



MANGANESE BRONZE HOLDINGS PLC  
**Annual Report 2006**



## Contents

1	Highlights	25	Consolidated balance sheet
2	Financial highlights	26	Consolidated cash flow statement
3	Business review	27	Notes to the consolidated financial statements
7	Directors and advisors	58	Company income statement
8	Directors' report	58	Company statement of recognised income and expense
11	Remuneration report	59	Company balance sheet
17	Corporate governance report	60	Company cash flow statement
20	Statement of corporate and social responsibility	61	Notes to the Company financial statements
21	Statement of directors' responsibilities	68	Consolidated five-year statistics
22	Independent auditors' report	69	Group contacts
24	Consolidated income statement	69	Financial calendar
24	Consolidated statement of recognised income and expense		



# MANGANESE BRONZE HOLDINGS PLC

## AIMS TO MAKE TAXIS **SAFE,**

## **CONVENIENT, COMFORTABLE**

## **AND AFFORDABLE** FOR ALL.

### Highlights

- Profit before tax<sup>1</sup> up 88% to £3.7 million (2005: £2.0 million), including the profit and sale of the surplus Ipswich property of £1.1 million – turnaround continues.
- Heads of terms for joint venture with Zhejiang Geely Holding Group Co. Ltd and its subsidiary Shanghai Maple Automotive announced – significant progress developing the business internationally.
- TX4 launched – most technologically advanced London taxi ever built.
- Balance sheet strong – cash and cash equivalents of £12.9 million (2005: £9.6 million) with net assets of £21.5 million (2005: £19.7 million).
- Robust cash generation before capital investment<sup>2</sup> of £9.3 million (2005: £6.2 million).
- Significant investment in TX4 and fit out and move to enhanced retail facilities in London – total capital investment<sup>2</sup> of £6.2 million (2005: £2.9 million).
- Sale of Ipswich and Birmingham surplus properties completes the Group's restructuring.
- Earnings per share increased by 37% to 15.0p (2005:11.0p).
- Recommended final dividend of 3p per share (2005: 3p) plus special dividend of 1p per share (2005: nil) – total dividend increase of 50% to 6p per share (2005: 4p).

#### Definitions:

- 1 All references to profit before tax include losses from discounted operations of £86,000 (2005: £549,000).
- 2 Capital investment is defined as purchases of property, plant and equipment.

## Financial highlights

		2006	As restated (Notes 18 + 37) 2005
Vehicle sales volumes	UK	<b>2,388</b>	2,412
	Overseas	<b>92</b>	109
	Total	<b>2,480</b>	2,521
		<b>£000</b>	£000
<b>Continuing and discontinued operations:</b>			
Revenue		<b>83,824</b>	87,598
Operating profit before exceptional items		<b>3,236</b>	2,532
Exceptional items		<b>790</b>	(105)
Operating profit		<b>4,026</b>	2,427
Finance costs – net		<b>(356)</b>	(473)
Profit before tax		<b>3,670</b>	1,954
Net assets		<b>21,477</b>	19,677
		<b>2006</b>	2005
Basic earnings per ordinary share		<b>15.02p</b>	10.97p
Interim dividend per ordinary share		<b>2.00p</b>	1.00p
Final dividend per ordinary share		<b>3.00p</b>	3.00p
Special dividend per ordinary share		<b>1.00p</b>	–
Price range of ordinary shares			
1 August – 31 July		<b>153p – 233p</b>	142p – 231p
Weighted average number of ordinary shares in issue		<b>19,035,649</b>	18,932,416
Market capitalisation at 1 September		<b>£59.01m</b>	£34.45m
Net assets per ordinary share		<b>112.8p</b>	102.9p

## Business review

Manganese Bronze delivered a strong set of results following the turnaround to profit achieved last year after a period of losses. Profit before tax (including discontinued operations) increased by 88% to £3.7 million (2005: £2.0 million), including the profit on the sale of the surplus Ipswich property (£1.1 million). Excluding this one-off benefit, the Group's profit before tax grew by 29% to £2.5 million (2005: £2.0 million).

During the year, Manganese Bronze made significant investment in the development and launch of the next generation purpose-built taxi – the TX4. This is the most technologically advanced taxi we have produced and meets all the requirements of Euro IV emission legislation as well as Transport for London's Conditions of Fitness.

We announced on 4 October the signing of Heads of Terms for our planned joint venture with Zhejiang Geely Holding Group Company Limited (Geely), and its subsidiary Shanghai Maple Automotive Co. Ltd. This is the culmination of many years of concerted effort to partner with an automotive company to produce the iconic London taxi in a low-cost manufacturing location with access to a large and fast-growing vehicle market. Geely is one of the fastest growing car companies in China and has an impressive range of vehicles and facilities. This joint venture will be dependent on our shareholders approving this transaction and regulatory approval in China. The plan is to start production in Shanghai in mid 2008 with a planned annual capacity of 20,000 vehicles.

### UK taxi markets

In December 2005, Transport for London's Public Carriage Office (PCO) issued the results of the second review of the London Conditions of Fitness. This review confirmed the benefits of the taxi's unique turning circle for both drivers and passengers, and it has therefore been retained. The PCO noted during this review that both passengers and drivers preferred the existing London taxi.

Reviews conducted in other cities have produced more varied results. In Edinburgh, converted vans may now be sold as licensed taxis despite the objections of passengers and drivers alike.

The PCO strategy for reducing emissions from London taxis requires that, by 31 July 2008, all of London's taxis must at least comply with Euro III emissions standards. As reported at the half year, the PCO has relaxed the regulation for Metrocab vehicles compliance from July 2006 to July 2007. The PCO has also confirmed that there are no further changes to the emissions regulation planned.

There are several choices available to drivers to meet the London emission regulations; purchase a TX4 model which is Euro IV compliant; purchase a used TX II model which is Euro III compliant; retrofit a system to an existing vehicle to allow compliance with Euro III; or rent a TX II or TX4 from a rental operator. As at 31 July 2006, there were more than 17,000 black taxis operating in London which do not meet Euro III standards. We believe the need for drivers to comply with the new regulations will benefit our sales from July 2006 through July 2008 and beyond. We anticipate that other UK cities will launch similar initiatives to reduce taxi emission levels.

### Product development

The new TX4, launched today, features a Euro IV compliant engine supplied by VM of Italy (owned 51% by Penske Corporation and 49% by DaimlerChrysler) and a modified braking system to incorporate anti-lock braking. The TX4 has also benefited from a significant external facelift to modernise the taxi without impacting its iconic status. The interior of the vehicle has also been upgraded following driver and passenger feedback. Over the past 12 months, the TX4 has been subjected to more than one million kilometres of durability testing, while its VM engine has been uniquely developed to meet the requirements of the taxi duty cycle. The TX4 also features the revised rear suspension, introduced on the TX II in October 2005, which incorporates coil springs. This has already proven popular with customers. Total investment on the TX4 will exceed £5 million, with £3.3 million having been spent during the year. This investment will be depreciated over five years from October 2006.

In 2005 we developed three prototype hybrid-powered taxis. The reality is that these vehicles are not currently a commercially viable proposition for our customers given the significant added cost for this powertrain. We will, however, continue to monitor the situation.



**+88%**

**Profit**

Increase in profit before tax  
to £3.7m

## Business review continued

### Results

The Group's results for the 12 months to 31 July 2006 have been prepared for the first time under International Financial Reporting Standards (IFRS). The comparative results for 2005 have been restated in accordance with IFRS. The impact of IFRS is explained in the notes to the accounts, the principal effect being the inclusion of the Group's closed defined benefit pension scheme deficit on the balance sheet.

Sales of new taxis in the UK decreased by 1% to 2,388 from 2,412 with London sales marginally ahead of last year but regional sales slightly weaker. Sales volumes have been impacted by the anticipated launch of TX4, news of the change in London emissions regime and the uncertainty caused by regional reviews of taxi regulations. Overseas sales of 92 (2005: 109) include significant sales to relatively new markets, such as South Africa and Nigeria. Revenue from continuing operations declined by 4% to £83.8 million (2005: £87.3 million) due to marginally lower new sales and correspondingly lower used vehicle sales.

Profit before tax, excluding the profit on the sale of Ipswich of £1.1 million, increased by 29% to £2.5 million (2005: £2.0 million). The overall result has benefited from lower depreciation and general cost savings, partly offset by lower taxi sales and higher costs of utilities, which have not been passed on to customers.

Cash generation has remained strong. Cash and cash equivalents of £12.9 million were £3.3 million above the level a year earlier (2005: £9.6 million). The successful completion of our restructuring saw the sale of our Ipswich and Birmingham surplus properties for £4.8 million, net of costs. Capital investment has been significant with £6.2 million (2005: £2.9 million) invested primarily in the TX4 development and the refitting and move costs of our new larger retail premises in Brewery Road, London.

In applying IFRS, we have adopted revised segmental reporting under which we have analysed the results of the Group's operations in three segments – vehicle sales, vehicle services and property. This is the last year we will have a property segment as we no longer have any surplus properties following the completion of the Ipswich and Birmingham sales.

### Vehicle sales

Revenue from vehicle sales declined due to lower new and used vehicle sales. Vehicle sales operating profit increased by 26% to £2.8 million (2005: £2.2 million) due to lower depreciation, overhead cost savings and the impact of our global material procurement efforts, offsetting price increases from our UK suppliers. A significant operational difficulty experienced during the year has been the re-sourcing of components from suppliers in administration. Although this did not interrupt production, and we now have a more stable supply base, this does not rule out the possibility of future disruption from failed suppliers. The role of our Chinese sourcing office is key to achieving future cost-down targets and minimising disruption from UK suppliers. The impact of higher steel prices has been mitigated through other material savings from global procurement. The impact of higher utility prices has not been mitigated and has not currently been passed onto customers. As a result of the increased cost of production of a Euro IV compliant vehicle, we will be increasing our recommended retail price by around £2,000.



# £12.9m

## Cash

£12.9m cash and cash equivalents



# £6.2m

## Investment

£6.2m investment primarily in TX4 and new London dealership premises

We maintained an average production rate of 55 vehicles per week during the first half of the year and increased this to 59 vehicles per week for the second half in line with the improved seasonality of demand.

We have reduced our provision for warranty costs from £4.6 million to £4.1 million at the end of the year. This follows a detailed review of US warranty offered by LTNA to its customers and US claim experience.

Our wholly owned dealer, Mann & Overton, produced good results with London performing better than Birmingham and Manchester. The closure of the Holloway Road dealership and repair operation and the subsequent move to purpose-built and refitted facilities on Brewery Road should improve Mann & Overton London profits. The recent introduction of the bespoke Kerridge Dealer Management systems throughout Mann & Overton will improve both productivity and profit.

Mann & Overton London has recently launched a fleet rental operation which will offer used TX IIs to customers who wish to rent rather than buy or upgrade in order to meet the emission regulations.

Parts performance has again been strong, albeit that profit declined marginally as Fairway models, which are not Euro III compliant, are retired from the London taxi parc and are cannibalised for spare parts.

### Vehicle services

The vehicle services segment comprises our taxi finance business and LTNA, our US service and advertising business. The vehicle services profit declined from £0.8 million in 2005 to £0.4 million in 2006 due to severance costs and LTNA losses. The severance costs of £0.2 million have been incurred for transferring the operation of the taxi finance business from London Taxi Finance (LTF) to Black Horse Taxi Finance, (BHTF), part of Lloyds TSB plc. Excluding the costs of severance pay, LTF and BHTF performed well and in line with 2005. New business volumes are meeting expectations and arrears are well within the industry standard.

The performance of LTNA has been disappointing, with losses of £0.5 million (2005: £0.1 million – consolidated for only two months). Losses have arisen largely through developing the service and parts infrastructure, which had not been fully implemented under LTNA's former ownership. Advertising revenues disappointed in the second half of the year. Costs have been reduced through the consolidation of our operations in the US into one facility in Chicago and the closure of one office in Boston. Advertising revenues are expected to improve in 2007 as a result of recent recruitment and the forging of wider relationships across the US media industry.

This segment also includes losses of £0.1 million (2005: £0.5 million) associated with the discontinued Zingo taxi mobile hailing service.

## Business review continued

### International

Following the acquisition of LTNA, we have reviewed the detailed engineering plans and supply agreements required to relaunch a petrol powered vehicle for the US. It has been decided not to pursue this option until a low-cost petrol powered vehicle is available from our Geely joint venture.

Concurrent with the review of our petrol engine strategy and the success of our Chinese negotiations, we have broken off discussions to assemble the London taxi in Mexico for the Mexican and US markets. Mexico, which also has a preference for petrol powered vehicles, will become a significant export opportunity once we have a lower cost vehicle from our Geely joint venture.

### Balance sheet

The impact of applying IFRS for the first time is reconciled in note 38 to the consolidated financial statements. The main impact has been to introduce the Group's defined benefit pension scheme deficit onto the balance sheet. At 31 July 2006 this deficit amounted to £4.7 million (2005: £6.2 million). During the year, the Group's net assets increased to £21.5 million (2005: £19.7 million) and total cash and cash equivalents increased to £12.9 million (2005: £9.6 million). The cash position improved despite high capital investment of £6.2 million (2005: £2.9 million) and a planned build up of inventories to £17.6 million (2005: £15.3 million), the latter due to the phase out of TXII and introduction of the TX4.

Net cash, being cash and cash equivalents less bank overdrafts and loans and obligations under finance leases reduced to £2.6 million (2005: £3.3 million) mainly due to an increased stocking loan reflecting the planned inventory build up. The inventory of finished vehicles is financed through a £13.4 million stocking facility from Lloyds TSB plc which was utilised by £9.2 million (2005: £5.1 million).

The balance sheet includes goodwill and other intangibles of £1.8 million (2005 as restated: £2.1 million). The Board has carried out an annual impairment review as required under IFRS. In the directors' opinion no impairment of these intangibles is required. The carrying value of these LTNA assets is, however, substantially dependent on LTNA's US advertising revenues improving. The directors will conduct a further impairment review at the 2007 half year. In addition to the intangible assets in LTNA, there are a further £2.1 million (2005: £2.7 million) of vehicles used to support the LTNA advertising business.

### Dividend

The Board is recommending a final dividend of 3p per share (2005: 3p), plus a special dividend of 1p (2005: nil) as a result of the Group's successful disposal of surplus properties, making a total for the year of 6p (2005: 4p). This represents a dividend cover of 2.9 times (2005: 3.2 times). The final dividend will, if approved by shareholders at the Annual General Meeting, be paid on 1 December 2006, to shareholders on the register at 3 November 2006, with an ex-dividend date of 1 November 2006.

### People

The average number of staff employed by the Group increased marginally to 479 (2005: 477). During the year Ian Pickering left the Group to pursue other interests. The Board thanks Ian for his contribution over the past eight years. An announcement regarding the appointment of a new Chief Executive will be made in due course.

We have recently signed a two-year wage agreement with trade unions representing our Coventry-based employees covering the period through to 31 July 2008. We have improved our results in employee satisfaction surveys and continue to achieve Investors in People and ISO 9001:2000 accreditation.

### The future

The immediate outlook for Manganese Bronze will be dependent on the impact of the introduction of the new London taxi, the TX4, and our potential to maximise the opportunity arising from the impact of emissions regulations. The opening of our new Mann & Overton dealership in Brewery Road is timed to coincide with this increased opportunity.

Vehicle sales in the first two months of the year have been above the level of 2006. The outlook for the Group is positive and we expect to perform well in the coming year. We are very excited by our planned joint venture with Geely and the strategic medium and long-term opportunity this offers.



# +50%

## Dividends

Increase in total dividend to 6p per share

## Directors

### Tim Melville-Ross \*•

Tim Melville-Ross (62) was Director General of the Institute of Directors from 1994 to 1999. He is currently Chairman of DTZ Holdings plc, Royal London Insurance, Bovis Homes Group plc and the Council of the University of Essex. He was appointed as a non-executive director in March 2000 and as Chairman in January 2003.

### Mark Fryer

Mark Fryer (39) was appointed Group Finance Director in January 2002. A chartered accountant, he joined the Group from GKN plc where he had been Finance Director of the Industrial Services Division and latterly Chief Financial Officer of a GKN subsidiary in the United States.

