Company's issued ordinary share capital. If the authority given by Resolution 9 were to be fully used, these would then represent approximately 3.6% of the Company's issued ordinary share capital.

**Other resolutions at the Annual General Meeting**

Details of other resolutions to be proposed at the Annual General Meeting are set out in the enclosed Notice.

**Directors' statement as to disclosure of information to auditors**

The Directors at the time of approving the Directors' Report are listed on page 10. Having made enquiries of fellow Directors and of the Officers of the Company, each of the Directors confirms that :

- To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- Each Director has taken all steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors' Report was approved by the Board on 18 December 2007 and signed by order of the Board:

**D A Ruffell**
**Secretary**

# Directors' Remuneration Report

The Remuneration Committee presents its report to shareholders on Directors' remuneration. Shareholders will be asked to approve the Directors' Remuneration Report and a resolution to that effect will be proposed at the Annual General Meeting on 19 February 2008. The report has been prepared in accordance with the requirements of the Companies Act 1985, the Listing Rules of the UK Listing Authority and the Combined Code appended to the Listing Rules.

## Unaudited information

### Remuneration Committee

The Company's policy on remuneration is determined by its Remuneration Committee. The Committee presently consists of Mr P W E Fitt - a Non-Executive Director, Mr J N Anderson – Group Chairman and Mr D A Ruffell - Group Chief Executive. Such persons also comprised the Remuneration Committee during the year and Mr P W E Fitt chairs the Committee.

### Remuneration policy

The Company's policy on remuneration is to offer competitive remuneration packages, which are designed to reward, retain and to motivate the Directors, having regard to the size and complexity of the Group. There are presently no specific performance related elements included within remuneration, and the Committee will review this policy during the coming year.

The individual components of the remuneration package offered are:

**Basic salary**

The basic salary of each Executive Director is determined by the Committee, giving due consideration to individual responsibility and performance and to salaries paid to Executive Directors of similar companies in comparable business sectors. Basic salaries are reviewed annually on 1 February.

**Benefits**

Benefits paid to Executive Directors comprise taxable non-cash emoluments and include the provision of company cars and private health insurance.

**Pension contributions**

Executive Directors are members of the Company's defined contribution pension scheme in which the Company's contribution is a fixed percentage at 10% of basic salary. Benefits are not pensionable.

In addition, the Executive Directors participate in the Company's Group Life Insurance Scheme which provides a lump sum payment of four times basic salary in the event of death in service.

### Share option schemes

The Company provides share option schemes for Directors and for other members of staff. The Company's policy is to grant options at the discretion of the Committee, in order to reward and incentivise employees.

There are presently two share option schemes; one Inland Revenue approved and the other unapproved in which employees may be invited to participate. Both of these schemes were introduced in February 1998. The exercise of options granted under these schemes is dependent upon the growth in the earnings per share of the Company, over any three consecutive financial years following the date of grant, exceeding the growth in the retail price index over the same period by at least 9 per cent.

The performance conditions are aimed to align Directors' performance to shareholder value and were selected by the Remuneration Committee on the advice of the Company's solicitors (the performance conditions are detailed in note 23 to the Financial Statements). Actual earnings per share performance will be determined by the Remuneration Committee.

## Directors' contracts

All Executive Directors have service contracts, entered into on 1 August 2007, which are renewed annually and which provide for a 6 month notice period to be given either by the Company or by the Director. All Executive Directors' current contracts expire on 31 July 2008.

All three of the Non-Executive Directors have service contracts, that do not contain notice periods and which expire on 31 January 2008. The remuneration for the Company's Non-Executive Directors is set by the Board, and consists of fees for their services in connection with their role as Director and, where relevant, for additional services such as chairing Board Committees. They are not eligible for pension scheme membership and do not participate in any of the Company's share option schemes. Professor P E O'Sullivan has a one year contract, entered into on 1 October 2007, to provide consultancy services to a subsidiary company for the sum of £22,500.

The Company's policy on the duration of, and notice periods and termination payments under, Directors' contracts is designed to attract and retain persons of the calibre required by the Company, with due regard being given to the interests of shareholders.

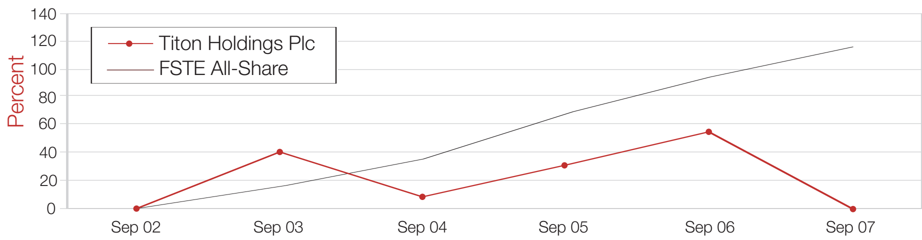
There are no pre-determined special provisions for Executive or Non-Executive Directors with regard to compensation in the event of loss of office. The Remuneration Committee considers the circumstances of individual cases of early termination and determines compensation payments accordingly.

The Directors may not directly or indirectly hold any directorship or engage or be interested in any other business other than the Company or any other Group company during the term of their contracts without the previous written consent of the Board.

## Performance graph

The following graph shows the Company's 5-year performance, measured by total shareholder return, compared with the equivalent performance of the FTSE All-Share Index.

Total Shareholder Return Index




This graph shows the percentage change in value of £1 invested in the Company on 30 September 2002 (assuming dividends reinvested) compared with the percentage change in value of £1 (assuming dividends reinvested) in the FTSE All-Share Index. The Directors consider the FTSE All-Share Index to be an appropriate choice as the Company is included within it.

# Directors' Remuneration Report (continued)

## Audited Information

The following disclosures in Directors' remuneration and share options have been audited as required by part 3 of Schedule 7A of the Companies Act 1985.

### Directors' remuneration

The remuneration paid to the Directors during the year was as follows:

| | Basic Salary and fees | Benefits | Total emoluments | | Pension contributions | |
|---|---|---|---|---|---|---|
| | | | **2007** | 2006 | **2007** | 2006 |
| | £'000 | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| **Executive:** | | | | | | |
| J N Anderson | 113 | 26 | **139** | 133 | **11** | 11 |
| T N Anderson | 61 | 11 | **72** | 60 | **6** | 5 |
| R Brighton | 68 | 10 | **78** | 75 | **7** | 7 |
| N C Howlett | 64 | 11 | **75** | 68 | **6** | 6 |
| C S Jarvis | 59 | 8 | **67** | 65 | **6** | 5 |
| C J Martin | 61 | 7 | **68** | 67 | **6** | 6 |
| D A Ruffell | 88 | 12 | **100** | 100 | **9** | 9 |
| **Non-Executive:** | | | | | | |
| P W E Fitt | 12 | - | **12** | 12 | **-** | - |
| P E O'Sullivan * | 25 | - | **25** | 25 | **-** | - |
| K A Ritchie | 3 | - | **3** | 3 | **-** | - |
| | 554 | 85 | **639** | 608 | **51** | 49 |

* Inclusive of £22,500 relating to consultancy fees for 2007 and 2006.

The remuneration package of each Executive Director includes non-cash benefits comprising the provision of a company car and private health insurance.

The aggregate gains made by Directors on the exercise of share options during 2007 are £nil (2006: £2,000).

## Share options

Details of the interests of Directors who served during the year in options over shares are as follows:-

| | | Exercise price per share | At 1 October 2006 Number | At 30 September 2007 Number |
|---|---|---|---|---|
| T N Anderson | (c) | 103.5p | 10,000 | 10,000 |
| | (e) | 91.0p | 3,150 | 3,150 |
| | | | 13,150 | 13,150 |
| R Brighton | (a) | 86.5p | 17,000 | 17,000 |
| | (c) | 103.5p | 10,000 | 10,000 |
| | | | 27,000 | 27,000 |
| N C Howlett | (a) | 86.5p | 6,250 | 6,250 |
| | (c) | 103.5p | 10,000 | 10,000 |
| | (d) | 99.0p | 10,000 | 10,000 |
| | | | 26,250 | 26,250 |
| C S Jarvis | (a) | 86.5p | 17,000 | 17,000 |
| | (c) | 103.5p | 10,000 | 10,000 |
| | (e) | 91.0p | 10,000 | 10,000 |
| | | | 37,000 | 37,000 |
| C J Martin | (b) | 89.0p | 1,250 | 1,250 |
| | (c) | 103.5p | 10,000 | 10,000 |
| | | | 11,250 | 11,250 |
| D A Ruffell | (a) | 86.5p | 17,000 | 17,000 |
| | (c) | 103.5p | 25,000 | 25,000 |
| | (e) | 91.0p | 14,000 | 14,000 |
| | | | 56,000 | 56,000 |

No Directors' share options were granted, exercised or lapsed during the year. P W E Fitt, P E O'Sullivan and K A Ritchie had no interests in options over shares during the year.