### Peter Shillcock

Peter Shillcock (45) was appointed Chief Operating Officer in March 2005 having been Managing Director of LTI Limited, the Company's principal subsidiary, since December 2000. A chartered engineer, he has previously held a number of senior positions within BMW and the Rover Group.

### Christopher Ross FEng \*•†+

Christopher Ross (62) is a chartered engineer and was appointed as a non-executive director in June 1995 and as Deputy Chairman in March 2003. He was previously Chief Executive of Molins PLC, Ricardo PLC and Wagon Automotive. He is currently Chairman of Antonov PLC and Carclo PLC, and a non-executive director of Lander Holdings Limited and Icona Solutions Limited. He was appointed as a Fellow of the Royal Academy of Engineering in 1995.

### Andrew Walker \*•+

Andrew Walker (55) was appointed as a non-executive director in August 2003. Formerly he was Group Chief Executive of McKechnie plc from 1997 to 2001 and of South Wales Electricity plc from 1993 to 1996 having previously spent 14 years with Dowty Group PLC. He is currently a non-executive director of Ultra Electronics Holdings plc, Halma plc, Porvair plc, Delta plc and API Group plc and Chairman of Bioganix Limited.

- \* Member of the Audit Committee
- Member of the Remuneration and Nomination Committee
- † Deputy Chairman and Senior Independent Director
- + Independent Director

## Advisors

### Company Secretary

Tim White ACIS

### Registered office

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61050

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### News service

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### Auditors

Deloitte & Touche LLP

### Bankers

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Lloyds TSB Group PLC

### Merchant bankers

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### Stockbrokers

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## Directors' report

The directors present the annual report and audited financial statements of the Company for the year ended 31 July 2006.

### 1 Principal activities

Manganese Bronze Holdings PLC is a UK-based speciality automotive and taxi services group.

### 2 Business review

A review of the business of the Group, including details of our activities, future prospects, markets, and product development is set out in the business review on page 3.

Since the balance sheet date the Company signed Heads of Terms with Chinese car manufacturer Zhejiang Geely Holding Group Company Limited to establish a joint venture company to produce purpose-built taxis in Shanghai, China.

The Group's policies in respect of interest rate risk, currency risk, and liquidity risk are shown in note 25 to the consolidated financial statements. The policy in respect of credit risk is shown in note 23 to the consolidated financial statements.

### 3 Acquisitions and disposals

The Company completed the disposal of its surplus properties in Birmingham, for the sum of £0.8 million, and Ipswich, for the sum of £4.2 million, on 5 August 2005 and 31 March 2006 respectively. The Company has made no significant acquisitions during the year.

### 4 Results and dividends

The profit for the year before taxation was £3.7 million (2005: £2.0 million). The directors are recommending a final dividend of 3p (2005: 3p), plus a special dividend of 1p (2005: nil) as a result of the Group's successful disposal of surplus properties. Both dividends, if approved, will be paid on 1 December 2006 to all shareholders who are on the register at close of business on 3 November 2006.

### 5 Share capital

Changes in the issued share capital during the year together with details of outstanding share options are set out in notes 30 and 34 to the consolidated financial statements respectively.

### 6 Directors

A list of the directors in office throughout the year, except as noted, is set out below. Brief biographies of the directors at the date of this report are set out on page 7.

Tim Melville-Ross  
 Ian Pickering (resigned 31 July 2006)  
 Mark Fryer  
 Peter Shillcock  
 Christopher Ross  
 Andrew Walker

Christopher Ross, having served 11 years as a non-executive director of the Company, offers himself for re-election as required by the Combined Code on Corporate Governance. This year, Mark Fryer retires by rotation and, being eligible, offers himself for re-election.

### 7 Directors' interests

The interests of the directors in the ordinary share capital of the Company were as follows:

	31 July 2006 Shares	1 August 2005 Shares
Tim Melville-Ross	8,000	8,000
Ian Pickering	16,000	8,000
Mark Fryer	30,350	0
Peter Shillcock	18,823	0
Christopher Ross	7,500	7,500
Andrew Walker	0	0

Details of directors' share options and awards under the Company's LTIP can be found in the remuneration report set out on pages 11 to 16.

No director had any interest in the preference share capital of the Company or in the shares of any other company in the Group.

There were no changes in the interests of any of the directors between 31 July 2006 and the date of this report.

No director had any interest in any contract of significance with the Company during the year to 31 July 2006 other than their service contracts, details of which are given in the remuneration report set out on pages 11 to 16.

## 8 Directors' remuneration

Details of the remuneration of each of the directors are set out in the remuneration report on pages 11 to 16.

## 9 Annual General Meeting

This year's Annual General Meeting will be held at noon on 23 November 2006. The notice of meeting together with details of the business to be conducted and form of proxy are set out in the separate booklet enclosed with this report.

## 10 Policy on the payment of creditors

The Group's policy in respect of its suppliers is to agree terms of payment at or before entering into each transaction and to adhere to such terms, subject to satisfactory completion of the transaction concerned. Where prior agreement is neither practicable nor feasible, invoices will be dealt with in a timely manner as part of a systematic payment process. The Company is a holding company and had no trade creditors at 31 July 2006 (2005: £nil).

## 11 Health, safety and the environment

The directors consider the health, safety and environmental aspects of our business to be of great importance, as the prevention of personal injury, the avoidance of damage to health and the protection of the environment all contribute to the running of an efficient business.

The Chief Executive, or in his absence the Chief Operating Officer, is ultimately responsible, so far as is reasonably practicable, for the health, safety and welfare of our employees, contractors and visitors, the health and safety of all other persons affected by our business activities and the effective planning and review of environmental controls in line with appropriate legislation, standards and best practice.

## 12 Donations

The Group made donations for charitable purposes during the year ended 31 July 2006 of £5,442 (2005: £5,790). No political donations were made (2005: £nil).

## 13 Substantial shareholdings

On 26 September 2006, the Company had been notified, in accordance with Sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company.

	Holding	%
Toscafield Limited	5,339,500	28.05
Morgan Stanley Securities Limited	2,004,633	10.53
Lansdowne Partners Limited Partnership	1,799,500	9.45
Schroder Investment Management Limited	1,213,483	6.38
Canada Life Marketing Group	1,050,000	5.52
Hermes UK Small Companies Focus Fund	800,000	4.20
Prudential plc	600,000	3.15

## 14 Employees

The Group is committed to developing its employment policies in line with best practice, and to providing equal opportunities for all regardless of sex, marital status, ethnic origin, religion, disability or age. The importance of effective communication with employees is recognised and employees and their representatives are provided, on a regular basis, with information on matters of concern using such media as an in-house newsletter, information circulars and copies of press releases. Involvement in the achievements of the business is encouraged through locally-based performance-related bonus schemes.

## Directors' report continued

### 15 Employment of disabled persons

The Group's policy is to offer disabled people the same opportunities as others in relation to recruitment and career development, provided that their disability does not prevent them from carrying out their required duties. Existing employees who become disabled will be retained wherever possible and, in appropriate cases, training is given where needed.

### 16 Auditors

In the case of each of the persons who are directors of the Company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and, in accordance with Section 385 of the Companies Act 1985, a resolution proposing their re-appointment will be put to the Annual General Meeting.

By order of the Board



**Tim White**  
Company Secretary

18 October 2006

## Remuneration report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations which contain statutory requirements for the disclosure of directors' remuneration. This report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company on 23 November 2006 at which the financial statements will be approved. The Regulations require the auditors to report to the Company's members on the "auditable part" of the directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

**The following sections of the remuneration report are not subject to audit:**

### Remuneration Committee

For the financial year ended 31 July 2006, remuneration policy for executive directors and the determination of individual directors' remuneration packages have been delegated to the Board's Remuneration Committee (the "Committee") which consists of non-executive directors and the Chairman. The non-executive directors, including the Chairman, have no personal financial interest, other than as shareholders, in the Committee's decisions.

The Committee complies with the Combined Code on Corporate Governance, appended to the Listing Rules, as issued by the Financial Services Authority (the "Combined Code") except as indicated in section 9 of the corporate governance report. It is accountable to shareholders through its annual report on executive directors' remuneration.

During the financial year to 31 July 2006 the following have been members of the Committee: Christopher Ross (Chairman of the Committee), Tim Melville-Ross and Andrew Walker. There were no changes to the composition of the Committee between the end of the financial year and the date of this report.

The Committee met four times in the financial year. All the Committee's recommendations during the financial year have been implemented by the Board. During the financial year the Chief Executive and the Company Secretary submitted items for consideration by the Committee.

The Committee's terms of reference are to:

- review and recommend the Group's overall remuneration policy;
- determine the remuneration and pay structures for executive directors to ensure they are fairly rewarded for their individual contributions to the Company's overall performance; and
- monitor the remuneration arrangements of senior executives throughout the Group.

### Remuneration policy

The Remuneration Committee has established a policy on the remuneration of executive and non-executive directors for the current financial year and for subsequent financial years. The key principles of this policy are as follows:

- attract and retain individuals of the right calibre, taking account of industry, market and country benchmarks and the Company's position relative to its competitors;
- ensure incentives are appropriate, will encourage enhanced performance and are applied in a fair and responsible manner to reward individual contributions;
- reward executive directors by reference to overall financial and strategic performance of the Group and so in turn growth in shareholder value; and
- encourage share ownership to help align the interests of the directors and executive management with that of shareholders.

## Remuneration report continued

### Remuneration of non-executive directors

- The Chairman's remuneration is determined in his absence by the other members of the Remuneration Committee and reflects the nature and extent of his responsibilities.
- The Board determines the level of non-executive directors' fees and terms of engagement, within the limits set by the Articles of Association of the Company. No member of the Board takes part in the process of determining his own emoluments.
- The fees of the non-executive directors are based upon independent surveys. None of the non-executive directors receive benefits in kind, nor do they participate in the Group's bonus, share option or pension schemes.

### Remuneration of Group senior executives

The Committee has consulted the executive directors to assist them in determining remuneration for those Group senior executives who are not members of the Board.

### Remuneration of executive directors

The Committee's aim is to provide a balanced package with both fixed and variable elements to ensure that an appropriate proportion is performance related.

The main components are:

#### 1 Basic salary and benefits

Salaries are reviewed annually by the Committee and are benchmarked against data from selected quoted companies of similar size primarily from the transport, communications and engineering sectors. The following factors are taken into account when comparing data:

- turnover and employee numbers;
- market capitalisation;
- complexity of the business; and
- scope of the roles.

The general benefits provided to executive directors are a fully-expensed car or car allowance, pension, life assurance, disability and health insurance and where applicable relocation costs.

#### 2 Group Executive Bonus Scheme

The Committee awards an annual discretionary bonus to the executive directors based on their performance and that of the Group in achieving financial and non-financial targets established by the Committee. The maximum bonus payable under these arrangements is 60% of the director's basic salary. Bonus payments are non-pensionable.

Additionally, Mr Shillcock is entitled to a bonus of 50% of his annual salary on 31 January 2007, provided he has not served notice to terminate his contract by that date.

#### 3 Retirement benefits

Mr Fryer and Mr Shillcock are members of the Manganese Bronze Account Plus pension scheme. This is an Inland Revenue approved occupational defined contribution pension plan. The Company contributes 14% of basic salary for executive directors. Pension entitlements are based on basic salary only.

#### 4 Share options and Long-Term Incentive Plan (LTIP)

Executive directors are eligible for share options granted at the discretion of the Board under the Company's Share Option Plan (for details of the Plan see the section on share options on page 14), though such grants are now only likely to be made in exceptional circumstances.

Following approval of amendments to the rules of the LTIP by shareholders at the 2005 AGM, initial awards under the LTIP were made in November 2005. The Committee intends to make awards under the LTIP to the executive directors in lieu of granting share options.

### Directors' service contracts

The Company has adopted the following policy on directors' service contracts:

Executive directors' contracts may be terminated by the Company giving 12 months' written notice. Mr Fryer may terminate his contract by giving at least 12 months' written notice and Mr Shillcock by giving at least three months' written notice. There are no termination payments other than those determined by notice periods (pay in lieu) or by the Company instituting a fundamental breach of contract.

On the Company serving notice for any reason to terminate a contract, the terms of the contract state that the Company is obliged to terminate the director's appointment by payment in lieu of notice. Pay in lieu includes basic salary, pension contributions, life cover and insurance benefits and fully expensed car or car allowance. If a non-executive director is voted out of office by shareholders before a three-year term is completed, the director will leave the Board immediately and receive six months' fees or the amount due up to the end of the three-year term, whichever is the less.

The following have rolling service contracts with the Company:

Mark Fryer	dated 15 October 2002
Peter Shillcock	dated 18 September 2002

The agreements with non-executive directors are not for fixed terms, but each can be terminated on six months' notice. The directors are subject to re-election by shareholders at least every three years. On termination, no compensation is payable other than the outstanding six months of fees.

The following are the non-executive directors and the dates they joined the Board:

Tim Melville-Ross	1 March 2000
Christopher Ross	22 June 1995
Andrew Walker	1 August 2003

### Performance graph

The following graph shows, for the financial year ended 31 July 2006 and for each of the previous five financial years, the total shareholder return on a holding of the Company's ordinary shares compared with a hypothetical holding of shares made up of shares of the same kinds and number as those by reference to which the FTSE Industrial Engineering Index is calculated. As the Company has been a constituent of this index over the period, the Committee considers this index to be the most appropriate for this purpose.



## Remuneration report continued

The following sections of the remuneration report are subject to audit:

### Directors' emoluments and compensation

The remuneration, excluding pension contributions, of the directors of the Company for the year ending 31 July 2006 is set out in the table below:

	Basic salary/fees 2006 £	Bonus 2006 £	Other benefits <sup>1</sup> 2006 £	Total <sup>2</sup> 2006 £	Total <sup>2</sup> 2005 £
<b>Chairman</b>					
Tim Melville-Ross	65,000	–	–	65,000	50,000
<b>Executive directors</b>					
Ian Pickering <sup>4</sup>	224,080	29,925	13,206	267,211	308,024
Mark Fryer	145,800	79,097	8,666	233,563	216,793
Peter Shillcock	124,600	67,596	9,193	201,389	72,054 <sup>3</sup>
<b>Non-executive directors</b>					
Christopher Ross	35,000	–	–	35,000	35,000
Andrew Walker	30,000	–	–	30,000	31,875
<b>Total</b>	<b>624,480</b>	<b>176,618</b>	<b>31,065</b>	<b>832,163</b>	<b>713,746</b>

1 Other benefits represents amounts assessable to income tax in respect of the benefits provided.

2 Total excludes pension contributions made by the Company.

3 Mr Shillcock was appointed a director on 21 March 2005.

4 Mr Pickering left the Company on 31 July 2006. Executive directors' contracts may be terminated by the Company giving 12 months' written notice. There are no termination payments other than those determined by notice periods (pay in lieu) or by the Company instituting a fundamental breach of contract. The Company is currently in negotiation with Mr Pickering on this matter.

### Long-term incentives – share options

The following table shows details of the options over ordinary shares held by directors under the Company's approved and unapproved share option schemes:

	Balance at 1 August 2005	Granted during year	Lapsed during year	Exercised during year	Balance at 31 July 2006	Exercise price (p)	Date from which exercisable	Expiry date
Ian Pickering	100,000	–	100,000 <sup>1</sup>	–	–	428.0	8 May 2001	8 May 2008
	100,000	–	–	–	100,000	229.0	23 Sep 2002	23 Sep 2009
	53,215	–	–	–	53,215	73.5	7 May 2006	7 May 2013
	35,316	–	–	–	35,316	134.5	5 Nov 2006	5 Nov 2013
	28,273	–	–	–	28,273	168.0	11 Oct 2007	11 Oct 2014
Mark Fryer	46,769	–	–	46,769 <sup>2</sup>	–	58.8	23 Oct 2005	–
	38,608	–	–	–	38,608	73.5	7 May 2006	7 May 2013
	23,792	–	–	–	23,792	134.5	5 Nov 2006	5 Nov 2013
	19,047	–	–	–	19,047	168.0	11 Oct 2007	11 Oct 2014
Peter Shillcock	30,000	–	–	30,000 <sup>2</sup>	–	66.5	5 Nov 2004	–
	28,481	–	–	–	28,481	73.5	7 May 2006	7 May 2013
	18,587	–	–	–	18,587	134.5	5 Nov 2006	5 Nov 2013
	14,880	–	–	–	14,880	168.0	11 Oct 2007	11 Oct 2014

The market price of the Company's shares at 31 July 2006 was £2.325 and the range during the financial year was £1.525 to £2.325.