There have been no changes to the number of share options held by Directors between 30 September 2007 and 18 December 2007.

# Directors' Remuneration Report (continued)

## Share options (continued)

The options are exercisable between the following dates:

| | | | |
|---|---|---|---|
| (a) | 11 March 2001 | and | 11 March 2008 |
| (b) | 2 June 2002 | and | 2 June 2009 |
| (c) | 18 January 2005 | and | 18 January 2012 |
| (d) | 18 May 2008 | and | 18 May 2015 |
| (e) | 18 May 2009 | and | 18 May 2016 |

The Directors may only exercise share options if the growth in the earnings per share of the Company over any period of three consecutive financial years of the Company following the date of grant, exceeds the growth in the retail price index over the same period by at least 9 per cent.

At 30 September 2007 the market price of the Company's shares was 75.5p, and the range during the year was 74.0p to 127.5p.

The Directors' Remuneration Report was approved by the Remuneration Committee on 18 December 2007 and signed on its behalf by:

**P W E Fitt**
**Remuneration Committee Chairman**

# Corporate Governance Report

## Compliance with the Combined Code on Corporate Governance

There is a commitment to high standards of corporate governance throughout the Group. The Board confirms that the Company has complied throughout the accounting period with the provisions set out in Section 1 of the Combined Code, which was issued in July 2003, except in the following areas:

- The Company has seven Executive Directors and three Non-Executive Directors. The Non-Executive Directors are not deemed to be independent under the provisions of paragraph A.3.2 of the Code in respect of the Board comprising at least two independent non-executive directors. However, the Executive Directors consider that the current Non-Executive Directors are of sufficient character and independence to challenge the opinions of the Executive Directors whilst, at the same time, providing a valuable contribution themselves to the strategic direction of the Company.

- The Non-Executive Directors have not met during the year to appraise the Chairman's performance and therefore the Company does not comply with paragraph A.1.3. The Non-Executive Directors feel that in respect of this matter a formal process is unnecessary.

- The Company has not appointed a senior independent director and therefore the Company does not comply with part of paragraph A.3.3. The Directors do not consider this is to be necessary in a company of this size and complexity.

- The Company does not have a nomination committee and therefore does not comply with paragraphs A.4.1, A.4.2 and A.4.6. The Directors feel that the nomination and appointment of Directors can be adequately carried out by the Board as a whole.

- The Company has not undertaken performance evaluation of the Board as a whole, the Board Committees or the Non-Executive Directors, and has therefore not complied with paragraph A.6.1. The Directors believe that this is not appropriate for a Company of this size and complexity. The Company operates an employee performance management system that encompasses the Executive Directors.

- The Company has one Non-Executive Director who has served more than nine years on the Board. The Board does not intend to submit such Directors for annual re-election by shareholders and therefore the Company does not comply with paragraph A.7.2. The Executive Directors consider the continuity of experienced Non-Executive Directors is important to the Company.

- The Company's Remuneration Committee does not consist exclusively of Non-Executive Directors and therefore does not comply with paragraph B.2.1. The Directors consider that the current structure of the Committee is more appropriate for assessing Director's performance and contribution.

- Share options, as disclosed in the Directors' Remuneration Report, are the only performance related element of the Directors' total remuneration package. As this does not constitute a significant proportion of the Directors' total remuneration, the Company does not comply with paragraph B.1.1.

- The Company's Audit Committee currently comprises one Non-Executive Director and the Chief Executive and therefore the Company does not comply with paragraph C.3.1. The Directors consider that this present structure is appropriate for a company of this size and complexity.

The Board is accountable to the Company's shareholders for good corporate governance and the statements set out on pages 18 to 21 describe how the principles identified in the Combined Code are applied by the Company.

# Corporate Governance Report (continued)

## Composition and operation of the Board of Directors

As at 30 September 2007 the Board consisted of the Chairman, the Chief Executive, five other Executive Directors and three Non-Executive Directors.

The Board has a schedule of matters specifically reserved to it for decision including major capital expenditure decisions, business acquisitions and disposals and the setting of treasury policy. This also includes matters such as material financial commitments, commencing or settling major litigation and appointments to main and subsidiary Company Boards.

Board meetings take place quarterly. There was a meeting to approve the Trading Update in August and a further meeting to approve the Annual Report and Financial Statements.

To enable the Board to function effectively and Directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of comprehensive management reporting information and discussion documents regarding specific matters.

The individual attendance by Executive Directors and Non-Executive Directors at the six Board Meetings held during the financial year is shown in the table below.

| | | Attendance at Board Meetings |
|---|---|---|
| J N Anderson | Chairman | 5 |
| D A Ruffell | Chief Executive | 6 |
| T N Anderson | Sales & Marketing Director | 5 |
| R Brighton | Managing Director (Manufacturing) | 5 |
| N C Howlett | Development & Sustainability Director | 5 |
| C S Jarvis | Export Director | 4 |
| C J Martin | Sales Director (Timber/ PVCu) | 6 |
| P W E Fitt | Non-Executive Director and Vice Chairman | 5 |
| P E O'Sullivan | Non-Executive Director | 4 |
| K A Ritchie | Non-Executive Director | 3 |

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the Company Secretary. The Secretary is charged by the Board with ensuring that Board procedures are followed.

When new members are appointed to the Board, they are provided with advice from the Company Secretary in respect of their role and duties as a public company Director. Furthermore, all Directors have ongoing access to the Company Secretary for advice during the course of their appointment.

Appointments to the Board of both Executive and Non-Executive Directors are considered by the Board as a whole.

Any Director appointed during the year is required, under the provisions of the Combined Code, to retire and seek election by the shareholders at the next Annual General Meeting. The Articles of Association also require that one third of the Directors retire by rotation each year and seek re-election at the Annual General Meeting. The Directors required to retire are those in office longest since their previous re-election and in practice this means that each Director retires at least every three years, in accordance with the requirements of the Combined Code.

The Directors who retire by rotation are Mr T N Anderson, Mr C S Jarvis and Mr P E O'Sullivan. All three Directors, being eligible, offer themselves for re-election.

Mr T N Anderson, aged 39, has been with the Company since 1993 and was elected to the Board of the main operating subsidiary, Titon Hardware Limited, in 1999. Tyson joined the main Board on 1 January 2004 as Marketing Director, was appointed Sales & Marketing Director on 1 February 2007 and has a service contract which expires on 31 July 2008.

Mr C S Jarvis, aged 57, has been with the Company since its incorporation in 1972. Chris was appointed a Director in October 1974 and Export Director in 1982. He has a service contract which expires on 31 July 2008.

Professor P E O'Sullivan OBE, aged 70, was appointed as a Non-Executive Director on 1 October 2002. He is currently holder of the Emeritus chair of Architecture and Engineering at the Bartlett School of Graduate Studies, University College London and was Chairman of BRAC for two years 2000 – 2001. His Non-Executive Director contract for services expires on 31 January 2008.

A statement of Directors' interests and copies of their service contracts are available for inspection during usual business hours at the registered office of the Company on each business day before, and will be available at the place of the Annual General Meeting for fifteen minutes prior to and during the meeting.

## The Remuneration Committee

The Remuneration Committee, which determines the Company's policy on Directors' remuneration, met once during the financial year and Mr P W E Fitt, Mr J N Anderson and Mr D A Ruffell attended the meeting.

Full details of Directors' remuneration and a statement of the Company's remuneration policy are set out in the Directors' Remuneration Report on pages 12 to 16.

## The Audit Committee

The Audit Committee reports to the Board on matters concerning the Group's internal financial controls, financial reporting and risk management systems, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

The Audit Committee is appointed by the Board for a period of three years and comprises Mr P W E Fitt and Mr D A Ruffell and is chaired by Mr P W E Fitt.

The Audit Committee met once during the financial year and both Mr P W E Fitt and Mr D A Ruffell attended the meeting.

The Audit Committee terms of reference, established by the Board, are to:

- Monitor the integrity of the Group's financial statements and formal announcements relating to the Group's financial performance, reviewing significant financial reporting judgements contained in them;
- Review the Group's internal financial controls and risk management systems;

# Corporate Governance Report (continued)

- Review arrangements by which staff may in confidence raise concerns about possible improprieties in matters of financial reporting or other matters;
- Consider at least annually the need for an internal audit function;
- Make recommendations to the Board of Directors for it to put to the shareholders for their approval in general meeting, in relation to the appointment or re-appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- Develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

The Board believes that due to the size of the business there is currently no requirement for an internal audit function. This position is reviewed annually.

The Company's auditors, BDO Stoy Hayward LLP, have been instructed to carry out non-audit work during the year as detailed in note 6 to the financial statements. The non-audit work primarily comprised tax compliance work. The provision of these services represents a low risk to auditor independence which is safeguarded by separation of staff and supervision within BDO Stoy Hayward LLP.

## Communications with shareholders

The Board recognises the importance of communications with shareholders. The Chairman's Statement gives a detailed review of the business, and there is regular dialogue with institutional shareholders following the Group's preliminary announcement of the year end results and at the half year.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation.

# Risk Management and Internal Control

The respective responsibilities of the Directors and the auditors in connection with the financial statements are explained on pages 7, 8, 22 and 23.

The Directors acknowledge that they are responsible for establishing and maintaining the Group's system of internal control and reviewing its effectiveness. Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed and by their nature can provide reasonable but not absolute assurance against material misstatement or loss. The Directors confirm that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which complies with the guidance given by the Turnbull Committee. This has been in place throughout the year and up to the date of approval of the Annual Report. The process is regularly reviewed by the Board.

The key procedures that the Directors have established to provide effective internal control include:

- an appropriate control environment through the definition of the organisation structure and authority levels.

- the identification of the major business risks facing the Group and the development of appropriate procedures and controls to manage these risks.

- a comprehensive budgeting and reporting system with monthly results compared with budgets and with previous years.

The Directors have, through the Audit Committee, reviewed the effectiveness of the Group's system of internal control by reviewing the procedures noted above and are satisfied that it is appropriate to the size of the business.

The Corporate Governance Report was approved by the Board on 18 December 2007 and signed on its behalf by:

**JN Anderson**
**Chairman**

# Independent Auditors' Report

## Independent Auditors' report to the shareholders of Titon Holdings Plc

We have audited the Consolidated and Parent Company Financial Statements (the ''Financial Statements'') of Titon Holdings Plc for the year ended 30 September 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes. These Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

## Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Consolidated Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the Parent Company Financial Statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Consolidated Financial Statements have been properly prepared in accordance with Article 4 of the IAS Regulation. Additionally, we report to you whether, the information given in the Directors' Report is consistent with those Financial Statements. We also report to you if, in our opinion, the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Report reflects the Group's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

## Basis of audit opinion

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

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

## Opinion

In our opinion:

- the Consolidated Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 September 2007 and of its profit for the year then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Parent Company's Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 30 September 2007;
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Financial Statements.

**BDO Stoy Hayward LLP**
**Chartered Accountants and Registered Auditors**

London
18 December 2007

# Consolidated Income Statement

## for the year ended 30 September 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **Revenue** | 3 | **17,285** | 16,600 |
| Cost of sales | | **13,482** | 12,439 |
| **Gross profit** | | **3,803** | 4,161 |
| Distribution costs | | **618** | 690 |
| Administrative expenses | | **2,828** | 2,689 |
| | | **3,446** | 3,379 |
| **Operating profit** | | **357** | 782 |
| Finance income | 5 | **102** | 112 |
| **Profit before tax** | 6 | **459** | 894 |
| Tax expense | 7 | **15** | 219 |
| **Profit for the year attributable to the equity holders of the parent** | | **444** | 675 |
| Earnings per share - basic | 9 | **4.21p** | 6.40p |
| Earnings per share - diluted | 9 | **4.21p** | 6.40p |

## Consolidated Statement of Recognised Income and Expense for the year ended 30 September 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| Profit for the year attributable to the equity holders of the parent | 18 | **444** | 675 |
| Exchange difference on retranslation of net assets of subsidiary undertakings | | **16** | 20 |
| Total recognised income and expense for the year attributable to equity holders of the parent | | **460** | 695 |

The notes on pages 27 to 46 form part of these financial statements.

# Consolidated Balance Sheet

## at 30 September 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 10 | **4,662** | 5,009 |
| Intangible assets | 11 | **58** | 67 |
| **Total non-current assets** | | **4,720** | 5,076 |
| Inventories | 13 | **2,983** | 2,950 |
| Trade and other receivables | 14 | **3,785** | 3,624 |
| Corporation tax | | **31** | - |
| Cash at bank | | **1,678** | 2,078 |
| **Total current assets** | | **8,477** | 8,652 |
| **Total Assets** | | **13,197** | 13,728 |
| **Liabilities** | | | |
| **Deferred tax** | 15 | **170** | 170 |
| **Total non-current liabilities** | | **170** | 170 |
| Trade and other payables | 16 | **2,190** | 2,362 |
| Bank overdraft | | **13** | 9 |
| Corporation tax | | **-** | 75 |
| **Total current liabilities** | | **2,203** | 2,446 |
| **Total Liabilities** | | **2,373** | 2,616 |
| **Equity** | | | |
| Share capital | 17 | **1,056** | 1,056 |
| Share premium reserve | 18 | **865** | 865 |
| Capital redemption reserve | 18 | **56** | 56 |
| Translation reserve | 18 | **33** | 17 |
| Share schemes reserve | 18 | **3** | 2 |
| Retained earnings | 18 | **8,811** | 9,116 |
| **Total Equity attributable to equity holders of the parent** | 18 | **10,824** | 11,112 |
| **Total Liabilities and Equity** | | **13,197** | 13,728 |

The notes on pages 27 to 46 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board on 18 December 2007 and signed on its behalf by:

**J N Anderson**
**Chairman**

# Consolidated Cash Flow Statement

## for the year ended 30 September 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **Cash generated from operating activities** | | | |
| Operating profit | | **357** | 782 |
| Depreciation of property, plant & equipment | | **675** | 682 |
| Amortisation on intangible assets | | **35** | 25 |
| Increase in inventories | | **(33)** | (424) |
| (Increase) / decrease in receivables | | **(149)** | 76 |
| Decrease in payables and other current liabilities | | **(168)** | (66) |
| Profit on sale of plant & equipment | | **(31)** | (22) |
| Share based payment - equity settled | | **1** | 1 |
| **Cash generated from operations** | | **687** | 1,054 |
| **Income taxes paid** | | **(121)** | (221) |
| **Net cash generated from operating activities** | | **566** | 833 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant & equipment | | **(363)** | (1,485) |
| Purchase of intangible assets | | **(26)** | (86) |
| Proceeds from sale of plant & equipment | | **66** | 58 |
| Interest received | | **102** | 112 |
| **Net cash used in investing activities** | | **(221)** | (1,401) |
| **Cash flows from financing activities** | | | |
| Dividends paid to equity shareholders | | **(749)** | (749) |
| Proceeds from issue of share capital | | **-** | 27 |
| **Net cash used in financing activities** | | **(749)** | (722) |
| **Net decrease in cash & cash equivalents** | 21 | **(404)** | (1,290) |
| Cash & cash equivalents at beginning of the year | | **2,069** | 3,359 |
| **Cash & cash equivalents at end of the year** | | **1,665** | 2,069 |

The notes on pages 27 to 46 form part of these financial statements.

# Notes to the Consolidated Financial Statements
at 30 September 2007

## General information

The consolidated financial statements of the Group for the year ended 30 September 2007 incorporates Titon Holdings Plc ("the Company") and its subsidiaries (together referred to as "the Group"). Titon Holdings Plc shares are publicly traded on the Official List of the London Stock Exchange.

The nature of the Group's operations and its principal activities are set out in the Directors' Report on page 6.

The consolidated financial statements were authorised for release on 18 December 2007.

## 1 Summary of significant accounting policies

### (a) Basis of preparation

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as adopted by the European Union and issued by the International Accounting Standards Board (IASB) and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS.

The Directors have prepared the parent company financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and these are presented separately at the end of this document on pages 47 to 52.

During the period, the following new standards, amendments and interpretations to existing standards were published.

**New IFRS standards applied by the Group**

(i) Interpretations to existing standards published, but not yet effective which have been adopted early by the Group:

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). Provides guidance on the accounting of share based transactions involving treasury shares for group entities, such as options over a parent's shares, as equity settled or cash-settled share based payment transactions.

(ii) Standards, interpretations and amendments to existing standards published and effective in the current financial year relevant to the Group:

IFRIC 10 – Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 addresses the conflict between IAS 34 and other standards on the recognition of losses on goodwill and certain other assets. It states that any impairment losses recognised in an interim statement may not be reversed in subsequent interim or annual financial statements.

**New IFRS standards not applied by the Group**

(i) Standards, interpretations and amendments to existing standards published and effective in the current financial year but not relevant to the Group:

IAS 39 (Amendment) – Cash flow hedge accounting of forecast intra-group transactions.

IAS 39 (Amendment) – Fair value option.

IFRS 6 (Amendment) – Exploration for and evaluation of mineral resources.

IFRIC 5 – Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds.

IFRIC 6 – Liabilities arising from participating in a specific market – waste electrical and electronic equipment.

IFRIC 7 – Applying the restatement approach under IAS 29, Financial Reporting in hyperinflationary economies – deals with the accounting of entities which exist in hyperinflationary economies of its functional currency and how deferred tax items should be restated in the balance sheet.