No options were granted to the executive directors during the financial year.

1 These option were lapsed as it was no longer possible for the performance criteria to be met before the options expired.

2 Following consultation with the Company's major shareholders, the performance conditions attached to these options were amended such that a reduction in loss per share equivalent to the previously required increase in earnings per share would enable the options to be exercised in full. Exercise of the options was subject to the net proceeds being held in the form of shares for a period of two years from the date of exercise. The market price of the Company's shares on the date of exercise was £1.675 for Mark Fryer and £1.785 for Peter Shillcock, giving gross gains of £50,838 and £33,600 respectively.

For both the approved and unapproved schemes the performance period is three financial years of the Company starting with the financial year in which the option is granted or any subsequent financial period.

It is a condition of the exercise of the Company's share option schemes, which were approved by shareholders in 1997, that the growth in the Group's earnings per share must exceed by 10% the increase in RPI over any period of three consecutive years.

In addition, for the options granted in May 2003, the following additional performance criteria were applied:

- Achievement of an average share price over a six-month period, measured on or after the third anniversary of the grant as follows:

Share price (£)	1.40	1.60	1.80	2.00	2.20	2.40
% of options exercisable	50	60	70	80	90	100

For the options granted in November 2001 to Mr Shillcock and in October 2002 to Mr Fryer:

- The performance conditions were changed, following consultation with the Group's major shareholders, such that they will be based upon an equivalent reduction in the loss per share during the performance period. This change was conditional upon the directors in question agreeing to retain the net proceeds from exercising the options in the form of shares for a period of two years following the date of exercise.

In addition, for the options granted in May 2003, November 2003 and October 2004, the following additional performance criteria applied:

- Options cannot be exercised unless the growth in earnings per share for the Company expressed as a percentage in any consecutive period of three financial years commencing with the financial period in which the option is granted or any subsequent financial period shall have exceeded the growth expressed as a percentage in the Retail Price Index in the same period (commencing with the figure published for the month in which the first of such financial periods commenced) by 10% (the "target EPS") or higher. Provided that the target EPS shall be subject to such adjustment (if any) as the auditors (as defined in the scheme rules) shall confirm in writing to the Company to be, in their opinion, fair and reasonable to take account of any sub-division, consolidation, capitalisation, rights issue (other than an issue pursuant to the exercise of an option given to shareholders to receive shares in lieu of dividend) or reduction of the share capital of the Company or change in accounting reference date of the Company. Given that EPS is currently negative, an absolute target of 8p is set as the base position for calculating the growth hurdle.

#### Long-term incentives – Long-Term Incentive Plan (LTIP)

Under the LTIP, the Remuneration Committee may make annual grants of conditional awards over shares worth up to 100% of basic salary to participants. It is the Committee's current policy that participation in the LTIP will be limited to executive directors.

LTIP awards will only vest if a challenging performance condition is met. The current performance condition requires the Company's total shareholder return (TSR) to outperform that of its peers in the FTSE Fledgling index. If the Company's TSR is at the 95th percentile when compared to the TSRs of the comparator group, 100% of the award will vest. If at the 50th percentile, 25% of the award shall vest. A sliding scale applies for performance between these targets.

The Committee believes that this performance condition is appropriate as it provides a genuine incentive to the executive directors to maximise shareholder returns. The extent to which the performance condition is met for each award will be confirmed by the Committee in consultation with external advisors.

Details of awards made to the executive directors under the LTIP are set out below:

	Interest at 1 August 2005	Awards made during the year	Market value of shares on date of award	Awards lapsed/vested during the year	Interests at 31 July 2006	Vesting dates of outstanding awards
Ian Pickering	–	128,834	£1.63	–	<b>128,834</b>	31 Jul 2008
Mark Fryer	–	89,447	£1.63	–	<b>89,447</b>	31 Jul 2008
Peter Shillcock	–	76,441	£1.63	–	<b>76,441</b>	31 Jul 2008

Awards are granted as rights to acquire shares for no cost. Awards will lapse to the extent that they do not vest on the vesting date.

## Remuneration report continued

### Pensions

The following table shows details of the pension contributions made for directors by the Company. All contributions were paid into the defined contribution pension scheme. No pension contributions were made to other directors.

	2006 (£)	2005 (£)
Ian Pickering	<b>28,159</b>	26,913
Mark Fryer	<b>20,244</b>	18,667
Peter Shillcock	<b>17,295</b>	6,225
<b>Total</b>	<b>65,698</b>	51,805

The report was approved by the Remuneration Committee and signed on its behalf by



**Christopher Ross**  
Chairman of the Remuneration Committee

18 October 2006

## Corporate governance report

### 1 Corporate governance

Except for the matters listed at the end of this report, the Group has been in compliance with the Principles of Good Corporate Governance, Code of Best Practice and Code Provisions set out in Section 1 of The Combined Code on Corporate Governance throughout the year ended 31 July 2006. This report describes how the Principles of Good Governance and the provisions of The Combined Code are applied by the Group.

The Group has long-established risk management procedures in all critical areas of the business. Monitoring of compliance is through a combination of self-assessment, internal and external audits by the Group's management and advisers.

The directors acknowledge that they are responsible for the Company's system of internal control, which is designed to manage rather than eliminate business risks and which provides reasonable but not absolute assurance against material mis-statement or loss.

### 2 Going concern

The directors are satisfied that the Company and the Group have access to adequate resources to continue in operation for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

### 3 The Board

As at 18 October 2006, the date of the signing of these financial statements, the Board comprises two executive directors and three non-executive directors, who include the Chairman and the Deputy Chairman. The Board considers all of the non-executive directors, apart from the Chairman, to be independent of management. The non-executive directors have no business or other relationships that could interfere materially with the exercise of their judgement. The Deputy Chairman, Mr Christopher Ross, is the senior independent non-executive director. Whilst Mr Ross has now served in excess of ten years as a non-executive director, the Board still considers him to be an independent director, for the reasons stated above. All directors make a significant contribution to the functioning of the Board.

The posts of Chairman and Chief Executive are separate. The brief biographies of the Board members shown on page 7 demonstrate the wide range of skills, commercial and professional experience that they bring to the Board.

The Board is responsible for overseeing strategic, financial, operational and compliance issues and reporting to shareholders where appropriate. The Board is also responsible for presenting a balanced and understandable assessment of the Group's position and prospects, achieved by complying with non-mandatory statements and new accounting standards.

The Board has formally reserved specific matters to itself for determination including, but not limited to, strategic issues, budgeting, approval of the Company's financial statements, significant capital expenditure, entry into material contracts and changes in share capital. Matters not formally reserved to the Board are delegated to the executive directors and Board committees.

The Board meets formally at least ten times a year. Where a director is unavoidably absent, he is briefed before the meeting and his views are taken into consideration at the meeting. Full access is given to the directors to enable the Board to function effectively and to allow the directors properly to fulfil their responsibilities. Board papers are usually distributed one week in advance of meetings and decisions may be deferred if directors require further information to be made available to them. The Company Secretary is responsible to the Board for the accuracy and timeliness of the information provided to it.

The record of attendance at Board meetings during the year is shown below:

Director	Possible attendance	Actual attendance
Tim Melville-Ross	13	13
Ian Pickering	13	12
Mark Fryer	13	13
Peter Shillcock	13	13
Christopher Ross	13	13
Andrew Walker	13	13

All directors have access to the Company Secretary and to independent professional advice as and when required. Where it is considered appropriate, the Company ensures that training is provided for directors' professional development.

During the year, no formal evaluation of the performance of the Board, its committees and each of its directors has been carried out. The Company intends to do so in the next financial year.

### 4 Board committees

In furtherance of the principles of good corporate governance the Board has appointed the committees described below, each of which has formal terms of reference which are available on request from the Company Secretary. The Board aims to have the terms of reference of each committee reviewed regularly to ensure compliance with any amendments to the Combined Code. The membership of each of the committees comprises the three non-executive directors.

## Corporate governance report continued

### 5 Audit Committee

The Audit Committee is chaired by Andrew Walker and meets at least twice a year. Meetings are attended by the Chief Executive, the Group Finance Director and representatives of the auditors as required. The Audit Committee is responsible for reviewing a wide range of matters including the half-year and annual financial statements before their submission to the Board and monitoring the controls which are in force to ensure the integrity of the information reported to shareholders. The Audit Committee advises the Board on the appointment of external auditors and on their remuneration and discusses the nature, scope and results of the audit with the external auditors. It also considers Group accounting policies and the compliance of those policies with applicable legal and accounting standards.

The Audit Committee also considers all non-audit related services provided by the auditors to ensure the integrity and independence of the auditors. All current non-audit related services are provided by a separate team within Deloitte & Touche LLP and are monitored by separate account managers and partners to ensure that auditor objectivity and independence is safeguarded

The record of attendance at Audit Committee meetings during the year is shown below:

Director	Possible attendance	Actual attendance
Andrew Walker	3	3
Tim Melville-Ross	3	3
Christopher Ross	3	3

### 6 Remuneration and Nominations Committee

The Remuneration and Nominations Committee is chaired by Christopher Ross and normally meets three or four times a year and additionally whenever required. The Committee is responsible for:

- setting the Group's overall remuneration policy, determining the remuneration and other benefits of the executive directors, and monitoring the remuneration of senior executives within the Group; and
- formulating and reviewing proposals for the appointment of directors and making recommendations thereon to the Board. Any director appointed during the year is required under the Company's Articles of Association to retire and seek re-appointment by shareholders at the next Annual General Meeting. It is also the practice of the Company that one-third of the directors retire by rotation each year and seek re-appointment at the Annual General Meeting.

Appointments to the Board remain the responsibility of the Committee. To fulfil its duties, the Committee retains the services of external consultants as necessary.

The terms and conditions of appointment of non-executive directors are available on request from the Company Secretary.

The record of attendance at Remuneration and Nomination Committee meetings during the year is shown below:

Director	Possible attendance	Actual attendance
Christopher Ross	4	4
Tim Melville-Ross	4	4
Andrew Walker	4	4

### 7 Relationships with shareholders

The directors recognise the importance of dialogue with investors. Meetings with institutional investors are arranged regularly and the directors are always ready to answer questions from shareholders.

In general meetings of the Company, proxy votes received are disclosed to those attending the meeting after the votes of those present have been dealt with by a show of hands. It is the practice of the Company to give at least 21 working days' notice of the Annual General Meeting and for the Chairman, Chief Executive and other Board members to be present to answer questions relating to their responsibilities, the developments and strategy of the Company.

## 8 Internal controls

The directors are responsible for the Group's system of internal control and have put in place an organisational structure and framework of controls which are periodically reviewed for their effectiveness. These controls are tested in accordance with the Turnbull guidance.

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

- there is a comprehensive budgeting system with the annual budget being approved by the Board. Actual results and updated forecasts are prepared regularly and compared against budget. Cash flows are controlled in comparison with budget and forecast;
- the annual capital investment budget is approved by the Board together with significant individual items prior to commitment;
- each operating unit is required to comply with defined policies and procedures, and authorisation levels are clearly defined and communicated. Regular internal financial control reviews and investigations are carried out by Group staff and followed up by management;
- the maintenance of a small, experienced Group finance function which monitors the financial performance of operating companies and divisions through analysis of regular financial and management reports together with regular direct contact with operating division management. Consolidated reports and independent commentaries are prepared and submitted to the Board for review at Board meetings. In addition, interim reports are issued regarding cash and working capital;
- maintenance of subsidiary boards, enabling the Board to delegate appropriate levels of authority to a small number of subsidiary company directors and managers, all of whom are accountable to the Board; and
- bi-annual review of the key risks facing the Group and its businesses and key mitigating actions.

Operations throughout the Group are subject to the overall Group internal control framework, but such a system can provide only reasonable and not absolute assurance against material mis-statement or loss. The directors confirm that they have carried out a review of the effectiveness of the system of internal controls as operated during the year ended 31 July 2006 and will continue to review controls at least annually and more frequently should the need arise.

The Board has considered the need for an internal audit function, but has decided that, because of the scale and focus of the Company, it is not justified. However, it is a matter that is kept under regular review.

## 9 Compliance

In addition to the Principles of Good Governance the Combined Code also contains a Code of Best Practice which contains some 48 provisions. The Board confirms that the Company has complied with all these provisions throughout the financial year except:

- Provision A.7.2 as the non-executive directors were not appointed for a fixed term but on a six-monthly rolling basis. However, they are subject to re-election at least every three years.
- Provision B.2.1 as the Chairman, who cannot be considered to be independent, sits on the Remuneration Committee. The Board, however, considers that his experience makes him a valuable member of the Committee and that his membership is justified in view of the small number of non-executive directors.
- Provision C.3.1 as the Chairman, who cannot be considered to be independent, sits on the Audit Committee. The Board, however, considers that his experience makes him a valuable member of the Committee and that his membership is justified in view of the small number of non-executive directors.

By order of the Board



**Tim White**  
Company Secretary

18 October 2006

## Statement of corporate and social responsibility

The Board is committed to ensuring that the Company maintains the highest standards of corporate responsibility and is conscious of its role in demonstrating that commitment.

It is the policy of the Board to pay due regard to all of the Company's stakeholders as part of its decision making process.

The Company's key policies in respect of those stakeholders are set out below:

### Employees

The Company understands that its employees are key to meeting its financial and strategic targets. Accordingly it will:

- ensure that there are clear and fair terms of employment for all employees and operate a fair remuneration policy across the Group;
- provide a safe, healthy and clean working environment;
- use its best endeavours to provide equal opportunities to all current and potential employees;
- facilitate the development of its employees;
- not tolerate any sexual, physical or mental harassment of its employees; and
- not allow discrimination on the grounds of colour, ethnic origin, gender, age, religion, political or other opinion, disability or sexual orientation.

### Customers

The Company will treat its customers with respect and will:

- seek to be honest and fair in its relationships with its customers;
- provide products and services to the standard and quality agreed;
- take all reasonable steps to ensure that its products and services are safe; and
- treat feedback from its customers seriously in considering future improvements to its products and services.

### Suppliers

The Company will treat its suppliers, contractors and partners with respect and will:

- seek to be honest and fair in its relationships with its suppliers, contractors and partners;
- enforce a policy not to offer, pay or accept bribes or substantial favours of any kind; and
- pay suppliers and contractors in accordance with agreed terms.

### Shareholders

The Company respects its responsibilities to its shareholders and will:

- ensure that all financial reports to its shareholders are timely and accurate;
- ensure that shareholders are aware of all matters that are important in understanding the Company's future prospects; and
- aim to protect shareholders' funds, manage risks and ensure that funds are used for the benefit of shareholders.

The Board is aware that the Company's reputation and the value of its brands depend upon the strict enforcement of these policies. Accordingly, any breach of any of these policies must be reported to the Board and will be dealt with seriously.

The Board regularly considers and reviews these policies to ensure that they are sufficient, appropriate and in accordance with legislation and best practice.

By order of the Board



**Tim White**  
Company Secretary

18 October 2006

## Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare financial statements for the Company in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 required that financial statements present fairly for each financial year the Company'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 International Accounting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS 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.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, 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 also responsible for the maintenance and integrity of the Company website.

The directors consider that they have pursued the actions necessary to meet their responsibilities as set out in this statement.

## Independent auditors' report to the members of Manganese Bronze Holdings PLC

We have audited the Group and individual Company financial statements (the "financial statements") of Manganese Bronze Holdings PLC for the year ended 31 July 2006 which comprise the consolidated and individual Company income statements, the consolidated and individual Company balance sheets, the consolidated and individual Company cash flow statements, the consolidated and individual Company statements of recognised income and expenses and the related notes 1 to 53. 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.

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

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union 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 described as having been audited in accordance with relevant United Kingdom 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, in accordance with the relevant financial reporting framework, and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the directors' report is not consistent with the financial statements. We also report to you if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company'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 the directors' report and the other information contained in the Annual Report including the unaudited part of the directors' remuneration report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### 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 described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 described as having been 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 described as having been audited.