IFRIC 8 – Scope of IFRS 2. IFRIC 8 requires consideration of transactions involving issuance of equity instruments to establish whether or not they fall within the scope of IFRS 2. It applies to the situations where the identifiable consideration received is or appears to be less than the fair value of the equity instruments issued.

IFRIC 9 – Reassessment of embedded derivatives. IFRIC 9 requires an assessment of whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when an entity becomes a party to the contract.

(ii) Standards, interpretations and amendments to existing standards that have been published as mandatory for later accounting periods but are not yet effective and have not been adopted early by the Group:

IAS 1 (Amendment) – Capital Disclosures (effective for accounting periods beginning on or after 1 January 2007). This requires new disclosures about entities' management of their capital resources. Disclosure and Transparency Rules – the main impacts of the new DTR are in respect of time taken to publish interim results and the disclosures within interim results.

IAS 23 Borrowing Costs (revised) (effective for accounting periods beginning on or after 1 January 2009). The revised IAS 23 is still to be endorsed by the EU. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

IAS 34 – Extensive disclosure requirements. No effect on accounting policies.

IFRS 4 (Revised guidance) – Insurance Contracts (effective on adoption of IFRS 7). Reflects changes to IFRS 4 by IFRS 7 and affects the disclosure section.

IFRS 7 – Financial Instruments: Disclosures. New standard on disclosures (effective for accounting periods beginning on or after 1 January 2007) which replaces IAS 30 and the disclosure requirements in IAS 32 and locates in one place all disclosures relating to financial instruments. The new requirements incorporate many of IAS 32's disclosures as well as additional qualitative and quantitative disclosures on the risks arising from financial instruments.

IFRS 8 – Operating Segments (effective for accounting periods beginning on or after 1 January 2009) replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131 – Disclosures About Segments of an Enterprise and Related Information. The new standard uses a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

IFRIC 12 – Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008) where a private sector operator participates in providing services to the public sector, for example under PFI contracts.

## (b) Basis of consolidation

The Group's consolidated financial statements incorporate the financial statements of the Company (Titon Holdings Plc) and the entities controlled by the Company (its subsidiaries) made up to 30 September 2007. Control exists when the Company has the power, directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the financial statements.

## (c) Foreign currency

### i Foreign currency transactions

Foreign currency transactions are translated at the rates ruling on the transaction date or at the contracted rate if the transactions have been entered into at a fixed rate. Foreign currency monetary assets and liabilities are retranslated at the rates ruling at the balance sheet date, or if applicable at the contracted rate. Any differences on translation are taken to the income statement.

All sales from the Group's UK business are invoiced in sterling.

### ii Financial statements of foreign operations

The revenues and expenses of foreign operations are translated to pounds sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Any exchange difference arising is taken directly to reserves.

The financial statements of overseas subsidiaries are translated into sterling at the rates of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to the translation reserve.

Upon disposal of overseas subsidiaries exchange differences arising from the translation of the financial statements of foreign operations are recycled and taken to the income statement. The Company has elected, in accordance with IFRS 1, that in respect of all foreign operations, any differences that have arisen before 1 October 2004 have been set to zero.

## (d) Property, plant and equipment

### i Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (i) ).

### ii Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as incurred.

### iii Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets, except freehold land, over their expected useful lives. It is calculated, on a straight line basis, at the following annual rates:

| | | |
|---|---|---|
| Freehold buildings | - | 2% |
| Improvements to leasehold property | - | 20% (or the lease term, if shorter) |
| Plant and equipment | - | 10% to 33$^1/_3$% |
| Motor vehicles | - | 25% |

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable (see accounting policy (i) ).

## (e) Intangible assets

### i Goodwill

Goodwill arising on acquisitions was set off against reserves in accordance with Accounting Standards applicable at the time of acquisition. All business combinations occurred prior to 1 October 2004. Their accounting treatment was not restated in preparing the Group's opening IFRS balance sheet at 1 October 2004 as the Group took advantage of the exemption not to restate acquisitions prior to the date of transition.

### ii Other intangible assets

Intangible assets other than goodwill that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (i) ).

#### iii Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### iv Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of other intangible assets from the date that they are available for use.

The amortisation period for computer software is three years.

### (f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated as follows:

| | | |
|---|---|---|
| Raw materials | - | cost of purchase on first in, first out basis. |
| Work in progress and finished goods | - | cost of raw materials and labour, together with attributable overheads based on the normal level of activity. |

Net realisable value is based on estimated selling price less further costs to completion and disposal. A charge is made to the income statement for slow moving finished goods stocks. The charge is reviewed at each balance sheet date.

### (g) Trade and other receivables

Trade and other receivables are stated at their cost less estimated impairment (see accounting policy (i) ).

### (h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, bank overdrafts and treasury deposits for cash flow purposes. The Group has no long term borrowings and any available cash surpluses are placed on deposit.

### (i) Impairment

The carrying amount of the Group's assets, other than deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Impairment losses are recognised in the income statement.

#### i Reversals of impairment

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (j) Employee benefits

#### i Pension costs

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. Contributions to the pension scheme are charged to the income statement in the year in which they become payable.

#### ii Share-based payment transactions

The Company provides share option schemes for Directors and for other members of staff.

In accordance with IFRS 2 – Share-based payments, the fair value of the employee services received in exchange for the grant of options is recognised as an expense to the income statement over the vesting period of the option and the corresponding credit recognised to the Share Schemes Reserve within equity. The Black-Scholes option pricing model has been used for calculating the fair value of the Group's share options. The Directors believe that this model is the most suitable for calculating the fair value of the equity based share options. Details of the inputs to the option pricing model are shown in note 23 to the financial statements.

The fair value of the options are determined excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date the Group revises its estimates of the number of option awards that are expected to vest. The impact of the revision of original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity. No adjustment is made for failure to achieve market vesting conditions.

#### iii Accrued holiday pay

Provision is made at each balance sheet date for holidays accrued but not taken at the salary of the relevant employee at that date.

## (k) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. They are discounted at a pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability.

## (l) Trade and other payables

Trade and other payables are stated at cost.

## (m) Research and development expenditure

Expenditure on research is charged to the income statement in the period in which it is incurred. Development costs are capitalised where they meet the criteria set out in IAS 38 - Intangible Assets and are amortised over their useful economic lives.

## (n) Revenue

Revenue represents the value of goods delivered and accepted by external customers at invoiced amounts, less value added tax, net of customer settlement discounts.

## (o) Finance income

Finance income comprises interest receivable on funds invested.

## (p) Corporation and deferred taxes

Tax on the profit or loss for the periods presented comprises current and deferred tax.

#### i Corporation tax

Current tax is the expected corporation tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

#### ii Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

## (q) Leased assets

Operating leases represent leasing agreements that do not give rights approximating to ownership. Annual rentals are charged to the income statement on a straight-line basis over the lease term. Lease incentives are recognised as an integral part of the total lease expense.

## (r) Dividends

Equity dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the Directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

## (s) Financial assets

The Group classifies its financial assets depending on the purpose for which the asset was acquired. The Group holds only one class of financial assets, namely receivables.

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at cost less any provision for impairment.

## (t) Financial liabilities

The Group classifies its financial liabilities depending on the purpose for which the liability was acquired. The Group holds only one class of financial liabilities, namely trade payables.

Trade payables and other short-term monetary liabilities are recognised at amortised cost.

## 2 Critical accounting estimates and judgements

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Valuation of Inventory**

The Group reviews its inventory on a regular basis and, where appropriate, makes provision for slow moving and obsolete stock based on estimates of future sales activity. The estimate of the future sales activity will be based on both historical experience and expected outcomes based on knowledge of the markets in which the Group operates (see note 13 of the Consolidated Financial Statements).

**Depreciation of property, plant and equipment**

Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in note 1 (d). The selection of these estimated lives requires the exercise of management judgement.

**Impairment of assets**

Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount of an asset or a cash-generating unit is determined based on value in-use calculations prepared on the basis of management's assumptions and estimates (see notes 1 (i) and 10 of the Consolidated Financial Statements).

**Useful lives of intangible assets**

Intangible assets are amortised over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated income statement in specific periods (see notes 1 (e) and 11 of the Consolidated Financial Statements).

**Share-based payments**

The charge for share-based payment is calculated in accordance with the assumptions described in note 23. The option valuation model used requires highly subjective assumptions to be made including the future volatility of the Company's share price, expected dividend yields, risk-free rate of return and expected staff turnover. The Directors draw upon a variety of external sources to aid in the determination of the appropriate data to use in such calculations.

# Notes to the Consolidated Financial Statements

at 30 September 2007

## 3 Revenue and segmental information

For management and internal reporting purposes, the Group's operations are currently analysed according to geographical regions. This is the basis on which the Group reports its primary segment information.

The Group's business is comprised of the following reportable geographic segments:

United Kingdom
Rest of the World

Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment information about the geographic regions is presented below.