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's and the individual Company's affairs as at 31 July 2006 and of the Group's and the individual Company's profit for the year then ended;
- the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

As explained in note 2 to the financial statements, the Group and Company, in addition to complying with its legal obligation to comply with IFRS adopted for use in the European Union, has also complied with IFRS as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's and Company's affairs as at 31 July 2006 and of the Group and the Company's profit for the year then ended.

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**  
**Chartered Accountants and Registered Auditors**  
Birmingham

18 October 2006

## Consolidated income statement

for the year ended 31 July 2006

	Notes	2006 £000	As restated (Note 38) 2005 £000
<b>Continuing operations</b>			
<b>Revenue</b>	4	<b>83,824</b>	87,323
Cost of sales		<b>(71,711)</b>	(75,070)
<b>Gross profit</b>		<b>12,113</b>	12,253
Distribution costs		<b>(2,974)</b>	(2,972)
Administrative expenses – including exceptional net income of £796,000 (2005: £45,000 expense)	6	<b>(5,027)</b>	(6,305)
<b>Operating profit</b>		<b>4,112</b>	2,976
Investment revenues	9	<b>304</b>	251
Finance costs	10	<b>(660)</b>	(724)
<b>Profit before tax</b>		<b>3,756</b>	2,503
Tax	11	<b>(920)</b>	94
<b>Profit for the year from continuing operations</b>		<b>2,836</b>	2,597
Loss for the year from discontinued operations	12	<b>(86)</b>	(549)
<b>Profit for the year</b>	7	<b>2,750</b>	2,048
Attributable to:			
Equity holders of the parent		<b>2,836</b>	2,070
Minority interest		<b>(86)</b>	(22)
		<b>2,750</b>	2,048
<b>Earnings per share</b>			
From continuing operations			
Basic	14	<b>15.48p</b>	13.88p
Diluted	14	<b>15.39p</b>	13.75p
From continuing and discontinued operations			
Basic	14	<b>15.02p</b>	10.97p
Diluted	14	<b>14.94p</b>	10.87p

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

## Consolidated statement of recognised income and expense

for the year ended 31 July 2006

	2006 £000	As restated (Note 38) 2005 £000
Net profit for the year	<b>2,750</b>	2,048
Losses on cash flow hedges	<b>(44)</b>	–
Exchange differences on translation of foreign operations	<b>(72)</b>	101
Actuarial gain/(loss) on defined benefit pension scheme	<b>526</b>	(746)
Tax on items taken direct to equity	<b>(159)</b>	–
Recognised income and expense for the year	<b>3,001</b>	1,403
Attributable to:		
Equity holders of the parent	<b>3,087</b>	1,425
Minority interest	<b>(86)</b>	(22)
	<b>3,001</b>	1,403

## Consolidated balance sheet

as at 31 July 2006

	Notes	2006 £000	As restated (Notes 19 + 38) 2005 £000
<b>Non-current assets</b>			
Goodwill	15	1,396	1,478
Other intangible assets	16	448	600
Property, plant and equipment	17	19,608	16,707
Investment property	18	–	3,700
Deferred tax asset	20	1,745	2,311
Total non-current assets		23,197	24,796
<b>Current assets</b>			
Inventories	21	17,578	15,277
Trade and other receivables	22	7,921	6,581
Cash and cash equivalents	23	12,927	9,642
Total current assets		38,426	31,500
<b>Total assets</b>		<b>61,623</b>	<b>56,296</b>
<b>Current liabilities</b>			
Trade and other payables	27	19,868	18,960
Current tax liabilities		458	–
Obligations under finance leases	26	244	199
Bank overdrafts and loans	24	9,671	5,632
Derivative financial instruments	25	44	12
Total current liabilities		30,285	24,803
<b>Non-current liabilities</b>			
Other payables	27	49	222
Retirement benefit obligation	35	4,674	6,175
Obligations under finance leases	26	431	504
Provisions	28	4,065	4,273
Preference shares	29	642	642
Total non-current liabilities		9,861	11,816
<b>Total liabilities</b>		<b>40,146</b>	<b>36,619</b>
<b>Net assets</b>		<b>21,477</b>	<b>19,677</b>
<b>Equity</b>			
Share capital	30	4,759	4,759
Share premium account	31	4,919	4,919
Capital redemption reserve	31	916	916
Employee Share Ownership Plan (ESOP) reserve	31	(332)	(210)
Hedging and translation reserves	31	39	110
Retained earnings	31	11,168	9,088
<b>Equity attributable to equity holders of the parent</b>		<b>21,469</b>	<b>19,582</b>
Minority interests	31	8	95
<b>Total equity</b>		<b>21,477</b>	<b>19,677</b>

Approved by the Board



**Tim Melville-Ross**  
Chairman



**Mark Fryer**  
Director

18 October 2006

The accompanying notes form an integral part of this consolidated balance sheet.

## Consolidated cash flow statement

for the year ended 31 July 2006

	Notes	2006 £000	As restated (Note 38) 2005 £000
<b>Operating activities</b>			
Operating profit from continuing operations		4,112	2,976
Operating loss from discontinued operations		(86)	(549)
Adjustments for:			
Gain on derivatives		(12)	(18)
Depreciation of property, plant and equipment		2,664	3,516
Amortisation of intangible assets		176	142
Decrease in fair value of investment property		–	341
Gain on disposal of property, plant and equipment		(1,170)	(19)
Charge for share-based payments		70	32
Contribution to defined benefit pension scheme	35	(1,200)	(1,222)
(Decrease)/increase in provisions		(204)	537
Operating cash flows before movement in working capital		4,350	5,736
(Increase)/decrease in inventories		(2,313)	711
Increase in receivables		(1,378)	(714)
Increase in payables		861	4,212
Cash generated by operations		1,520	9,945
Income taxes paid		(17)	(6)
Interest paid		(435)	(443)
<b>Net cash from operating activities</b>		<b>1,068</b>	<b>9,496</b>
<b>Investing activities</b>			
Interest received		304	251
Proceeds on disposal of property, plant and equipment		707	533
Proceeds on disposal of intangible assets		–	700
Proceeds on disposal of assets held for sale		4,849	–
Purchases of intangible assets		(47)	(145)
Purchases of property, plant and equipment		(6,154)	(2,929)
Acquisitions of subsidiary		(99)	(1,039)
<b>Net cash used in investing activities</b>		<b>(440)</b>	<b>(2,629)</b>
<b>Financing activities</b>			
Dividends paid		(947)	(567)
Repayments of obligations under finance leases		(231)	(617)
Purchase of own shares		(431)	–
Proceeds on issue of shares		107	91
Increase in bank overdrafts		521	–
Increase/(decrease) in stocking loan		3,518	(2,464)
Net overdrafts acquired with subsidiary undertaking		–	(67)
<b>Net cash from/(used in) financing activities</b>		<b>2,537</b>	<b>(3,624)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,165</b>	<b>3,243</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>9,642</b>	<b>6,399</b>
Effect of foreign exchange rates		120	–
<b>Cash and cash equivalents at end of year</b>		<b>12,927</b>	<b>9,642</b>

The accompanying notes form an integral part of this consolidated cash flow statement.

## Notes to the consolidated financial statements

### 1 General information

Manganese Bronze Holdings PLC is a company incorporated in the UK under the Companies Act 1985. The address of the registered office is given on page 7. The nature of the Group's operations and its principle activities are set out in note 5 and in the business review on pages 3 to 6.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IAS 1 Amendment	Presentation of Financial Statements: Capital Disclosures
IAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates: Net Investment in a Foreign Operation
IAS 39	Fair Value Option
IAS 39	Cash Flow Hedge Accounting
IAS 39	Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Right 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 39 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

### 2 Significant accounting policies

#### Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The last financial statements under UK GAAP were for the year ended 31 July 2005 and the date of transition to IFRS was, therefore, 1 August 2004. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 38. They were also published on 2 March 2006 and are available on the Group's website. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historic cost basis, except for the revaluation of certain properties and financial instruments.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 July each year. Control is achieved where the Company has the power to govern the strategic direction, the assets, and the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

## Notes to the consolidated financial statements continued

### 2 Significant accounting policies continued

#### Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

#### Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

#### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly-controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly-controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

#### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

#### The Group as lessee

Assets held under finance leases are recognised as assets of the Group in accordance with the Group's accounting policy for the appropriate asset category, or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

## 2 Significant accounting policies continued

### Foreign currencies

For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statement of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisitions of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Government grants

Government grants relating to property, plant and equipment are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned.

Government grants towards staff re-training costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

### Operating profit

Operating profit is stated after charging restructuring costs and after the share of results of associates but before investment income and finance costs.

### Retirement benefit costs

For defined contribution retirement benefit schemes the amount charged as an expense in respect of pension costs and other post-retirement benefits is the contributions payable in the year. They are included as part of staff costs. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in trustee-administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the Projected Unit Credit Method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

## Notes to the consolidated financial statements continued

### 2 Significant accounting policies continued

#### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. For land and buildings acquired prior to 31 July 2003, the Group has elected to use the revaluation at that date as deemed cost on transition to IFRSs.

Plant and equipment are stated at cost less accumulated depreciation and any subsequent accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets, other than land, over their estimated useful lives, using the straight-line method. The estimated useful lives, which are periodically reviewed by the directors, are:

- 1) Freehold buildings – 20 to 50 years as advised by members of the Royal Institution of Chartered Surveyors;
- 2) Long leasehold buildings – the lower of 50 years as advised by members of the Royal Institution of Chartered Surveyors or the period of the lease;
- 3) Short leasehold buildings – the lower of the period of the lease, or five to ten years; and
- 4) Plant and equipment, including motor vehicles – three to 15 years.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

#### Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date, or at cost if purchased during the year. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

## 2 Significant accounting policies continued

### Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

### Other intangible assets

Other intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. The cost of intangible assets acquired in a business combination is the fair value at acquisition date. The cost of separately acquired intangible assets, including the cost of licensing vehicles for use as taxis and computer software costs, comprises the purchase price and any directly attributable costs of preparing the asset for use. Amortisation begins when an asset is available for use and is calculated on a straight-line basis to allocate the cost over the estimated useful life, normally five to ten years.

### Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Inventories

Inventories are stated at the lower of cost and net realisable value on a first-in-first-out basis. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Included within inventories, are finished vehicles held by Group and also non-Group dealers, which are financed through a stocking loan facility. The related stocking loan liability is included within bank borrowings.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

### Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

## Notes to the consolidated financial statements continued

### 2 Significant accounting policies continued

#### Investments

Investments are measured at cost, including transaction costs, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### Financial liabilities and equity

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

#### Bank borrowings

Interest-bearing bank loans, stocking loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

#### Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts to hedge its foreign currency exposure. The Group does not use derivative financial instruments for speculative purposes. For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign exchange movements on the Group's operations.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

#### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

## 2 Significant accounting policies continued

### Share-based payments

The Group has applied the requirements of IFRS 2 "Share-based Payment". In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of the non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by the use of stochastic modelling techniques. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled, share-based payments.

## 3 Critical accounting judgements and key sources of estimation uncertainty

### Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

#### Warranty provision

In quantifying the outstanding liability as at the balance sheet date for future vehicle warranty costs, and amounts that may be recoverable from suppliers under supplier warranty agreements, management has made a judgement that historical trends in warranty costs over the three-year warranty life cycle will continue, and that amounts recoverable from suppliers as a percentage of total warranty costs will remain in line with that experienced during the year ended 31 July 2006.

#### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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.

#### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which the goodwill has been allocated. The value in use calculation requires the entity to estimate future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present values. The carrying amount of goodwill at the balance sheet date was £1,396,000 (2005 as restated: £1,478,000). No impairment arose in the year. Details of the impairment calculation are provided in note 15.

## 4 Revenue

An analysis of the Group's revenue is as follows:

	Notes	2006 £000	2005 £000
<b>Continuing operations</b>			
Sale of goods		79,964	83,816
Rendering of services		3,463	2,858
Property rental income		397	649
		<b>83,824</b>	87,323
Investment income	9	304	251
Total revenue from continuing operations		<b>84,128</b>	87,574
<b>Discontinued operations</b>			
Rendering of services – Zingo		–	275
Total revenue from discontinued operations		–	275
<b>Total revenue</b>		<b>84,128</b>	87,849

## Notes to the consolidated financial statements continued

### 5 Business and geographical segments

#### Business segments

For management purposes, the Group is currently organised into three operating divisions – vehicle sales, vehicle services, and property. These divisions are the basis on which the Group reports its primary segment information.

Principle activities are as follows:

The vehicle sales segment includes the design, development, manufacture, and retailing of new purpose built taxis, along with the sale of used vehicles taken in part exchange, parts, and vehicle maintenance.

The vehicle services segment comprises taxi finance, the US-based advertising business, and the Zingo mobile phone taxi hailing service. The latter is now a discontinued operation following the transfer, on 13 December 2004, of the London Zingo operation and assets to Computer Cab Plc (ComCab) as part of a licence agreement.

The property segment comprises rental income received and costs associated with the Group's property portfolio, which includes a freehold property in Manchester, leased properties in London, Coventry, Birmingham and Leeds, and investment properties in Ipswich and Birmingham. The two investment properties were disposed of during the year.

Segmental information about these businesses is presented below:

	2006 £000	2005 £000
<b>Revenue</b>		
Vehicle sales	81,127	84,971
Vehicle services	2,300	2,042
Property	397	310
Continuing operations	<b>83,824</b>	87,323
Vehicle services – Zingo	–	275
Discontinued operations	–	275
<b>Total Group</b>	<b>83,824</b>	87,598
<b>Result</b>		
Vehicle sales	2,788	2,217
Vehicle services	386	838
Property	938	(79)
Total operating profit from continuing operations	4,112	2,976
Investment revenues	304	251
Finance costs	(660)	(724)
Profit before tax	3,756	2,503
Tax	(920)	94
Loss from discontinued operations	(86)	(549)
Profit after tax and discontinued operations	<b>2,750</b>	2,048

Head office costs have been allocated to segments based on operating profit.

## 5 Business and geographical segments continued

### Other information

	Capital additions – property, plant and equipment		Capital additions – other intangibles		Depreciation and amortisation	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
Vehicle sales	5,990	2,195	–	145	2,263	3,291
Vehicle services	51	819	47	–	210	23
Property	344	–	–	–	139	146
Corporate	–	–	–	–	52	55
Continuing operations	6,385	3,014	47	145	2,664	3,515
Vehicle services – Zingo	–	9	–	–	–	9
Discontinued operations	–	9	–	–	–	9
<b>Total Group</b>	<b>6,385</b>	<b>3,023</b>	<b>47</b>	<b>145</b>	<b>2,664</b>	<b>3,524</b>

	Total assets		Total liabilities		Net assets/(liabilities)	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
Continuing operations:						
Vehicle sales	42,307	35,607	22,671	21,325	19,636	14,282
Vehicle services	4,660	5,190	441	637	4,219	4,553
Property	72	3,774	441	67	(369)	3,707
	47,039	44,571	23,553	22,029	23,486	22,542
Discontinued operations:						
Vehicle services – Zingo	–	53	–	398	–	(345)
	–	53	–	398	–	(345)
Total segment	47,039	44,624	23,553	22,427	23,486	22,197
Unallocated corporate	1,657	2,030	6,247	7,857	(4,590)	(5,827)
Net funds	12,927	9,642	10,346	6,335	2,581	3,307
<b>Total Group</b>	<b>61,623</b>	<b>56,296</b>	<b>40,146</b>	<b>36,619</b>	<b>21,477</b>	<b>19,677</b>

### Geographical segments

The Group's operations are located in England and the United States of America.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	2006 £000	2005 £000
Continuing operations:		
United Kingdom	81,531	84,947
Rest of Europe	186	25
North America	562	505
Asia	–	109
Rest of world	1,545	1,737
	83,824	87,323
Discontinued operations:		
United Kingdom	–	275
	–	275
	83,824	87,598

## Notes to the consolidated financial statements continued

**5 Business and geographical segments** continued

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographic area in which the assets are located:

	Carrying amount of segment net assets		Additions to property, plant and equipment and other intangible assets	
	2006 £000	2005 £000	2006 £000	2005 £000
United Kingdom	19,574	17,984	6,334	2,349
North America	3,912	4,213	98	819
	<b>23,486</b>	22,197	<b>6,432</b>	3,168

**6 Exceptional items**

	Note	2006 £000	2005 £000
Profit on disposal of investment properties	a	1,149	–
Loss on sale of fixed assets	b	–	(45)
Redundancy and severance pay		(353)	–
Continuing operations		<b>796</b>	(45)
Profit on disposal of discontinued operations	c	–	153
Costs of a fundamental restructuring	d	–	(213)
Redundancy and severance pay		(6)	–
Discontinued operations		<b>(6)</b>	(60)
		<b>790</b>	(105)

- a) The profit on disposal of investment properties relates to the sale of properties in Ipswich, on 31 March 2006, and Birmingham, on 5 August 2005, for net receipts of £4,049,000 and £800,000 respectively. The properties had combined net book values of £3,700,000.
- b) The loss on sale of fixed assets in the prior year relates to warranty claims associated with the sale of the Coventry property on 29 July 2003.
- c) The profit on disposal of discontinued operations in the prior year is an adjustment in respect of the disposal of the Components Division which occurred on 29 July 2003.
- d) The costs of fundamental restructuring in the prior year relates to the licence agreement entered into with ComCab for the Zingo mobile phone taxi hailing system. Under the terms of the licence agreement the existing London Zingo operation and assets were transferred to ComCab on 13 December 2004. The Zingo operation is now classified as discontinued.