**Geographic segments**

| | United Kingdom | | Rest of the World | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2007 £'000** | 2006 £'000 | **2007 £'000** | 2006 £'000 | **2007 £'000** | 2006 £'000 |
| External | **15,275** | 14,427 | **2,010** | 2,173 | **17,285** | 16,600 |
| Intercompany | **-** | - | **297** | 291 | **297** | 291 |
| Total Revenue | **15,275** | 14,427 | **2,307** | 2,464 | **17,582** | 16,891 |
| Segment result | **2,173** | 2,197 | **138** | 247 | **2,311** | 2,444 |
| Unallocated expenses | | | | | **(1,954)** | (1,662) |
| Operating profit | | | | | **357** | 782 |
| Finance income | | | | | **102** | 112 |
| Profit before tax | | | | | **459** | 894 |
| Tax expense | | | | | **(15)** | (219) |
| Profit for the year attributable to the equity holders of the parent | | | | | **444** | 675 |

| **Balance sheet** | **2007 £'000** | 2006 £'000 |
|---|---|---|
| **Assets - Segment total assets** | | |
| United Kingdom | **12,980** | 13,517 |
| Rest of World | **217** | 211 |
| Consolidated | **13,197** | 13,728 |
| **Liabilities - Segment total liabilities** | | |
| United Kingdom | **2,351** | 2,603 |
| Rest of World | **22** | 13 |
| Consolidated | **2,373** | 2,616 |

| **Other information** | **2007 £'000** | 2006 £'000 |
|---|---|---|
| **Capital additions** | | |
| United Kingdom | **388** | 1,551 |
| Rest of World | **1** | 20 |
| Consolidated | **389** | 1,571 |
| **Depreciation and amortisation** | | |
| United Kingdom | **705** | 700 |
| Rest of World | **5** | 7 |
| Consolidated | **710** | 707 |

**Business Segments**

The Group's operations are separated between Group manufactured products and bought in products. The following table provides an analysis of the Group's external revenue by source of products, irrespective of the geographical region of sale.

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Group manufactured products | **9,929** | 9,760 |
| Bought in products | **7,356** | 6,840 |
| Revenue | **17,285** | 16,600 |

## 4 Directors and employees

| Staff costs, including Directors, were as follows: | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Wages and salaries | **4,915** | 4,746 |
| Employer's social security costs and similar taxes | **457** | 423 |
| Defined contribution pension cost | **241** | 239 |
| Share based payment expense – equity settled | **1** | 1 |
| | **5,614** | 5,409 |

| The average monthly number of employees during the year was as follows: | **Number** | Number |
|---|---|---|
| Manufacturing | **187** | 182 |
| Sales, marketing and administration | **73** | 73 |
| | **260** | 255 |

Details of Directors' emoluments, pension contributions and interests in share options are given in the Directors' Remuneration Report set out on pages 12 to 16.

# Notes to the Consolidated Financial Statements

at 30 September 2007

## 5 Finance income

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Bank interest receivable on short term deposits | 102 | 112 |

## 6 Profit before tax

| This is arrived at after charging/(crediting): | | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| Depreciation of property, plant and equipment | | 675 | 682 |
| Amortisation of intangible assets | | 35 | 25 |
| Research and development expenditure written off | | 449 | 460 |
| Operating lease rentals | - land and buildings | 94 | 92 |
| Auditors' remuneration | - to principal auditors for statutory audit | 36 | 36 |
| | - to principal auditors for regulatory reporting | - | 5 |
| | - to principal auditors for tax compliance services | 5 | 3 |
| | - to principal auditors for other services | 2 | - |
| Profit on disposal of fixed assets | | (30) | (22) |

## 7 Tax expense

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| UK corporation tax | | 34 | 191 |
| Adjustment in respect of over provision in prior years | | (28) | (33) |
| Total UK corporation tax | | 6 | 158 |
| Overseas tax | | 9 | 7 |
| Adjustment in respect of over provision in prior years | | - | (11) |
| Total overseas tax | | 9 | (4) |
| Total current tax | | 15 | 154 |
| Deferred tax | 15 | - | 65 |
| Total tax | | 15 | 219 |

## 7 Tax expense (continued)

| The charge for the year can be reconciled to the profit per the income statement as follows: | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Profit before tax | **459** | 894 |
| Effect of: | | |
| Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2006: 30%) | **87** | 269 |
| Difference between tax rates | **(38)** | (10) |
| Expenses not deductible for tax purposes | **9** | 10 |
| Additional deduction for R&D expenditure | **(14)** | - |
| Capital allowances in excess of depreciation | **-** | (14) |
| Short term timing differences | **-** | 12 |
| Effect of difference in exchange rates | **(1)** | (1) |
| Adjustments in respect of prior periods | **(28)** | (44) |
| Intra group adjustment (profit in stock) | **-** | (3) |
| Total tax charge for the year | **15** | 219 |

The effective tax rate for the year is 3.3% (2006 : 24.5%)

The expected tax charge is calculated at the small companies rate of 19% (2006: 30%) as a result of the lower level of taxable profits earned in the year.

## 8 Dividends

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Final dividend of 4.8 pence (2006: 4.8 pence) per ordinary share paid and proposed during the year relating to the previous year's results | **506** | 506 |
| Interim dividend of 2.3 pence (2006: 2.3 pence) per ordinary share paid during the year | **243** | 243 |
| | **749** | 749 |

The Directors are proposing a final dividend of 2.3 pence (2006: 4.8 pence) per share. After the waiver of dividend on 2,012,802 shares this results in a final dividend totalling £196,000 (2006 : £506,000), subject to approval by the shareholders at the Annual General Meeting. This dividend has not been accrued at the balance sheet date.

## 9 Earnings per ordinary share

| The calculation of the basic and diluted earnings per share is based on the following data: | **2007 £'000** | 2006 £'000 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purposes of basic earnings per share being profit after taxation attributable to members of Titon Holdings Plc | **444** | 675 |
| **Shares** | **Number** | Number |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **10,555,650** | 10,547,501 |
| Effect of dilutive potential ordinary shares : share options | **-** | 1,706 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **10,555,650** | 10,549,207 |
| **Earnings per share (pence)** | | |
| Basic | **4.21p** | 6.40p |
| Diluted | **4.21p** | 6.40p |

## 10 Property, plant and equipment

| | Freehold land and buildings £'000 | Improvements to leasehold property £'000 | Plant and equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 October 2005 | 3,437 | 42 | 7,214 | 682 | 11,375 |
| Additions | - | - | 1,180 | 305 | 1,485 |
| Disposals | - | - | (229) | (313) | (542) |
| At 1 October 2006 | 3,437 | 42 | 8,165 | 674 | 12,318 |
| Additions | - | 6 | 243 | 114 | 363 |
| Disposals | - | - | (1,404) | (99) | (1,503) |
| At 30 September 2007 | 3,437 | 48 | 7,004 | 689 | 11,178 |
| **Depreciation** | | | | | |
| At 1 October 2005 | 595 | 34 | 6,118 | 386 | 7,133 |
| Additions | 63 | 8 | 453 | 158 | 682 |
| Disposals | - | - | (229) | (277) | (506) |
| At 1 October 2006 | 658 | 42 | 6,342 | 267 | 7,309 |
| Charge of the year | 63 | 3 | 456 | 153 | 675 |
| Disposals | - | - | (1,398) | (70) | (1,468) |
| At 30 September 2007 | 721 | 45 | 5,400 | 350 | 6,516 |
| **Net book value** | | | | | |
| **At 30 September 2007** | **2,716** | **3** | **1,604** | **339** | **4,662** |
| At 30 September 2006 | 2,779 | - | 1,823 | 407 | 5,009 |

## 10 Property, plant and equipment (continued)

The Directors are not aware of any events or changes in circumstances during the year which would have a significant impact on the carrying value of the Group's property, plant and equipment at the balance sheet date.
At 30 September 2007, the Group had entered into contractual commitments for the acquisition of plant and equipment amounting to £99,000 (2006: £132,000).

## 11 Intangible assets

| Computer software | **2007 £'000** | 2006 £'000 |
|---|---|---|
| **Cost** | | |
| At beginning of year | **164** | 101 |
| Additions | **26** | 86 |
| Disposals | **-** | (23) |
| At end of year | **190** | 164 |
| **Amortisation** | | |
| At beginning of year | **97** | 95 |
| Charge for the year | **35** | 25 |
| Disposals | **-** | (23) |
| At end of year | **132** | 97 |
| **Net book value at the end of year** | **58** | 67 |

## 12 Subsidiaries

A list of the investments in subsidiaries, including the name, country of incorporation and proportion of ownership is given in note 5 to the Parent Company's separate financial statements.

## 13 Inventories

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Raw materials and consumables | **416** | 310 |
| Work in progress | **660** | 763 |
| Finished goods and goods for resale | **1,907** | 1,877 |
| | **2,983** | 2,950 |

No inventories (2006: £nil) are carried at fair value less costs to sell.