**7 Profit for the year**

Profit for the year has been arrived at after charging (crediting):

	Continuing operations		Discontinued operations		Total	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	As restated (Note 38) 2005 £000
Net foreign exchange losses	96	126	–	–	96	126
Research and development costs	897	322	–	–	897	322
Government grants	–	(677)	–	–	–	(677)
Depreciation of property, plant and equipment	2,664	3,516	–	–	2,664	3,516
Amortisation of intangible assets	176	142	–	–	176	142
Impairment of investment property	–	341	–	–	–	341
Cost of inventories recognised as expense – items sold	51,350	53,090	–	257	51,350	53,347
Cost of inventories recognised as (income)/expense – other	(69)	(1)	–	–	(69)	(1)
Staff costs (see note 8)	16,108	15,163	38	290	16,146	15,453
Auditors' remuneration – audit	82	76	–	–	82	76
Auditors' remuneration – other (i)	81	117	–	–	81	117

- i) These fees are payable to Deloitte & Touche LLP and include £75,000 (2005: £104,000) for taxation services.

**8 Staff costs**

The average number of employees (including executive directors) was:

	2006 Number	2005 Number
Administration and staff	209	199
Production	270	278
	<b>479</b>	<b>477</b>

Their aggregate remuneration comprised:

	2006 £000	As restated (Note 38) 2005 £000
Wages and salaries	14,221	13,516
Social security costs	1,502	1,476
Other pension costs (note 35)	423	461
	<b>16,146</b>	<b>15,453</b>

**9 Investment revenues**

Investment revenues comprise entirely of interest on bank deposits of continuing operations

**10 Finance costs**

		Continuing operations	
	Notes	2006 £000	2005 £000
Interest payable on:			
Bank overdrafts and loans		7	9
Finance contracts		12	38
Stocking loan		363	343
Preference share dividends		53	53
Net interest payable on pension liability	35	225	281
		<b>660</b>	<b>724</b>

**11 Tax**

		Continuing operations	
		2006 £000	As restated (Note 38) 2005 £000
Current tax:			
UK corporation tax		229	–
Adjustments relating to prior years		266	6
US tax		17	–
Deferred tax (note 20)			
Origination and reversal of timing differences		455	(2)
Adjustments relating to prior years		(47)	(98)
Total tax charge/(credit)		<b>920</b>	<b>(94)</b>

UK corporation tax is calculated at 30% (2005: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rate prevailing in the respective jurisdictions.

## Notes to the consolidated financial statements continued

**11 Tax** continued

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

	2006 £000	As restated (Note 38) 2005 £000
Profit/(loss) before tax		
Continuing operations	<b>3,756</b>	2,503
Discontinued operations	<b>(86)</b>	(549)
	<b>3,670</b>	1,954
Corporation tax thereon at 30% (2005: 30%)	<b>1,101</b>	586
Adjustment in respect of prior years	<b>245</b>	(314)
Tax effect of timing differences in relation to fixed assets	–	(575)
Tax effect of expenses that are not deductible in determining taxable profits	<b>52</b>	209
Tax effect of non-taxable gains on disposal of property	<b>(359)</b>	–
Tax effect of utilisation of tax losses not previously recognised	<b>(118)</b>	–
Tax effect of deferred asset previously not recognised	<b>(197)</b>	–
Tax effect of losses on overseas subsidiary not recognised as deferred asset	<b>196</b>	–
Tax charge/(credit) for current year	<b>920</b>	(94)

**12 Discontinued operations**

Discontinued operations comprise the Zingo mobile phone taxi hailing service, whose assets and London operation were transferred to Comcab on 13 December 2004 as part of a licence agreement. In addition, the prior year includes an adjustment in respect of the disposal of the Components Division which occurred on 29 July 2003.

The results of the discontinued operations which have been included in the consolidated income statement were as follows:

	2006 £000	2005 £000
Revenue	–	275
Expenses	<b>(86)</b>	(824)
Loss before tax	<b>(86)</b>	(549)

**13 Dividends**

	2006 £000	As restated (Note 38) 2005 £000
<b>Amounts recognised as distributions to equity holders in the year:</b>		
Final dividend for the year ended 31 July 2005 of 3p (2004: 2p) per share	<b>(571)</b>	(378)
Interim dividend for the year ended 31 July 2006 of 2p (2005: 1p) per share	<b>(376)</b>	(189)
	<b>(947)</b>	(567)
Proposed final dividend for the year ended 31 July 2006 of 3p (2005: 3p) per share	<b>(571)</b>	(571)
Proposed special dividend for the year ended 31 July 2006 of 1p (2005: nil) per share	<b>(190)</b>	–

The proposed final dividend and special dividend (a result of the Group's successful disposal of surplus properties) are subject to approval by the shareholders at the Annual General Meeting and have not been included as a liability in these financial statements.

**14 Earnings/(loss) per ordinary share**

The calculation of the basic and diluted earnings per share is based on the following data:

**Earnings**

	<b>2006 £000</b>	As restated (Note 38) 2005 £000
Earnings for the purposes of basic and diluted earnings per share being net profit attributed to equity holders of the parent	<b>2,836</b>	2,070

**Number of shares**

	<b>2006 Number</b>	2005 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>18,880,453</b>	18,863,312
Effect of dilutive potential ordinary shares:		
Share options	<b>106,728</b>	177,505
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>18,987,181</b>	19,040,817

The denominators used in the calculation of earnings/(loss) per share are the same as above for both basic and diluted earnings per share from continuing and discontinued operations.

**From continuing operations**

	<b>2006 £000</b>	2005 £000
Net profit attributable to equity holders of the parent	<b>2,836</b>	2,070
Adjustments to exclude loss for the year from discontinued operations	<b>86</b>	549
Earnings from continuing operations for the purpose of basic and diluted earnings per share excluding discontinued operations	<b>2,922</b>	2,619
	<b>Pence</b>	Pence
Basic	<b>15.48</b>	13.88
Diluted	<b>15.39</b>	13.75

**From discontinued operations**

Basic and diluted	<b>(0.46)</b>	(2.91)
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As discontinued operations were loss-making, diluted loss per share equals basic loss per share.

**Total Group**

Basic	<b>15.02</b>	10.97
Diluted	<b>14.94</b>	10.87

## Notes to the consolidated financial statements continued

## 15 Goodwill

	Cost £000	Impairment £000	Carrying amount £000
At 1 August 2004	–	–	–
Recognised on acquisition of subsidiary	2,258	–	2,258
Exchange differences	59	–	59
At 1 August 2005 (as previously reported in IFRS transition statements)	2,317	–	2,317
Adjustments to fair value adjustments regarding the acquisition of London Taxis North America Holdings Inc (LTNAH) on 9 June 2005 (see note 19)	(839)	–	(839)
At 1 August 2005 (restated)	1,478	–	1,478
Exchange differences	(82)	–	(82)
At 31 July 2006	<b>1,396</b>	–	<b>1,396</b>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated to the cash generating unit of LTNAH, within the vehicle services segment.

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

The recoverable amounts of the CGU are determined from value in use calculations, based on a discounted cash flow forecast incorporating the most recent financial budgets, approved by management for the next two years, extrapolated for the following seven years at a flat rate. The rate used to discount the forecast cash flow is the Group's weighted average cost of capital of 5.97%.

As the value in use of the CGU is in excess of the goodwill carrying value, no impairment arose in the year.

## 16 Other intangible assets

	Development costs (note (i)) £000	Licences (note (ii)) £000	Total £000
Cost:			
At 1 August 2004	668	–	668
Additions	145	–	145
Acquired on acquisition of a subsidiary	406	–	406
Disposals	(145)	–	(145)
Exchange differences	14	–	14
At 1 August 2005	1,088	–	1,088
Additions	–	47	47
Exchange differences	(24)	(1)	(25)
At 31 July 2006	<b>1,064</b>	<b>46</b>	<b>1,110</b>
Amortisation:			
At 1 August 2004	346	–	346
Charge for the year	142	–	142
At 1 August 2005	488	–	488
Charge for the year	174	2	176
Exchange differences	(2)	–	(2)
At 31 July 2006	<b>660</b>	<b>2</b>	<b>662</b>
Carrying amount:			
At 1 August 2004	322	–	322
At 1 August 2005	600	–	600
At 31 July 2006	<b>404</b>	<b>44</b>	<b>448</b>

i) Development costs are amortised over the expected life of the product to which they relate, normally between five and ten years.

ii) Licences are amortised over the remaining life of the asset to which they relate, normally between five and ten years.

**17 Property, plant and equipment**

	Freehold land and buildings £000	Long leasehold buildings £000	Short leasehold buildings £000	Plant and equipment (note (i)) £000	Total £000
<b>Cost:</b>					
At 1 August 2004	550	4,850	298	38,778	44,476
Additions	–	–	–	3,023	3,023
Acquired on acquisition of subsidiary	–	–	–	1,906	1,906
Disposals	–	–	–	(4,745)	(4,745)
Exchange differences	–	–	–	66	66
At 1 August 2005	550	4,850	298	39,028	44,726
Additions	–	–	–	6,385	6,385
Disposals	–	–	–	(991)	(991)
Exchange differences	–	–	–	(142)	(142)
At 31 July 2006	<b>550</b>	<b>4,850</b>	<b>298</b>	<b>44,280</b>	<b>49,978</b>
<b>Depreciation:</b>					
At 1 August 2004	18	41	88	28,573	28,720
Charge for the year	18	97	31	3,370	3,516
Disposals	–	–	–	(4,217)	(4,217)
At 1 August 2005	36	138	119	27,726	28,019
Charge for the year	18	97	24	2,525	2,664
Disposals	–	–	–	(305)	(305)
Exchange differences	–	–	–	(8)	(8)
At 31 July 2006	<b>54</b>	<b>235</b>	<b>143</b>	<b>29,938</b>	<b>30,370</b>
<b>Carrying amount:</b>					
At 1 August 2004	532	4,809	210	10,205	15,756
At 1 August 2005	514	4,712	179	11,302	16,707
At 31 July 2006	<b>496</b>	<b>4,615</b>	<b>155</b>	<b>14,342</b>	<b>19,608</b>

**Notes:**

- i) The carrying amount of the Group's plant and equipment includes an amount of £901,000 (2005: £1,125,000) in respect of assets held under finance leases.
- ii) At 31 July 2006, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1,771,000 (2005: £228,000).

**18 Investment property**

	Notes	Fair value £000
At 1 August 2004		4,073
Decrease in fair value		(373)
At 1 August 2005		3,700
Disposals	6a	(3,700)
At 1 August 2006		–

## Notes to the consolidated financial statements continued

**19 Acquisition**

On 9 June 2005 the Group acquired 86% of the issued share capital of London Taxis North America Holdings Incorporated (LTNAH). In accordance with IFRS 3 "Business Combinations", the provisional fair value adjustments of assets and liabilities acquired have been revised as follows:

	Book value at 9 June 2005 £000	Provisional fair value adjustments £000	Provisional fair value at acquisition £000	Adjustments to provisional fair value adjustments £000	Revised fair value at acquisition £000
Fixed assets					
Intangible	1,679	(1,273)	406	–	<b>406</b>
Tangible	1,817	89	1,906	–	<b>1,906</b>
Current assets					
Inventory	223	(214)	9	(9)	–
Debtors	882	(686)	196	32	<b>228</b>
Total assets	4,601	(2,084)	2,517	23	<b>2,540</b>
Liabilities					
Bank overdraft	(42)	(23)	(65)	–	<b>(65)</b>
Loans	(128)	128	–	–	–
Stocking loan	(642)	–	(642)	–	<b>(642)</b>
Trade creditors	(389)	–	(389)	144	<b>(245)</b>
Accruals	(19)	–	(19)	–	<b>(19)</b>
Other creditors	–	(399)	(399)	3	<b>(396)</b>
Warranty provision	–	(659)	(659)	319	<b>(340)</b>
Total liabilities	(1,220)	(953)	(2,173)	466	<b>(1,707)</b>
Net assets	3,381	(3,037)	344	489	<b>833</b>
Minority interest			(48)	(68)	<b>(116)</b>
Goodwill			2,258	(839)	<b>1,419</b>
Consideration			2,554	(418)	<b>2,136</b>
Satisfied by					
Shares issued			249	–	<b>249</b>
Cash			989	–	<b>989</b>
Related costs of acquisition			50	–	<b>50</b>
Deferred consideration			1,266	(418)	<b>848</b>
			2,554	(418)	<b>2,136</b>

The main adjustments to the provisional fair value adjustments are a reduction to the warranty provision and a reduction in trade creditors. The deferred consideration has also been reduced following a revision of the estimated amounts that are reasonable payable upon the achievements of certain targets. Since the balance sheet date the deferred consideration has been settled in full in line with this revised estimate.

The balance sheet as at 31 July 2005 has been restated to reflect these adjustments.

**20 Deferred tax**

The elements of deferred tax assets included in non-current assets are as follows:

	2006 £000	As restated (Note 38) 2005 £000
Accelerated tax depreciation	<b>215</b>	410
Other short-term timing differences	<b>16</b>	48
Retirement benefit obligations	<b>1,402</b>	1,853
Share-based payments	<b>21</b>	–
Tax losses	<b>91</b>	–
	<b>1,745</b>	2,311

At the balance sheet date the Group has unused tax losses of £303,000 (2005: £959,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £303,000 (2005: £nil) as sufficient suitable taxable profits are forecast for the year ending 31 July 2007.

No deferred tax asset has been recognised in respect of the Group's US subsidiary losses due to the unpredictability of future profit streams.

## 21 Inventories

	2006 £000	As restated (Note 19) 2005 £000
Raw materials	2,167	2,090
Work in progress	1,248	2,667
Finished goods	14,163	10,520
	<b>17,578</b>	<b>15,277</b>

Finished goods with a carrying amount of £7,679,000 (2005: £4,458,000) are pledged as security for the Group's stocking loan facility.

## 22 Trade and other receivables

	2006 £000	As restated (Note 19) 2005 £000
Trade receivables	6,321	5,059
Corporation tax recoverable	–	37
Other debtors	924	1,000
Prepayments	676	485
	<b>7,921</b>	<b>6,581</b>

The average credit period taken on sale of goods is 23 days. Trade and other receivables are non-interest bearing. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £177,000 (2005: £85,000). This allowance has been determined by reference to past default experience and knowledge of specific customers' financial circumstances.

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

## 23 Cash and cash equivalents

	2006 £000	2005 £000
Cash at banks and in hand	7	1,642
Short-term deposits	12,920	8,000
	<b>12,927</b>	<b>9,642</b>

Cash at banks and in hand do not attract interest.

Short-term deposits are money market deposits with an average maturity of three days (2005: one day). Interest is received at the prevailing market rate.

The fair value of cash and cash equivalents is not materially different from their book value.

### Credit risk

The Group's principal financial assets are bank deposits and trade receivables. The credit risk on trade receivables is limited as the majority of revenue transactions are settled immediately and are, therefore, not on a credit basis.