The carrying value of inventory represents cost less appropriate provisions. During the year there was a net credit of £96,000 (2006: net charge £159,000) to the Consolidated Income Statement in relation to the inventory provisions. The movements in the inventory provisions are included within cost of sales in the Consolidated Income Statement.

# Notes to the Consolidated Financial Statements

at 30 September 2007

## 14 Trade and other receivables

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Trade debtors | **3,637** | 3,493 |
| Other debtors | **89** | 14 |
| Prepayments and accrued income | **59** | 117 |
| | **3,785** | 3,624 |

The Group's credit risk is primarily attributable to its trade debtors. However, the Group has no significant concentration of credit risk, with exposure spread over a large number of customers.

The average credit period taken on sale of goods by trade debtors is 66 days (2006: 65 days). The amounts presented in the balance sheet are net of allowances for doubtful debts. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

The Directors consider that the carrying amount of trade receivables approximate to their fair value.

## 15 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2006: 30%). The movement on the deferred tax account is as shown below:

| | Accelerated capital allowances £'000 | Other temporary differences £'000 | Total £'000 |
|---|---|---|---|
| At 1 October 2005 | 152 | (47) | 105 |
| Charge to the income statement | 51 | 14 | 65 |
| At 1 October 2006 | 203 | (33) | 170 |
| (Credit) / charge to the income statement | (47) | 47 | - |
| At 30 September 2007 | 156 | 14 | 170 |

## 16 Trade and other payables

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Trade creditors | **1,260** | 1,570 |
| Other creditors | **33** | 62 |
| Other tax and social security taxes | **604** | 493 |
| Accruals | **293** | 237 |
| | **2,190** | 2,362 |

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Year end trade creditors represent 42 days (2006: 49 days) average purchases.

The Directors consider that the carrying amount of trade payables approximate to their fair value.

## 17 Share capital

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Authorised** | | |
| 13,600,000 ordinary shares of 10p each | **1,360** | 1,360 |

The movement during the year on the Company's issued and fully paid ordinary shares of 10p each was as follows:

| | 2007 Number | 2007 £'000 | 2006 Number | 2006 £'000 |
|---|---|---|---|---|
| At beginning of the year | **10,555,650** | **1,056** | 10,528,800 | 1,053 |
| Employee share options exercised | **-** | **-** | 26,850 | 3 |
| At the end of the year | **10,555,650** | **1,056** | 10,555,650 | 1,053 |

**Share options**

Options have been granted over the following number of ordinary shares which were outstanding at 30 September 2007:

| Date granted | Number of shares | Subscription Price | Exercisable between | | |
|---|---|---|---|---|---|
| 11.03.98 | 82,800 | 86.5p | 11.03.01 | and | 11.03.08 |
| 16.12.98 | 25,750 | 89.5p | 16.12.01 | and | 16.12.08 |
| 02.06.99 | 16,600 | 89.0p | 02.06.02 | and | 02.06.09 |
| 18.01.02 | 134,450 | 103.5p | 18.01.05 | and | 18.01.12 |
| 21.05.04 | 31,150 | 91.0p | 21.05.07 | and | 21.05.14 |
| 18.05.05 | 26,300 | 99.0p | 18.05.08 | and | 18.05.15 |
| 18.05.06 | 35,300 | 91.0p | 18.05.09 | and | 18.05.16 |
| 16.05.07 | 6,300 | 127.5p | 17.05.10 | and | 17.05.17 |
| | 358,650 | | | | |

All share options are granted at market value at the date of grant.

No share options were exercised between 30 September 2007 and 18 December 2007.

# Notes to the Consolidated Financial Statements

at 30 September 2007

## 18 Changes in equity

| | Share capital £'000 | Share premium reserve £'000 | Capital redemption reserve £'000 | Translation reserve £'000 | Share schemes reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|
| **At 1 October 2005** | 1,053 | 841 | 56 | (3) | 1 | 9,190 | 11,138 |
| Profit for the year | - | - | - | - | - | 675 | 675 |
| Dividends paid | - | - | - | - | - | (749) | (749) |
| Shares issued under the Company's share option scheme | 3 | 24 | - | - | - | - | 27 |
| Share-based payment expense | - | - | - | - | 1 | - | 1 |
| Translation differences on overseas operations | - | - | - | 20 | - | - | 20 |
| **At 30 September 2006** | **1,056** | **865** | **56** | **17** | **2** | **9,116** | **11,112** |
| Profit for the year | - | - | - | - | - | 444 | 444 |
| Dividends paid | - | - | - | - | - | (749) | (749) |
| Share-based payment expense | - | - | - | - | 1 | - | 1 |
| Translation differences on overseas operations | - | - | - | 16 | - | - | 16 |
| **At 30 September 2007** | **1,056** | **865** | **56** | **33** | **3** | **8,811** | **10,824** |

The following describes the nature and purpose of each reserve within equity:

| **Reserve** | **Description and purpose** |
|---|---|
| Share premium | Premium on shares issued in excess of nominal value |
| Capital redemption | Cancellation of 10p ordinary shares |
| Translation reserve | Cumulative gains/losses arising on retranslating the net assets of overseas operations into Sterling |
| Share scheme | Cumulative expense of equity settled share based payments recognised in the consolidated income statement |
| Retained earnings | Cumulative net gains and losses recognised in the consolidated income statement and statement of recognised income and expense |

## 19 Financial instruments

The Group holds financial instruments comprising treasury deposits, cash and overdrafts to finance its operations together with the retained profits generated by operating companies.

The Group has no long term borrowings and any available cash surpluses are placed on deposit. The Group uses cash on deposit to manage short term liquidity risks which may arise.

The Group has two overseas subsidiaries in the USA and the Netherlands respectively. Their revenues and expenses, other than those incurred with the UK business, are denominated in their local currency. The Board does not believe that there are any significant risks arising from the movements in exchange rates with these companies due to the insignificance of their net assets and trading activities.

All sales from the Group's UK business are invoiced in Sterling. Purchases made by the UK business from four overseas suppliers are invoiced to the Group in the local currency of that supplier.

Short-term debtors and creditors have been excluded from the disclosures.

**Financial assets**

The Group's financial assets at 30 September were:

Floating rate financial assets

| **Currency** | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Sterling | **1,639** | 2,019 |
| US Dollar | **7** | 20 |
| Euro | **32** | 39 |
| | **1,678** | 2,078 |

The Sterling financial assets have a weighted average interest rate of 4.9%, which was arranged monthly. The remainder comprise bank current accounts.

**Financial liabilities**

The Group's floating rate financial liabilities at 30 September 2007 comprise solely of a Sterling bank overdraft in the sum of £13,000 (2006: £9,000) repayable on demand. This liability is offset against bank deposits for the purposes of interest payment calculation.

The Board considers the fair value of the Group's financial assets and liabilities to be the same as the book value.

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# Notes to the Consolidated Financial Statements

at 30 September 2007

## 20 Leases

**Operating leases**

At the year end the Group had total commitments under non-cancellable operating leases, in respect of land and buildings, as set out below:

| Operating leases which expire within: | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Two to five years | **157** | 228 |

## 21 Notes supporting the cash flow statement

The table below provides an analysis of net cash and cash equivalents during the year ended 30 September 2007:

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Cash available on demand | **378** | 58 |
| Short-term deposits | **1,300** | 2,020 |
| Cash at bank | **1,678** | 2,078 |
| Overdraft | **(13)** | (9) |
| | **1,665** | 2,069 |
| Net cash decrease in cash and cash equivalents | **(404)** | (1,290) |
| Cash and cash equivalents at beginning of year | **2,069** | 3,359 |
| Cash and cash equivalents at end of year | **1,665** | 2,069 |

## 22 Pensions

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to these funds during the year (see note 4). The unpaid contributions outstanding at the year end, included in accruals (note 16) are £30,000 (2006: £29,000).

## 23 Share-based payments

**Equity settled share option scheme**

The Group provides share option schemes for Directors and for other members of staff.

There are presently two equity settled share option schemes; one Inland Revenue approved and the other unapproved in which employees may be invited to participate. Both of these schemes were introduced in February 1998. The exercise of options granted under these schemes is dependent upon the growth in the earnings per share of the Group, over any three consecutive financial years following the date of grant, exceeding the growth in the retail price index over the same period by at least 9 per cent.

In accordance with IFRS 2, the fair value of outstanding equity settled share based option awards to employees, which have been granted after 7 November 2002, but not vested as at 1 January 2005, are recognised as an expense to the income statement.

The vesting period of all share option schemes is three years. If the options remain unexercised after a period of ten years from the date of grant, or on an employee leaving the group, the options expire.