## Notes to the consolidated financial statements continued

### 24 Bank overdrafts and loans

	Currency	2006 £000	2005 £000
Bank overdrafts	Sterling	521	–
Stocking loan:	Sterling	9,150	5,136
	US dollars	–	496
		<b>9,671</b>	<b>5,632</b>

All borrowings are repayable on demand or within one year. The stocking loan is secured on the vehicles within finished goods.

The weighted average interest rates paid were as follows:

	2006 %	2005 %
Bank overdrafts	5.50	–
Stocking loans	5.50	5.73

The directors consider that the carrying amount of borrowings approximate to their fair value.

Other principal features of the Group's borrowings are as follows:

- The Group's overdraft facility of £2.5m (2005: 3.0m) is provided by HSBC Bank plc and attracts interest at a rate of 1% above the bank's base rate.
- The Group's sterling denominated stocking loan facility of £13.4m (2005: £13.4m) is provided by Lloyds TSB Group PLC and attracts interest linked to the Finance House base rate.
- The Group's US dollar denominated stocking loan facility was repaid during the year, and attracted interest linked to the US Federal Funds rate.

At 31 July 2006 the Group had available £6.1m (2005: £11.3m) of undrawn committed borrowing facilities.

### 25 Financial risk management and derivative financial instruments

#### Policy

Treasury policy seeks to reduce the risks arising from the currency and maturity of the Group's financial instruments. The main risks arising from the Group's financial instruments are interest rate risk, currency risk and liquidity risk. Speculation, including the use of complex financial derivative products, is not part of the Group's treasury activities. Financial instruments are sterling denominated where possible. Material foreign currency commitments are hedged for up to 12 months ahead using forward contracts. Borrowings and, where they arise, deposits are fixed for periods of up to one year. The functional currency of the Group is sterling.

#### Interest rate risk

The Group seeks to minimise interest rate risk by maximising interest received on cash at bank by placing deposits on the money market at the prevailing market rate, for periods up to one month.

#### Currency risk

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group's main currency exposure is to the euro (2005: Japanese yen), a consequence of the purchase of taxi components. Forward contracts are used to hedge this exposure. At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts that the Group has committed are as follows:

		2006 £000	2005 £000
Forward foreign exchange contracts:	Euro	11,870	–
	Yen	–	545
		<b>11,870</b>	<b>545</b>

At 31 July 2006, the fair value of the Group's currency derivatives is estimated to be approximately £44,000 (2005: £12,000). The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £44,000 (2005: nil) has been deferred in equity.

Changes in the fair value of non-hedging currency derivatives amounting to £12,000 have been credited to income in the year (2005: £18,000).

#### Liquidity risk

The Group's policy throughout the year regarding liquidity has been to maximise the return on funds placed on deposit but to minimise the associated risk by placing funds in low-risk cash deposits.

**26 Obligations under finance leases**

	Minimum lease payments		Present value of minimum lease payments	
	2006 £000	2005 £000	2006 £000	2005 £000
<b>Sterling denominated leases</b>				
Amounts payable under finance leases:				
Within one year	95	172	79	155
In the second to fifth years inclusive	144	26	142	23
	239	198	221	178
Less future finance charges	18	20		
Present value of lease obligations	221	178		
Less amount due for settlement within 12 months (shown under current liabilities)			79	155
Amount due for settlement after 12 months			142	23
<b>US dollar denominated leases</b>				
Amounts payable under finance leases:				
Within one year	184	49	165	44
In the second to fifth years inclusive	323	537	289	481
	507	586	454	525
Less future finance charges	53	61		
Present value of lease obligations	454	525		
Less amount due for settlement within 12 months (shown under current liabilities)			165	44
Amount due for settlement after 12 months			289	481
<b>Total finance leases</b>				
Amounts payable under finance leases:				
Within one year	279	221	244	199
In the second to fifth years inclusive	467	563	431	504
	746	784	675	703
Less future finance charges	71	81		
Present value of lease obligations	675	703		
Less amount due for settlement within 12 months (shown under current liabilities)			244	199
Amount due for settlement after 12 months			431	504

It is the Group's policy to lease certain of its vehicles under finance leases.

The sterling denominated finance contracts are fixed at an average rate of 9.0% (2005: 9.9%), with the average calculated over the life of the contract, normally 18 months.

The US dollar denominated finance contracts are fixed at an average rate of 3.4% (2005: 3.4%), with the average calculated over the four-year life of the contract.

The directors consider that the carrying amount of finance lease obligations approximates to their fair value.

The Group's obligations under finance leases are secured by the lessor's rights over the leased assets.

## Notes to the consolidated financial statements continued

**27 Trade and other payables**

	2006 £000	As restated (Notes 19 + 38) 2005 £000
Trade creditors	15,099	14,304
Deferred income	–	241
Social security, payroll and other taxes	724	519
Deferred/contingent consideration	214	323
Other creditors	1,474	1,288
Accruals	2,406	2,507
	<b>19,917</b>	19,182
Less amounts due for settlement after 12 months (shown within non-current liabilities):		
Deferred/contingent consideration	49	222
Amounts due for settlement within 12 months (shown within current liabilities)	<b>19,868</b>	18,960

Trade creditors principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 72 days.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

**28 Provisions**

	Warranty £000
At 1 August 2005	4,592
Adjustments to fair value adjustments regarding the acquisition of London Taxis North America Holdings Inc (LTNAH) on 9 June 2005	(319)
At 1 August 2005 (restated)	4,273
Charge to profit and loss account	3,390
Exchange adjustment	(4)
Utilised in year	(3,594)
At 31 July 2006	<b>4,065</b>

The warranty provision represents management's best estimate of the Group's liability under three-year or 100,000 mile (whichever occurs sooner) warranties granted on new vehicles sold, based on past experience and known product improvements.

It is expected that the majority of this expenditure will be incurred in the next two years and that all will be incurred within three years of the balance sheet date.

**29 Preference shares**

	Number	£000
8.25% cumulative preference shares of £1 each		
Authorised	684,165	684
Issued and fully paid:		
At 31 July 2006 and 2005	<b>641,459</b>	<b>642</b>

**30 Share capital**

	Number	£000
Ordinary shares of 25p each Authorised	26,256,692	6,564
Allotted, called up and fully paid: At 31 July 2006 and 2005	<b>19,035,649</b>	<b>4,759</b>

**31 Movement in equity****Attributable to equity holders of the parent**

	Issued share capital £000	Retained earnings £000	Other reserves (see below) £000	Minority interest £000	Total £000
At 1 August 2004 (as restated – see note 38)	4,729	8,507	5,116	–	18,352
Recognised income and expense for the year	–	1,425	–	(22)	1,403
Acquired on acquisition of a subsidiary	–	–	–	48	48
Dividends paid	–	(567)	–	–	(567)
Shares issued	30	–	219	–	249
Share options exercised	–	–	91	–	91
Credit to equity for share-based payments	–	32	–	–	32
Transfer to retained earnings	–	(309)	309	–	–
Adjustments to fair value adjustments regarding the acquisition of LTNAH on 9 June 2005 (see note 19)	–	–	–	69	69
At 1 August 2005 (as restated – see notes 19 + 38)	4,759	9,088	5,735	95	19,677
Recognised income and expense for the year	–	3,159	(72)	(86)	3,001
Dividends paid	–	(947)	–	–	(947)
Purchase of own shares	–	–	(431)	–	(431)
Share options exercised	–	–	107	–	107
Credit to equity for share-based payments	–	70	–	–	70
Transfer to retained earnings	–	(202)	203	(1)	–
At 31 July 2006	<b>4,759</b>	<b>11,168</b>	<b>5,542</b>	<b>8</b>	<b>21,477</b>

**Other reserves**

	Share premium account £000	Capital redemption reserve £000	ESOP reserve £000	Hedging and translation reserves £000	Total other reserves £000
At 1 August 2004 (as restated – see note 38)	4,700	916	(500)	–	5,116
Share issued	219	–	–	–	219
Share options exercised	–	–	91	–	91
Transfer to retained earnings	–	–	199	110	309
At 1 August 2005 (as restated – see note 38)	4,919	916	(210)	110	5,735
Currency translation differences	–	–	–	(72)	(72)
Purchase of own shares	–	–	(431)	–	(431)
Share options exercised	–	–	107	–	107
Transfer to retained earnings	–	–	202	1	203
At 31 July 2006	<b>4,919</b>	<b>916</b>	<b>(332)</b>	<b>39</b>	<b>5,542</b>

## Notes to the consolidated financial statements continued

### 31 Movement in equity continued

#### Nature and purpose of other reserves

##### Share premium account

This reserve records the consideration premium for shares issued at a value that exceeds their nominal value.

##### Capital redemption reserve

This reserve represents the nominal value of the Company's own shares repurchased for cancellation.

##### ESOP reserve

This reserve represents the cost of shares in Manganese Bronze Holdings PLC purchased in the market and held by the Manganese Bronze Holdings PLC Employee Benefit Trust to satisfy options under the Group's share options schemes (see note 34).

##### Hedging and translation reserve

This reserve records, for each hedged item in an effective cash flow hedge, the cumulative change in fair value of expected future cash flow on the hedged item from the inception of the hedge relationship. It also records exchange differences arising on translation of the foreign statements of foreign subsidiaries.

### 32 Contingent liabilities

- The Company has given a guarantee to HSBC in respect of any amounts outstanding on the Group's borrowing facilities. At 31 July 2006 the relevant Group net borrowings amounted to £521,000 (2005: £nil).
- Certain subsidiaries provide warranties and sometimes extended warranties in respect of their products. The directors review the position regularly and consider that appropriate provisions have been made to cover known and expected costs likely to arise under these warranties.
- Contingent consideration of £80,000 (2005: £510,000) associated with the acquisition of LTNAH on 9 June 2005, representing the amount that is reasonably expected to be payable upon the achievement of advertising revenue targets, is included within deferred/contingent liabilities. Post balance sheet date an agreement has been reached with the previous owners to accept this amount in a full and final settlement.
- The directors have been notified of a potential legal claim from certain of the minority shareholders in LTNA. The directors believe this potential claim to be without legal basis.

### 33 Operating lease arrangements

#### The Group as lessee

	2006 £000	2005 £000
Minimum lease payments under operating leases recognised in income for the year	1,233	1,161

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006 £000	2005 £000
Within one year	977	1,216
In the second to fifth years inclusive	1,409	2,059
After five years	5,299	5,455
	<b>7,685</b>	<b>8,730</b>

The Group has entered into commercial leases on certain land and buildings, motor vehicles and items of plant and equipment. Land and building leases are generally subject to periodic rent reviews. Some leases have renewal options. These are at the option of the Group, sometimes subject to a minimum notice period. In some cases rent escalations are set out in the lease contract. There are no material contingent rents payable. No significant restrictions are placed on the Group by entering into these leases.

#### The Group as lessor

Property rental income earned during the year was £397,000 (2005: £310,000). During the year the Group disposed of all of its properties held for rental purposes.

### 34 Share-based payments

#### Share option scheme

The Company has a share option scheme for executive directors and senior managers. Options are exercisable at a price equal to the market price of the Company's shares on the date of the grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of the grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest, although options may be exercisable for a certain period of time in defined good leaver cases or with the consent of the Remuneration Committee. The performance requirements associated with share options are disclosed in the remuneration report on pages 11 to 16.

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

	2006		2005	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at the beginning of the year	652,499	187.3	790,175	198.6
Granted during the year	56,501	197.3	75,592	168.0
Exercised during the year	128,300	83.2	96,188	95.4
Lapsed during the year	100,000	428.0	117,080	326.8
Outstanding at the end of the year	480,700	166.2	652,499	187.3

The weighted average share price at the date of exercise for share options exercised during the year was 185.5p. The options outstanding at the end of the year had a weighted average remaining contractual life of 6.1 years (2005: 6.2 years). During the year ended 31 July 2006 options were granted on 5 April 2006 with an aggregate estimated fair value of £42,000. During the year ended 31 July 2005 options were granted on 11 October 2004 with an aggregate estimated fair value of £49,000.

The inputs into the Black-Scholes model are as follows:

	2006	2005
Weighted average share price	197.3p	168.0p
Weighted average exercise price	197.3p	168.0p
Expected volatility	50.0%	48.9%
Expected life	5 years	5 years
Risk free rate	4.50%	4.70%
Expected dividends	2.50%	1.78%

Expected volatility was determined by calculating the historic volatility of the Group's share price over the last five years. As there is a three-year period before share options vest and the options have a maximum life of ten years the expected life used in the model is five years, being management's best estimate taking into account the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of £37,000 (2005: £32,000) related to share option equity-settled share-based payment transactions during the year.

#### Long-Term Incentive Plan (LTIP)

The Company has a long-term incentive plan for executive directors under which awards are granted at no cost. Details of this LTIP are disclosed in the remuneration report on pages 11 to 16.

Grants made during the year are detailed below:

	2006	
	Number of share options	Weighted average exercise price (p)
Outstanding at the beginning of the year	–	–
Granted during the year	294,722	163.0
Outstanding at the end of the year	294,722	163.0

The Group recognised total expenses of £33,000 (2005: £nil) related to LTIP equity-settled share-based payment transactions during the year.

## Notes to the consolidated financial statements continued

### 35 Retirement benefit schemes

The Group operates a defined contribution pension plan (Account Plus) which is open to employees of Group companies, and a defined benefit scheme (Manganese Bronze Group Pension Scheme) in which members have ceased to accrue additional pensionable service but benefits continue to be linked to salary or Limited Price Indexation (LPI). Under the projected unit method the current service cost will increase as members approach retirement.

#### Defined contribution scheme (Account Plus)

The total charged to income for Account Plus for the year was £423,000 (2005: £461,000).

#### Defined benefit scheme (Manganese Bronze Group Pension Scheme)

The most recent valuation of the Manganese Bronze Group Pension Scheme (the scheme) on a MFR basis was as at 31 July 2003. At this date the market value of the assets was £24.8m representing 82% of the liabilities at that date. Additional contributions have been agreed with the trustees to eliminate the deficit. This valuation is currently being updated as at 31 July 2006.

The valuation position of the scheme, which was closed in 1995, was assessed at 31 July 2006 by a qualified independent actuary using a set of assumptions which are commensurate with the guidance given under IAS 19. Although the scheme primarily provides defined benefits, it also has a small defined contribution section.

Contributions of £1.2m (2005 £1.2m) were paid into the scheme during the year. No contributions were paid into the defined contribution section of the scheme. Contributions to the scheme for the year to 31 July 2007 are likely to be in the region of £1.2m.

	Valuation at	
	2006	2005
Key assumptions used:		
Discount rate	5.0%	5.0%
Expected return on scheme assets	5.6%	5.5%
Salary increases	3.5%	3.3%
Inflation	3.0%	2.8%
Mortality rates:		
Pre-retirement	PA92 C2005	PA92 C2005
Post-retirement:      Deferreds	PA92 C2020	PA92 C2020
Pensioners	PA92 C2005	PA92 C2005

Rate of increase of pensions in payment were allowed for at the rates set out in the scheme rules, which range between nil and 5%.

Amounts recognised in income in respect of the defined benefit scheme are as follows:

	2006 £000	2005 £000
Current service cost	–	–
Interest cost	(1,620)	(1,694)
Expected return on scheme assets	1,395	1,413
Past service costs	–	–
Net charge to income	(225)	(281)

The total net charge for the year has been included within finance costs in the consolidated income statement.

Actuarial gains and losses have been reported in the statement of recognised income and expense.

**35 Retirement benefit schemes** continued

The amount included in the balance sheet arising from the Group's obligations in respect of the defined benefit scheme is as follows:

	2006 £000	2005 £000
Present value of defined benefit obligations	<b>(33,474)</b>	(33,073)
Fair value of scheme assets	<b>28,800</b>	26,898
Deficit in scheme recognised as a liability in the balance sheet	<b>(4,674)</b>	(6,175)

Movements in the present value of defined benefit obligations were as follows:

	2006 £000	2005 £000
As 1 August 2005	<b>33,073</b>	29,831
Interest cost	<b>1,620</b>	1,694
Actuarial losses	<b>153</b>	2,961
Benefits paid	<b>(1,372)</b>	(1,413)
At 31 July 2006	<b>33,474</b>	33,073

Movements in the fair value of the scheme assets were as follows:

	2006 £000	2005 £000
As 1 August 2005	<b>26,898</b>	23,461
Expected return on assets	<b>1,395</b>	1,413
Actuarial gains	<b>679</b>	2,215
Employer contributions	<b>1,200</b>	1,222
Benefits paid	<b>(1,372)</b>	(1,413)
At 31 July 2006	<b>28,800</b>	26,898

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	Expected return		Fair value of assets	
	2006 %	2005 %	2006 £000	2005 £000
Equities	<b>7.5</b>	7.4	<b>10,093</b>	9,898
Guilts	<b>4.5</b>	4.4	<b>18,392</b>	16,865
Cash	<b>4.5</b>	4.4	<b>315</b>	135
			<b>28,800</b>	26,898

The expected rate of return on each asset class has been determined on the basis of market expectations for the rate of return on each asset class over the life of the related obligation, at the balance sheet date.

The five-year history of experience adjustments is as follows:

	2006 £000	2005 £000	2004 £000	2003 £000	2002 £000
Present value of defined benefit obligations	<b>(33,474)</b>	(33,073)	(29,831)	(34,887)	(32,719)
Fair value of scheme assets	<b>28,800</b>	26,898	23,461	24,857	23,471
Deficit in the scheme	<b>(4,674)</b>	(6,175)	(6,370)	(10,030)	(9,248)
Experience adjustments on scheme liabilities					
Amount (£000)	<b>(34)</b>	790	972	(413)	(845)
Percentage of scheme liabilities (%)	<b>(0.1)</b>	2.4	3.3	(1.2)	(2.6)
Experience adjustments on scheme assets					
Amount (£000)	<b>745</b>	2,215	111	(1,198)	(4,571)
Percentage of scheme liabilities (%)	<b>2.6</b>	8.2	0.5	(4.8)	(19.5)

The directors are of the opinion that the deficit cannot be split between the Group companies due to the deficit associated with former employees of other entities. As such, the full deficit has been recorded in the parent Company, Manganese Bronze Holdings PLC.

## Notes to the consolidated financial statements continued

### 36 Events after the balance sheet date

On 3 October 2006 the Company signed Heads of Terms with Chinese car manufacturer Zhejiang Geely Holding Group Company Limited to establish a joint venture company to produce purpose built taxis in Shanghai, China. Further details can be found on the Company's website.

### 37 Related party transactions

#### Trading transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and related parties who are not members of the Group are as follows:

	Income from profit share and management fees		Amounts owed by related parties	
	2006 £000	2005 £000	2006 £000	2005 £000
London Taxi Finance Limited	<b>1,738</b>	1,988	<b>115</b>	374

London Taxi Finance Ltd (LTF), a wholly-owned subsidiary of Lloyds TSB Group PLC, is no longer a related party of the Group as Group employees resigned as directors of this company. As these resignations took place during the year the income for the full year has been disclosed.

During the year the Group passed all day-to-day administration of LTF over to Lloyds TSB Group PLC, which now trades as Black Horse Taxi Finance Ltd.

#### Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures". Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 11 to 16.

	2006 £000	2005 £000
Short-term employee benefits	<b>832</b>	714
Post-employment benefits	<b>66</b>	52
	<b>898</b>	766

### 38 Explanation of transition to IFRS

This is the first year that the Company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under United Kingdom Generally Accepted Accounting Practice (UK GAAP) were for the year ended 31 July 2005 and the date of transition to IFRS was therefore 1 August 2004.

#### IFRS transitional arrangements

IFRS 1 sets out procedures which the Group must follow when it adopts IFRS for the first time as the basis of preparation of its consolidated financial statements. The Group is required to determine appropriate accounting policies in compliance with IFRS and, in general, to apply them retrospectively in determining the opening IFRS balance sheet at its date of transition.

IFRS 1 provides a number of exemptions to this general principle. Those being adopted by the Group are as follows:

- business combinations prior to 1 August 2004 have not been restated to comply with IFRS 3, "Business Combinations";
- all cumulative actuarial gains and losses with respect to employee benefits have been recognised in shareholders' equity at 1 August 2004;
- the requirements of IFRS 2, "Share-Based Payment", have not been applied to equity instruments granted on or before 7 November 2002 and those vesting before 1 January 2005; and
- previous UK GAAP revaluations of freehold land and buildings prior to the date of transition have been used as deemed cost at the date of transition.

#### Presentation

The presentation of financial information under IFRS is governed by IFRS1. In some cases this will require the presentation of an item in a different position, or the use of a different description in the IFRS income statement or balance sheet to that adopted in the UK GAAP profit and loss account or balance sheet. These reclassifications have been described in the explanatory notes.

**38 Explanation of transition to IFRS** continued  
**Reconciliation of equity at 1 August 2004 (date of transition to IFRSs)**

	Notes	UK GAAP £000	Effect of transition to IFRSs £000	Reclassifications £000	IFRSs £000
<b>Non-current assets</b>					
Property, plant and equipment		19,829	–	–	19,829
Intangible assets	a/b	1,137	322	(1,137)	322
Total non-current assets		20,966	322	(1,137)	20,151
<b>Current assets</b>					
Inventories		15,987	–	–	15,987
Trade and other receivables		5,696	–	–	5,696
Deferred tax asset	d	300	1,911	–	2,211
Cash and cash equivalents		6,399	–	–	6,399
Total current assets		28,382	1,911	–	30,293
Assets held for sale	b	–	–	1,137	1,137
Total assets		49,348	2,233	–	51,581
<b>Liabilities</b>					
Trade and other payables	b/c	14,998	(343)	(506)	14,149
Retirement benefit obligation	d	–	6,370	–	6,370
Obligations under finance leases		701	–	–	701
Stocking loan		7,432	–	–	7,432
Provisions		3,399	–	–	3,399
Derivative financial instruments	e	–	30	–	30
Preference shares	f	–	–	642	642
Liabilities directly associated with assets held for sale	b	–	–	506	506
Total liabilities		26,530	6,057	642	33,229
<b>Net assets</b>		<b>22,818</b>	<b>(3,824)</b>	<b>(642)</b>	<b>18,352</b>
<b>Equity</b>					
Share capital	f	5,371	–	(642)	4,729
Share premium account		4,700	–	–	4,700
Capital redemption reserve		916	–	–	916
Revaluation reserves	g	1,860	–	(1,860)	–
ESOP reserve		(500)	–	–	(500)
Retained earnings	g	10,471	(3,824)	1,860	8,507
<b>Total equity</b>	h	<b>22,818</b>	<b>(3,824)</b>	<b>(642)</b>	<b>18,352</b>

## Notes to the consolidated financial statements continued

**38 Explanation of transition to IFRS** continued

## Notes to the reconciliation of equity at 1 August 2004

	£000	£000
<b>Total equity previous GAAP</b>		<b>22,818</b>
a Development costs written off under UK GAAP, capitalised under IAS 38		
Gross cost at January 2002	668	
Amortisation to 31 July 2004	(346)	
Total development costs net book value as at 1 August 2004	322	322
c Proposed ordinary share final dividend of 2p per share, not recognised as liability until declared		378
Holiday pay accrual		(35)
d Deficit in defined benefit pension scheme		(6,370)
Related deferred tax asset		1,911
e Fair value of forward foreign exchange contracts		(30)
f Reclassification of preference shares from equity to debt		(642)
<b>h Total adjustment to equity</b>		<b>(4,466)</b>
<b>Total equity IFRS</b>		<b>18,352</b>
<b>Reclassifications</b>		
b Development costs of low emission inner-city utility vehicle, transferred to assets held for sale		1,137
Grants received associated with above project		(506)
f Reclassification of preference shares from equity to debt		642
g Transfer of opening revaluation reserve to retained earnings (In line with IFRS 1 "First-time Adoption")		1,860

**38 Explanation of transition to IFRS** continued**Reconciliation of equity at 31 July 2005 (date of last UK GAAP financial statements)**

	Notes	As restated (Note 19) UK GAAP £000	Effect of transition to IFRSs £000	Reclassifications £000	IFRSs £000
<b>Non-current assets</b>					
Property, plant and equipment		20,407	–	–	20,407
Goodwill	a/b	1,400	78	–	1,478
Intangible assets	c	412	188	–	600
Total non-current assets		22,219	266	–	22,485
<b>Current assets</b>					
Inventories		15,277	–	–	15,277
Trade and other receivables		6,581	–	–	6,581
Deferred tax asset	e	458	1,853	–	2,311
Cash and cash equivalents		9,642	–	–	9,642
Total current assets		31,958	1,853	–	33,811
Total assets		54,177	2,119		56,296
<b>Liabilities</b>					
Trade and other payables	d	19,720	(538)	–	19,182
Retirement benefit obligation	e	–	6,175	–	6,175
Obligations under finance leases		703	–	–	703
Stocking loan		5,632	–	–	5,632
Provisions		4,273	–	–	4,273
Derivative financial instruments	f	–	12	–	12
Preference shares	g	–	–	642	642
Total liabilities		30,328	5,649	642	36,619
<b>Net assets</b>		<b>23,849</b>	<b>(3,530)</b>	<b>(642)</b>	<b>19,677</b>
<b>Equity</b>					
Share capital	g	5,401	–	(642)	4,759
Share premium account		4,919	–	–	4,919
Capital redemption reserve		916	–	–	916
Revaluation reserves	h	1,511	–	(1,511)	–
ESOP reserve		(210)	–	–	(210)
Translation reserves	b/i	(1)	59	52	110
Retained earnings	h/i	11,218	(3,589)	1,459	9,088
Minority interests		95	–	–	95
<b>Total equity</b>	j	<b>23,849</b>	<b>(3,530)</b>	<b>(642)</b>	<b>19,677</b>

## Notes to the consolidated financial statements continued

**38 Explanation of transition to IFRS** continued**Notes to the reconciliation of equity at 31 July 2005**

	£000	£000
<b>Total equity previous GAAP</b>		<b>23,849</b>
a Goodwill not amortised		19
b Exchange gain on retranslation of goodwill		59
c Development costs written off under UK GAAP, capitalised under IAS 38		
Gross cost at January 2002	668	
Amortisation to 31 July 2005	(480)	
Total development costs net book value as at 31 July 2005	188	188
d Proposed ordinary share final dividend of 3p per share, not recognised as liability until declared		568
Holiday pay accrual		(30)
e Deficit in defined benefit pension scheme as at 31 July 2004	(6,370)	
Less contributions paid in the year	1,222	
Actuarial loss	(746)	
Finance costs	(281)	
Deficit in defined benefit pension scheme as at 31 July 2005	(6,175)	(6,175)
Related deferred tax asset		1,853
f Fair value of foreign exchange contracts		(12)
g Reclassification of preference shares from equity to debt		(642)
<b>j Total adjustment to equity</b>		<b>(4,172)</b>
<b>Total equity IFRS</b>		<b>19,677</b>
<b>Reclassifications</b>		
g Reclassification of preference shares from equity to debt		642
h Transfer of opening revaluation reserve to retained earnings (in line with IFRS 1 "First-time Adoption")		(1,511)
i Transfer exchange differences to reserves		(52)

**38 Explanation of transition to IFRS** continued  
**Reconciliation of profit for the year ended 31 July 2005**

	Notes	UK GAAP £000	Effect of transition to IFRSs £000	Reclassifications £000	IFRSs £000
Revenue		87,598	–	–	87,598
Cost of sales	a/b/c	(75,230)	(97)	–	(75,327)
Gross profit		12,368	(97)	–	12,271
Distribution costs		(3,271)	–	–	(3,271)
Administrative expenses	d/e/f/g/h	(6,069)	(399)	(105)	(6,573)
Pension contribution to closed scheme	i	(1,222)	1,222	–	–
Operating profit		1,806	726	(105)	2,427
Costs of a fundamental restructuring	h	(213)	–	213	–
Loss on sale of fixed assets	h	(45)	–	45	–
Profit on disposal of discontinued operations	h	153	–	(153)	–
Profit on ordinary activities before finance charges		1,701	726	–	2,427
Finance charges	j/k	(139)	(334)	–	(473)
Profit on ordinary activities before taxation		1,562	392	–	1,954
Tax (charge)/credit	l	152	(58)	–	94
Profit on ordinary activities after taxation		1,714	334	–	2,048
Minority interests		22	–	–	22
Profit for the financial year	m	<b>1,736</b>	334	–	<b>2,070</b>
Basic earnings per share in pence		8.92			10.97

**Notes to the reconciliation of profit for the year ended 31 July 2005**

	£000	£000
<b>Profit previous GAAP</b>		<b>1,736</b>
a Amortisation of development costs capitalised		(134)
b Goodwill not amortised		19
c Movement in fair value of foreign exchange contracts		18
d Share options expensed		(32)
e Movement in holiday pay accrual		5
f Exchange differences		(31)
g Decrease in fair value of investment property		(341)
i Contribution to defined benefit pension scheme. Deficit on balance sheet under IFRSs.		1,222
j Pension scheme finance costs		(281)
k Preference share dividends reclassified as interest under IFRS		(53)
l Deferred tax charge re reduction in defined benefit pension scheme deficit		(58)
<b>m Total adjustment to profit</b>		<b>334</b>
<b>Profit IFRS</b>		<b>2,070</b>
<b>Reclassifications</b>		
h Exceptional items reclassified as administrative expenses		(105)

**Explanation of material adjustments to the cash flow statement for the year ended 31 July 2005**

There are no material adjustments to the cash flow statement as a result of applying IFRS.

## Company income statement

for the year ended 31 July 2006

	Notes	2006 £000	As restated (Note 53) 2005 £000
<b>Continuing operations</b>			
<b>Operating income</b>			
Management charges		2,900	3,017
Administrative expenses		(1,935)	(1,638)
<b>Operating profit</b>	40	<b>965</b>	1,379
Investment revenues	42	861	468
Finance costs	43	(600)	(877)
<b>Profit before tax</b>		<b>1,226</b>	970
Tax	44	(309)	(64)
<b>Net profit attributable to ordinary shareholders of parent</b>		<b>917</b>	906

The accompanying notes form an integral part of this Company income statement.

## Company statement of recognised income and expense

for the year ended 31 July 2006

	2006 £000	As restated (Note 53) 2005 £000
Net profit for the year	917	906
Actuarial gain/(loss) on defined benefit pension scheme	526	(746)
Tax on items taken direct to equity	(158)	–
Recognised income and expense for the year	<b>1,285</b>	160

## Company balance sheet

as at 31 July 2006

	Notes	2006 £000	As restated (Note 53) 2005 £000
<b>Non-current assets</b>			
Property, plant and equipment	45	38	90
Investment in subsidiaries	46	4,705	4,705
Deferred tax asset	47	1,456	1,853
Total non-current assets		6,199	6,648
<b>Current asset</b>			
Trade and other receivables	48	11,065	9,113
Cash and cash equivalents	49	12,920	9,682
Total current assets		23,985	18,795
<b>Total assets</b>		<b>30,184</b>	<b>25,443</b>
<b>Current liabilities</b>			
Trade and other payables	51	2,595	2,749
Current tax liabilities		61	–
Bank overdrafts and loans	50	6,263	–
Derivative financial instruments	25	–	12
Total current liabilities		8,919	2,761
<b>Non-current liabilities</b>			
Retirement benefit obligation	35	4,674	6,175
Preference shares	29	642	642
Total non-current liabilities		5,316	6,817
<b>Total liabilities</b>		<b>14,235</b>	<b>9,578</b>
<b>Net assets</b>		<b>15,949</b>	<b>15,865</b>
<b>Equity</b>			
Share capital	30	4,759	4,759
Share premium account	52	4,919	4,919
Capital redemption reserve	52	916	916
ESOP reserve	52	(332)	(210)
Retained earnings	52	5,687	5,481
<b>Equity attributable to equity holders of the parent</b>		<b>15,949</b>	<b>15,865</b>

Approved by the Board



**Tim Melville-Ross**  
Chairman



**Mark Fryer**  
Director

18 October 2006

The accompanying notes form an integral part of this Company balance sheet.