Details of the share options outstanding during the year are as follows:

| | 2007 | 2007 | 2006 | 2006 |
|---|---|---|---|---|
| | Number of share options | Weighted average exercise price (pence) | Number of share options | Weighted average exercise price (pence) |
| Outstanding at beginning of year | 361,800 | 95.0p | 396,800 | 96.2p |
| Granted during the year | 6,300 | 127.5p | 35,300 | 91.0p |
| Lapsed during the year | (9,450) | 89.2p | (43,450) | 101.6p |
| Exercised during the year | - | - | (26,850) | 98.1p |
| Outstanding at the end of the year | 358,650 | 95.7p | 361,800 | 95.0p |
| Exercisable at the end of the year | - | - | 6,300 | 82.0p |

There were no share options exercised during the year. The weighted average share price at the date of exercise for share options exercised during the period was nil (2006: 118.4p). The options outstanding at 30 September 2007 had a weighted average price of 95.7p (2006: 95.0p) and a weighted average remaining contractual life of 4.0 years (2006: 4.0 years). In the year to 30 September 2007 options were granted on 16 May 2007. The aggregate of the estimated fair values of the options granted in the year was £1,000 (2006: £5,000).

The Black-Scholes option pricing model has been used for calculating the fair value of the Group's share options. The calculated fair values of the share option awards are adjusted to reflect actual and expected vesting levels.

The inputs to the Black-Scholes model were as follows:

| | 2007 | 2006 |
|---|---|---|
| Weighted average exercise price (pence) | 127.5p | 91.0p |
| Share price volatility | 30.0% | 29.0% |
| Expected life of the share option | 6 years | 6 years |
| Risk free rate of return | 5.21% | 4.75% |
| Expected dividend yield | 6.50% | 6.50% |

# Notes to the Consolidated Financial Statements
at 30 September 2007

## 23 Share-based payment (continued)

**Assumptions used in the option pricing model**

a) The expected life (the period between the date of grant and exercise) of a share option is 6 years.

b) Each issue of share option awards is assessed, at date of grant, to calculate the total fair value. The fair value of share options is charged to the income statement over the 3 year vesting period.

c) Share price volatility is calculated by looking back six years from the date of grant for each share option, as it is expected that the historic volatility in the share price is the best measure of likely movement in the share price in the future and therefore during the life of the share option from the date of grant until the date of exercise.

d) Volatility has been calculated using the historic weekly movement, rather than daily movement, in the Company's share price as this is, in the opinion of the Directors, the most reasonable measure of the share price.

e) Dividend yields are expected to be similar to those in recent years.

f) A risk free rate of return has been used based on the Bank of England zero coupon rates.

## 24 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. There were no transactions, agreements or other arrangements, direct or indirect, during the year in which the Directors had any interest. Key management who hold the authority and responsibility for planning, directing and controlling activities of the Group are comprised solely of the Directors. Their remuneration is disclosed in the Remuneration Report on page 14 of this document.

# Parent Company Balance Sheet
## at 30 September 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 4 | **2,753** | 2,837 |
| Investments | 5 | **202** | 202 |
| | | **2,955** | 3,039 |
| **Current assets** | | | |
| Debtors | 6 | **4,574** | 4,791 |
| Cash at bank and in hand | | **1,639** | 2,020 |
| | | **6,213** | 6,811 |
| **Creditors : amounts falling due within one year** | 7 | **(102)** | (113) |
| **Net current assets** | | **6,111** | 6,698 |
| **Total assets less current liabilities** | | **9,066** | 9,737 |
| **Deferred taxation** | 8 | **(138)** | (207) |
| | | **8,928** | 9,530 |
| **Capital and reserves** | | | |
| Called up share capital | 9 | **1,056** | 1,053 |
| Share premium account | 10 | **865** | 865 |
| Capital redemption reserve | 10 | **56** | 56 |
| Profit and loss account | 10 | **6,951** | 7,553 |
| **Equity shareholders' funds** | 10 | **8,928** | 9,530 |

The notes on pages 48 to 52 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board on 18 December 2007 and signed on its behalf by:

**J N Anderson**
**Chairman**

# Notes to Parent Company Financial Statements
at 30 September 2007

Titon Holdings Plc (the Company) is incorporated in the United Kingdom under the Companies Act 1985. The address and the registered office are given on page 59.

## 1 Significant accounting policies

### (a) Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention in accordance with applicable United Kingdom Generally Accepted Accounting Principles (UK GAAP) and law.

### (b) Property and other fixed assets

#### (i) Owned assets

Items of property and other fixed assets are stated at cost or deemed cost less accumulated depreciation (see below).

#### (ii) Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets, except freehold land, over their expected useful lives. It is calculated, on a straight line basis, at the following annual rates:

| | | |
|---|---|---|
| Freehold buildings | - | 2% |
| Motor vehicles | - | 25% |

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

### (c) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### (d) Share-based payment transactions

The Company provides share option schemes for Directors and for other Group employees.

The fair value of the employee services received in exchange for the grant of options is recognised as an expense to the profit and loss account. The amount expensed to the profit and loss account over the vesting period is determined by reference to the fair value of the options, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date the Company revises its estimates of the number of options awards that are expected to vest. The impact of the revision of original estimates, if any, is recognised in the profit and loss account, with a corresponding adjustment to equity shareholders' funds. No adjustment is made for failure to achieve market vesting conditions.

Disclosures in respect of share-based payments are made in note 23 of the Group Consolidated Financial Statements.

### (e) Investments

Fixed asset investments are held at cost less any provision for impairment.

## 2 Profit for the year

As permitted by section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the year. Titon Holdings Plc reported a profit after tax for the financial year ended 30 September 2007 of £146,000 (2006 : £664,000).

## 3 Directors and employees

| Staff costs, including Directors, were as follows: | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Wages and salaries | **531** | 502 |
| Employer's social security costs and similar taxes | **62** | 58 |
| Defined contribution pension cost | **51** | 49 |
| | **644** | 609 |

| The average monthly number of employees during the year was as follows: | **Number** | Number |
|---|---|---|
| | **10** | 10 |

The Directors' emoluments for the period are disclosed in the Directors' Remuneration Report on page 14 of this document.

## 4 Tangible assets

| **Cost** | Freehold land and buildings £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|
| At beginning of year | 3,437 | 82 | 3,519 |
| At end of year | 3,437 | 82 | 3,519 |
| **Depreciation** | | | |
| At beginning of year | 658 | 24 | 682 |
| Charge for the year | 63 | 21 | 84 |
| At end of year | 721 | 45 | 766 |
| **Net book value at 30 September 2007** | **2,716** | **37** | **2,753** |
| At 30 September 2006 | 2,779 | 58 | 2,837 |

# Notes to Parent Company Financial Statements
at 30 September 2007

## 5 Fixed asset investments

| | £'000 |
|---|---|
| At beginning of year and end of year | 202 |

Investments comprise 100% direct shareholdings of the ordinary share capital in the following principal subsidiaries, all of which are included in the Consolidated Financial Statements:

| **Name of subsidiary** | **Principal activity** | **Country of incorporation** |
|---|---|---|
| Titon Hardware Limited | Design, manufacture and marketing of window fittings and ventilators | England |
| Titon Inc | Distribution of Group products | USA |
| Titon BV | Dormant | The Netherlands |

For the subsidiaries listed above, the country of operation is the same as the country of incorporation.

## 6 Debtors

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Sundry debtors | **6** | 2 |
| Amounts owed by subsidiaries | **4,568** | 4,789 |
| | **4,574** | 4,791 |

## 7 Creditors: Amounts falling due within one year

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Trade creditors | **2** | 2 |
| Corporation tax | **15** | 10 |
| Accruals | **85** | 101 |
| | **102** | 113 |

## 8 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2006: 30%). The movement on the deferred tax account is as shown below:

| | Accelerated capital allowances | Other temporary differences | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| At 1 October 2006 | 215 | (8) | 207 |
| (Credit) / charge to the income statement | (72) | 3 | (69) |
| At 30 September 2007 | 143 | (5) | 138 |

## 9 Share capital

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| **Authorised** | | |
| 13,600,000 ordinary shares of 10p each | **1,360** | 1,360 |

The movement during the year on the Company's issued and fully paid ordinary shares of 10p each was as follows:

| | **2007 Number** | **2007 £'000** | 2006 Number | 2006 £'000 |
|---|---|---|---|---|
| At beginning of the year | **10,555,650** | **1,056** | 10,528,800 | 1,053 |
| Employee share options exercised | **-** | **-** | 26,850 | 3 |
| At the end of the year | **10,555,650** | **1,056** | 10,555,650 | 1,056 |

# Notes to Parent Company Financial Statements

at 30 September 2007

## 10 Reconciliation of shareholders funds and movement on reserves

| | Share capital | Share premium reserve | Capital redemption reserve | Profit and loss account | Total Equity |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **At 30 September 2006** | 1,056 | 865 | 56 | 7,553 | 9,530 |
| Profit for the year | - | - | - | 146 | 146 |
| Dividends paid | - | - | - | (749) | (749) |
| Share-based payment expense | - | - | - | 1 | 1 |
| **At 30 September 2007** | 1,056 | 865 | 56 | 6,951 | 8,928 |

Included within retained earnings is £111,000 of goodwill (2006: £111,000) arising on business combinations in prior years, and prior to the implementation of FRS 10.