## Company cash flow statement

for the year ended 31 July 2006

	Notes	2006 £000	2005 £000
<b>Operating activities</b>			
Operating profit from continuing operations		965	1,379
Adjustments for:			
Gain on derivatives		(12)	(18)
Depreciation of property, plant and equipment		52	54
Charge for share-based payments		70	32
Contribution to defined benefit pension scheme	35	(1,200)	(1,222)
Operating cash flows before movement in working capital		(125)	225
Increase in receivables		(1,961)	6,517
Increase in payables		(154)	(128)
Cash generated by operations		(2,240)	6,614
Income taxes paid		–	(6)
Interest paid		(375)	(596)
<b>Net cash from operating activities</b>		<b>(2,615)</b>	<b>6,012</b>
<b>Investing activities</b>			
Interest received		861	468
<b>Net cash used in investing activities</b>		<b>861</b>	<b>468</b>
<b>Financing activities</b>			
Dividends paid		(947)	(567)
Purchase of own shares		(431)	–
Proceeds on issue of shares		107	340
Increase in bank overdrafts		6,263	–
<b>Net cash from/(used in) financing activities</b>		<b>4,992</b>	<b>(227)</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,238</b>	<b>6,253</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>9,682</b>	<b>3,429</b>
<b>Cash and cash equivalents at end of year</b>		<b>12,920</b>	<b>9,682</b>

The accompanying notes form an integral part of this Company cash flow statement.

## Notes to the Company financial statements

### 39 Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared on the historic cost basis. The principle accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements.

### 40 Operating profit

Operating profit for the year has been arrived at after charging:

	2006 £000	2005 £000
Net foreign exchange losses	86	120
Depreciation of property, plant and equipment	52	55
Staff costs (see note 41)	728	900
Auditors' remuneration – audit	36	15
Auditors' remuneration – other (i)	81	117

i) These fees are payable to Deloitte & Touche LLP and include £75,000 (2005: £104,000) for taxation services.

### 41 Staff costs

	2006 Number	2005 Number
Average number of employees (including executive directors)	5	6

There aggregate remuneration comprised:

	2006 £000	2005 £000
Wages and salaries	564	735
Social security costs	111	102
Other pension costs (note 35)	53	63
	728	900

Further information about the remuneration of individual directors is provided in the audited part of the remuneration report on pages 11 to 16.

### 42 Investment revenues

	2006 £000	2005 £000
Interest on bank deposits	244	251
Inter-Group interest received	617	217
	861	468

### 43 Financial costs

	Notes	2006 £000	2005 £000
Interest payable on:			
Bank overdrafts and loans		5	9
Inter-Group loans		317	534
Preference share dividends		53	53
Net interest on pension liability	35	225	281
		600	877

## Notes to the Company financial statements continued

## 44 Tax

	2006 £000	2005 £000
Current tax:		
UK corporation tax	61	–
Adjustments relating to prior years	9	6
Deferred tax (note 47)		
Origination and reversal of timing differences	269	–
Adjustments relating to prior years	(30)	58
<b>Total tax charge</b>	<b>309</b>	<b>64</b>

UK corporation tax is calculated at 30% (2005: 30%) of the estimated assessable profit for the year.

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

	2006 £000	2005 £000
Profit before tax	1,226	970
Corporation tax thereon at 30% (2005: 30%)	368	291
Adjustment in respect of prior years	6	(199)
Tax effect of timing differences in relation to fixed assets	–	(1)
Tax effect of expenses that are not deductible in determining taxable profits	(38)	(15)
Tax effect of deferred asset previously not recognised	(27)	–
Group relief not paid for	–	(12)
<b>Tax charge for current year</b>	<b>309</b>	<b>64</b>

## 45 Property, plant and equipment

	£000
Cost	
At 1 August 2004	244
Additions	1
At 1 August 2005	245
At 31 July 2006	<b>245</b>
Depreciation:	
At 1 August 2004	100
Charge for year	55
At 1 August 2005	155
Charge for year	52
At 31 July 2006	<b>207</b>
Carrying amount:	
At 1 August 2004	144
At 1 August 2005	90
At 31 July 2006	<b>38</b>

**46 Investment in subsidiaries**

	£000
Cost	
At 31 July 2006, 2005 and 2004	<b>8,501</b>
Cumulative impairment:	
At 31 July 2006, 2005 and 2004	<b>3,796</b>
Carrying amount	
At 31 July 2006, 2005 and 2004	<b>4,705</b>

Details of the Company's principal subsidiaries at 31 July 2006 are as follows:

Company	Country of incorporation	Holding %
LTI Limited	England	100
Manganese Bronze Services Limited	England	100
Manganese Bronze Property Services Limited	England	100
London Taxis North America Holdings Incorporated	United States of America	86

Investments are valued at cost less cumulative impairment.

**47 Deferred tax**

The elements of deferred tax assets included in non-current assets are as follows:

	2006 £000	As restated (Note 53) 2005 £000
Accelerated tax depreciation	<b>29</b>	–
Other short-term timing differences	<b>4</b>	–
Retirement benefit obligations	<b>1,402</b>	1,853
Share-based payments	<b>21</b>	–
	<b>1,456</b>	1,853

**48 Trade and other receivables**

	2006 £000	2005 £000
Trade receivables	<b>81</b>	16
Amounts owed by subsidiary undertakings	<b>10,906</b>	9,030
Corporation tax recoverable	–	9
Other debtors	<b>24</b>	1
Prepayments	<b>54</b>	57
	<b>11,065</b>	9,113

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

**49 Cash and cash equivalents**

These comprise of cash held by the Company and short-term bank deposits. The fair value of cash and cash equivalents is not materially different from their book value.

**50 Bank overdrafts and loans**

This comprises of a bank overdraft that forms part of the Group's overdraft facility which is provided by HSBC Bank PLC (see note 24).

## Notes to the Company financial statements continued

## 51 Trade and other payables

	2006 £000	As restated (Note 53) 2005 £000
Amounts owed to subsidiary undertakings	1,425	1,425
Social security, payroll and other taxes	228	213
Other creditors	592	559
Accruals	350	552
	<b>2,595</b>	<b>2,749</b>

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

## 52 Movement in equity

	Issued share capital £000	Share premium account £000	Capital redemption reserve £000	ESOP reserve £000	Retained earnings £000	Total £000
At 1 August 2004 (as restated – see note 53)	4,729	4,700	916	(500)	6,055	15,900
Recognised income and expense for the year	–	–	–	–	160	160
Dividends paid	–	–	–	–	(567)	(567)
Shares issued	30	219	–	–	–	249
Share options exercised	–	–	–	91	–	91
Credit to equity for share-based payments	–	–	–	–	32	32
Transfer to retained earnings	–	–	–	199	(199)	–
At 1 August 2005 (as restated – see note 53)	4,759	4,919	916	(210)	5,481	15,865
Recognised income and expense for the year	–	–	–	–	1,285	1,285
Dividends paid	–	–	–	–	(947)	(947)
Purchase of own shares	–	–	–	(431)	–	(431)
Share options exercised	–	–	–	107	–	107
Credit to equity for share-based payments	–	–	–	–	70	70
Transfer to retained earnings	–	–	–	202	(202)	–
At 31 July 2006	<b>4,759</b>	<b>4,919</b>	<b>916</b>	<b>(332)</b>	<b>5,687</b>	<b>15,949</b>

**53 Explanation of transition to IFRS**

This is the first year that the Company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 July 2005 and the date of transition to IFRSs was therefore 1 August 2004

**Reconciliation of equity at 1 August 2004 (date of transition to IFRSs)**

	Notes	UK GAAP £000	Effect of transition to IFRSs £000	IFRSs £000
<b>Non-current assets</b>				
Property, plant and equipment		144	–	144
Investments		4,705	–	4,705
Total non-current assets		4,849	–	4,849
<b>Current assets</b>				
Trade and other receivables		15,630	–	15,630
Deferred tax asset	a	–	1,911	1,911
Cash and cash equivalents		3,429	–	3,429
Total current assets		19,059	1,911	20,970
Total assets		23,908	1,911	25,819
<b>Liabilities</b>				
Trade and other payables	b	2,842	35	2,877
Retirement benefit obligation	a	–	6,370	6,370
Proposed dividends	c	378	(378)	–
Derivative financial instruments	d	–	30	30
Preference shares	e	–	642	642
Total liabilities		3,220	6,699	9,919
<b>Net assets</b>		<b>20,688</b>	<b>(4,788)</b>	<b>15,900</b>
<b>Equity</b>				
Share capital	e	5,371	(642)	4,729
Share premium account		4,700	–	4,700
Capital redemption reserve		916	–	916
Employee Share Ownership Plan (ESOP) reserve		(500)	–	(500)
Retained earnings		10,201	(4,146)	6,055
<b>Total equity</b>	f	<b>20,688</b>	<b>(4,788)</b>	<b>15,900</b>

**Notes to the reconciliation of equity at 1 August 2004**

<b>Total equity previous GAAP</b>		<b>20,688</b>
a Deficit in defined benefit pension scheme		(6,370)
Related deferred tax asset		1,911
b Holiday pay accrual		(35)
c Proposed ordinary share final dividend of 2p per share, not recognised as liability until declared		378
d Fair value of forward foreign exchange contracts		(30)
e Reclassification of preference shares from equity to debt		(642)
<b>f Total adjustment to equity</b>		<b>(4,788)</b>
<b>Total equity IFRS</b>		<b>15,900</b>

## Notes to the Company financial statements continued

## 53 Explanation of transition to IFRS continued

## Reconciliation of equity at 31 July 2005 (date of last UK GAAP financial statements)

	Notes	UK GAAP £000	Effect of transition to IFRSs £000	IFRSs £000
<b>Non-current assets</b>				
Property, plant and equipment		90	–	90
Investments		4,705	–	4,705
Total non-current assets		4,795	–	4,795
<b>Current assets</b>				
Trade and other receivables		9,113	–	9,113
Deferred tax asset	a	–	1,853	1,853
Cash and cash equivalents		9,682	–	9,682
Total current assets		18,795	1,853	20,648
Total assets		23,590	1,853	25,443
<b>Liabilities</b>				
Trade and other payables	b	2,716	30	2,746
Retirement benefit obligation	a	–	6,175	6,175
Proposed dividends	c	571	(568)	3
Derivative financial instruments	d	–	12	12
	e	–	642	642
Total liabilities		3,287	6,291	9,578
<b>Net assets</b>		<b>20,303</b>	<b>(4,438)</b>	<b>15,865</b>
<b>Equity</b>				
Share capital	e	5,401	(642)	4,759
Share premium account		4,919	–	4,919
Capital redemption reserve		916	–	916
Employee Share Ownership Plan (ESOP) reserve		(210)	–	(210)
Retained earnings		9,277	(3,796)	5,481
<b>Total equity</b>	f	<b>20,303</b>	<b>(4,438)</b>	<b>15,865</b>

## Notes to the reconciliation of equity at 31 July 2005

<b>Total equity previous GAAP</b>				<b>20,303</b>
a Deficit in defined benefit pension scheme as at 31 July 2004			(6,370)	
Less contributions paid in the year			1,222	
Actuarial loss			(746)	
Finance costs			(281)	
Deficit in defined benefit pension scheme as at 31 July 2005				(6,175)
Related deferred tax asset				1,853
b Holiday pay accrual				(30)
c Proposed ordinary share final dividend of 3p per share, not recognised as liability until declared				568
d Fair value of forward foreign exchange contracts				(12)
e Reclassification of preference shares from equity to debt				(642)
<b>f Total adjustment to equity</b>				<b>(4,438)</b>
<b>Total equity IFRS</b>				<b>15,865</b>

**53 Explanation of transition to IFRS** continued  
**Reconciliation of profit for the year ended 31 July 2005**

	Notes	UK GAAP £000	Effect of transition to IFRSs £000	IFRSs £000
<b>Operating income</b>				
Management charges		3,017	–	3,017
Administrative expenses	a to e	(2,852)	1,214	(1,638)
<b>Operating profit</b>				
Investment revenues		165	1,214	1,379
Finance costs	f	468	–	468
Net interest on pension liability	g	(543)	(53)	(596)
		–	(281)	(281)
<b>Profit before tax</b>				
Tax	h	90	880	970
		(6)	(58)	(64)
<b>Profit for the financial year</b>				
	i	<b>84</b>	<b>822</b>	<b>906</b>

**Notes to the reconciliation of profit for the year ended 31 July 2005**

<b>Profit previous GAAP</b>				<b>84</b>
a	Movement in fair value of foreign exchange contracts			18
b	Share options expensed			(32)
c	Movement in holiday pay accrual			5
d	Exchange differences			1
e	Contribution to defined benefit pension scheme. Deficit on balance sheet under IRFSs.			1,222
f	Preference share dividends reclassified as interest under IFRS			(53)
g	Pension scheme finance costs			(281)
h	Deferred tax charge re reduction in defined benefit pension scheme deficit			(58)
<b>i Total adjustment to profit</b>				<b>822</b>
<b>Profit IFRS</b>				<b>906</b>

**Explanation of material adjustments to the cash flow statement for the year ended 31 July 2005**

There are no material adjustments to the cash flow statement as a result of applying IFRS.

## Consolidated five-year statistics

	UK GAAP 2002 £000	UK GAAP 2003 £000	IFRS 2004 £000	IFRS 2005 £000	IFRS 2006 £000
Revenue	118,662	113,259	86,712	87,598	<b>83,824</b>
Operating profit/(loss) before exceptional items	(1,200)	(2,555)	(1,275)	2,532	<b>3,236</b>
Pension contributions to closed scheme (i)	(1,000)	(2,375)	–	–	–
Exceptional items	–	(4,711)	3,882	(105)	<b>790</b>
Profit/(loss) on ordinary activities before finance charge	(2,200)	(9,641)	2,607	2,427	<b>4,026</b>
Finance charge – net	(686)	(516)	(1,006)	(473)	<b>(356)</b>
Profit/(loss) on ordinary activities before tax	(2,886)	(10,157)	1,601	1,954	<b>3,670</b>
Tax (charge)/credit	827	2,033	(233)	94	<b>(920)</b>
Profit/(loss) after tax before minority interest	(2,059)	(8,124)	1,368	2,048	<b>2,750</b>
Minority interests	–	–	–	22	<b>86</b>
Profit/(loss) for the year	(2,059)	(8,124)	1,368	2,070	<b>2,836</b>
Capital expenditure on tangible assets	4,509	4,918	7,815	3,023	<b>6,385</b>
Net assets	35,802	22,558	18,352	19,677	<b>21,477</b>
Net funds/(debt)	(8,939)	1,694	(1,734)	3,307	<b>2,581</b>
	%	%	%	%	%
Gearing	25.0	–	9.4	–	–
	Pence	Pence	Pence	Pence	Pence
Earnings/(loss) per ordinary share					
Basic	(11.88)	(45.92)	7.42	10.97	<b>15.02</b>
Diluted	(11.88)	(45.92)	7.34	10.87	<b>14.94</b>
Dividends per ordinary share					
Interim	–	–	1.0	1.0	<b>2.0</b>
Final	1.0	2.0	2.0	3.0	<b>3.0</b>
Special	–	25.0	–	–	<b>1.0</b>
Total	1.0	27.0	3.0	4.0	<b>6.0</b>
	Units	Units	Units	Units	Units
Vehicle sales					
UK	2,561	2,253	2,271	2,412	<b>2,388</b>
Export	41	67	223	109	<b>92</b>
Total	2,602	2,320	2,494	2,521	<b>2,480</b>

The amounts disclosed for 2002 and 2003 are stated on the basis of UK GAAP because it is not practicable to restate amounts for the periods prior to the date of transition to IFRS. The principle differences between UK GAAP and IFRS are explained in note 38 to the financial statements which provides an explanation of the transition to IFRS.

The 2002 comparatives are not restated to comply with UITF 38 “Accounting for ESOP Trusts”.

i) Under UK GAAP employer pension contributions to the defined benefit scheme were charged to the income statement. Under IFRS the defined benefit pension scheme deficit is shown as a liability within the balance sheet, with contributions reducing this liability. Annual employer contributions are as follows:

	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000
Defined benefit pension scheme contributions	1,000	2,375	1,325	1,222	<b>1,200</b>

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## Financial calendar

Financial year end	31 July 2006
107th Annual General Meeting	23 November 2006
Final ordinary dividend payable	1 December 2006
To shareholders registered on	3 November 2006
Preference share dividends payable	31 December 2006 and 30 June 2007
Announcement of interim results	March 2007
Announcement of full-year results	October 2007

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