# Five Year Summary

## Summarised consolidated results

| | IFRS | IFRS | IFRS | UK GAAP | UK GAAP |
|---|---|---|---|---|---|
| | 2007 £'000 | 2006 £'000 | 2005 £'000 | 2004 £'000 | 2003 £'000 |
| **Results** | | | | | |
| Revenue | 17,285 | 16,600 | 16,436 | 16,401 | 16,310 |
| Gross Profit | 3,803 | 4,161 | 4,064 | 3,896 | 4,421 |
| Operating profit | 357 | 782 | 1,028 | 937 | 1,369 |
| Net Interest | 102 | 112 | 151 | 125 | 150 |
| Taxation | 15 | 219 | 328 | 305 | 433 |
| Dividends | 749 | 749 | 747 | 749 | 718 |
| Basic earnings per share | 4.21p | 6.40p | 8.08p | 7.19p | 10.19p |
| **Assets Employed** | | | | | |
| Property, plant & equipment | 4,662 | 5,009 | 4,242 | 4,291 | 4,025 |
| Net funds | 1,678 | 2,069 | 3,359 | 3,311 | 3,666 |
| Net current assets | 6,274 | 6,206 | 6,994 | 6,335 | 6,541 |
| **Financed by** | | | | | |
| Shareholders' funds : all equity | 10,824 | 11,112 | 11,138 | 10,531 | 10,498 |

The five year summary does not form part of the audited financial statements.

The amounts disclosed for 2004 and earlier periods are stated on the basis of UK GAAP as it is not practicable to restate amounts for periods prior to the date of transition to IFRS.

UK GAAP results have not been retrospectively restated to reflect changes to financial reporting standards in subsequent years.

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the shareholders of Titon Holdings Plc ("the Company") will be held at the Titon Manufacturing Division premises at Falconer Road, Haverhill, Suffolk, CB9 7XU on 19 February 2008 at 10.00 am for the following purposes:

## Ordinary Business

1. To consider the financial statements and reports of the Directors and of the Auditors for the year ended 30 September 2007.
2. To declare a final dividend of 2.3p per share on the ordinary shares of the Company for the year ended 30 September 2007.
3. To re-elect Tyson Neil Anderson as a Director of the Company.
4. To re-elect Christopher Stuart Jarvis as a Director of the Company.
5. To re-elect Patrick Edmund O'Sullivan as a Director of the Company.
6. To re-appoint BDO Stoy Hayward LLP as Auditors of the Company and to authorise the Directors to determine their remuneration.

## Special Business

To consider and, if thought fit, to pass the following resolutions, of which Resolutions 7 and 10 will be proposed as Ordinary Resolutions and Resolutions 8 and 9 will be proposed as Special Resolutions.

7. THAT

(a) In accordance with Section 80 of the Companies Act 1985 ("the Act") the Directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80) within the terms of the restrictions and provisions following, namely:

(i) this authority shall (unless previously revoked, varied or renewed) expire at the end of the next Annual General Meeting of the Company following the passing of this Resolution or on 17 May 2009 whichever shall occur earlier; and

(ii) this authority shall be limited to the allotment of relevant securities up to an aggregate nominal amount of £250,000 (representing approximately 23.7% of the existing issued share capital of the Company as at 18 December 2007 (being the latest practicable date before publication of this document).

(b) For the purpose of sub-paragraph (a) above the said authority shall allow and enable the Company to make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

8. THAT

(a) Conditionally upon the passing of Resolution 7 above and in accordance with Section 95 of the Act, the Directors be and are hereby given power to allot equity securities (within the meaning of Section 94(2) to 94(3A) of the Act) for cash, pursuant to the authority conferred by Resolution 7 above, as if sub-section (1) of Section 89 of the Act did not apply to such allotment provided that:

(i) the power hereby granted shall be limited :

(aa) to the allotment of equity securities in connection with or pursuant to an offer by way of rights to holders of shares in the Company and other persons entitled to participate therein, in the proportion (as nearly as may be) to such holders' holding of such shares (or, as appropriate, to the number of shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the Directors may feel necessary or expedient to deal with fractional entitlements or legal, regulatory or practical problems under the laws of or the requirements of any territory, any recognised regulatory body or stock exchange; and

(bb) to the allotment (otherwise than pursuant to sub-paragraph (i) (aa) of this proviso) of equity securities up to an aggregate nominal amount of £50,000 (representing approximately 4.7% of the existing issued share capital of the Company as at 18 December 2007 (being the latest practicable date before publication of this document);

(ii) the power hereby granted shall (unless previously revoked, varied or renewed) expire at the end of the next Annual General Meeting of the Company following the passing of this Resolution or on 17 May 2009 whichever shall occur earlier.

(b) The said power shall allow and enable the Company to make an offer or agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred herein had not expired.

(c) This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 94 (3A) of the Companies Act 1985 as if in sub-paragraph (a) of this Resolution the words “pursuant to the authority conferred by Resolution 7 above” were omitted.

# Notice of Annual General Meeting (continued)

9. THAT

(a) The Company be and is hereby generally authorised pursuant to Section 166 of the Act to make market purchases (within the meaning of Section 163(3) of the Act) of its ordinary shares, on such terms and in such manner as the Directors shall determine, provided that:

(i) the maximum number of ordinary shares hereby authorised to be purchased is an aggregate of 1,055,565 shares;

(ii) the price per share shall not be more than the higher of:

(aa) 5% above the average of the middle market values of an ordinary share of the Company (as derived from the London Stock Exchange Daily Official List) for the 5 business days before the purchase is made; and

(bb) the higher of the price of the last independent trade and the highest current bid on the trading venue where the purchase is carried out.

(in each case exclusive of expenses)

(iii) the price per share shall not be less than 10 pence per ordinary share; and

(iv) the authority conferred by this Resolution shall expire (unless previously revoked, varied or renewed) at the end of the next Annual General Meeting of the Company following the passing of this Resolution or on 17 May 2009, whichever shall occur earlier (except in relation to the purchase of ordinary shares the contract for which was concluded before such date which will or may be executed wholly or partly after such date).

10. THAT

The Directors' Remuneration Report set out on pages 12 to 16 of the Annual Report and Financial Statements for the year ended 30 September 2007 be and is hereby approved.

**By order of the Board**

Registered Office
International House
Peartree Road
Stanway
Colchester
Essex CO3 0JL

**D A Ruffell**
**Secretary**
18 December 2007

**Notes:**

1. In accordance with Regulation 41 of The Uncertificated Securities Regulations 2001, only those members entered on the register of members of the Company as at 10:00 a.m. on 17 February 2008 shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 10:00 a.m. on 17 February 2008 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

2. A copy of the service contract of each executive director and the letter of appointment of each non-executive director is available for inspection during usual business hours at the registered office of the Company on each business day before, and will be available at the place of the Annual General Meeting for fifteen minutes prior to and during the Meeting.

3. Every member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company.

4. A proxy form is enclosed with this notice. Instructions for use are shown on the form. To be valid, the form of proxy must be deposited with the Company's registrars - Capita Registrars Ltd, PO Box 25, Beckenham, Kent BR3 4BR, NOT LATER THAN 10:00 a.m. on 17 February 2008, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority. The completion and return of the form of proxy will not, however, preclude you from attending and voting at the meeting if you so wish.

5. Relating to persons nominated under section 146 of the Companies Act 2006 ("the 2006 Act"):

   The right to appoint a proxy does not apply to persons nominated to enjoy information rights under section 146 of the 2006 Act ("nominated persons"). Nominated persons who have been sent a copy of this notice of Annual General Meeting are hereby informed, in accordance with section 149(2), of the 2006 Act that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the registered member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.

   Nominated persons are reminded that their main contact in respect of their investment remains the registered holder by whom they were nominated. Any changes or queries relating to their personal details and holdings must continue to be directed to such contact. The Company cannot guarantee dealing with matters that are directed to it in error. The only exception is where the Company, in exercising one of its powers under the 2006 Act, writes to nominated persons nominated on a matter and seeks their response.

# Directors and Advisors

## DIRECTORS

**Executive**
J N Anderson (Chairman)
D A Ruffell (Chief Executive)
T N Anderson
R Brighton
N C Howlett
C S Jarvis
C J Martin

**Non-Executive**
P W E Fitt (Vice-Chairman)
P E O'Sullivan
K A Ritchie

## SECRETARY AND REGISTERED OFFICE
D A Ruffell
International House
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## COMPANY REGISTRATION NUMBER
1604952 (Registered in England & Wales)

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## SOLICITORS
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