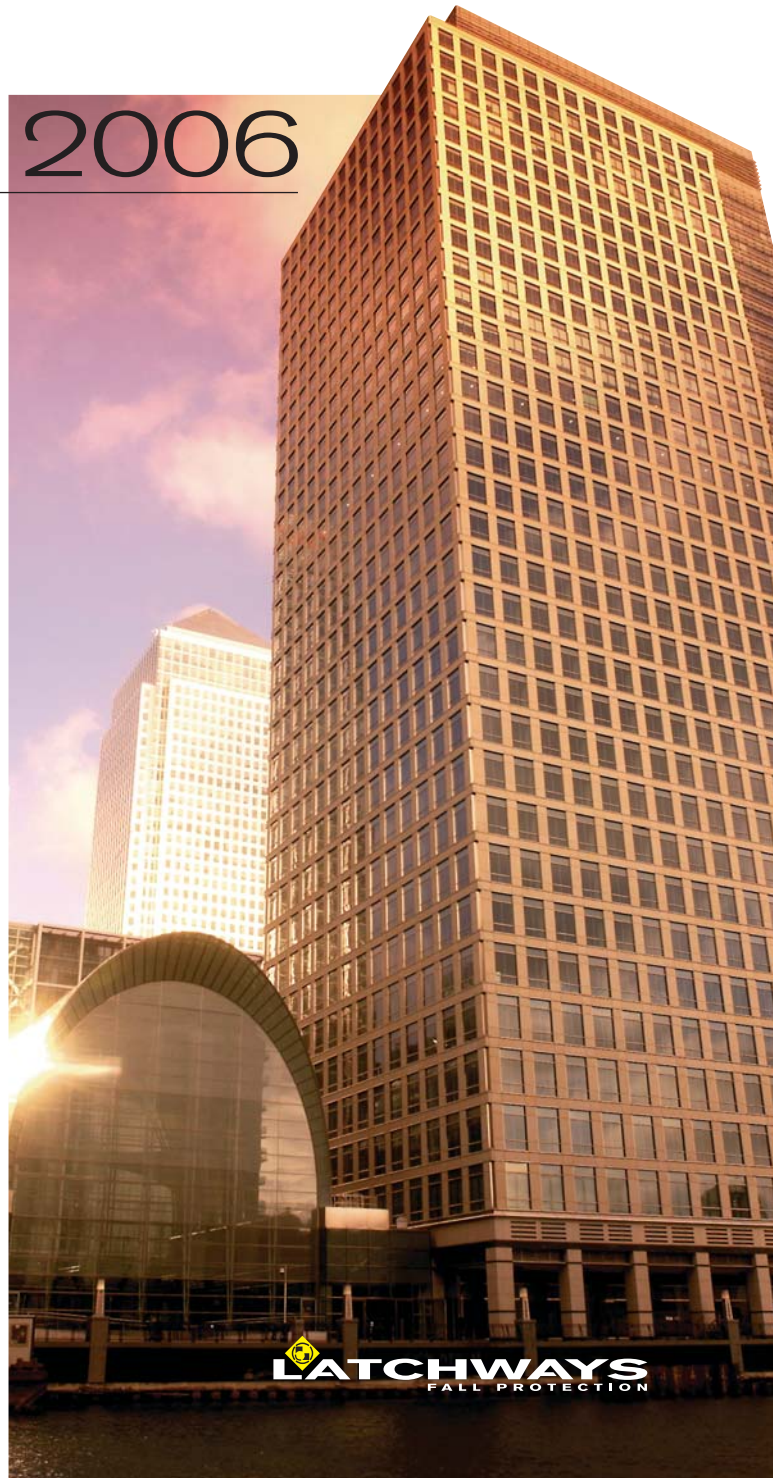


Latchways plc  
Annual Report & Accounts

2006



# 2006 Latchways plc

Annual Report & Accounts

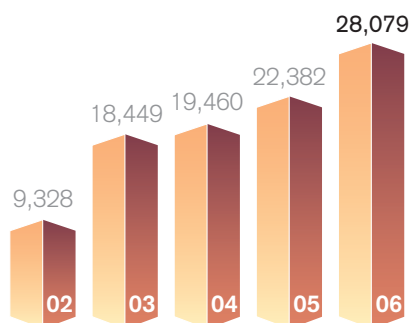
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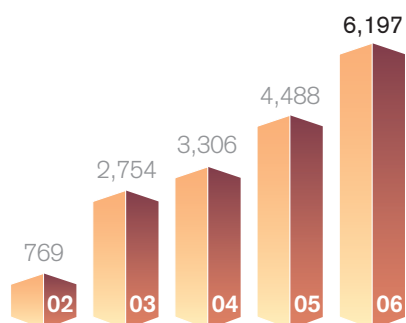
Constant Force® Fall Protection system  
Discovery Dock, Canary Wharf, London



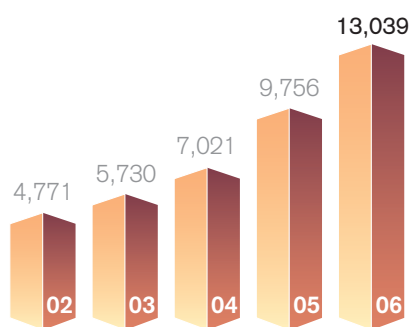
## Five Year Record



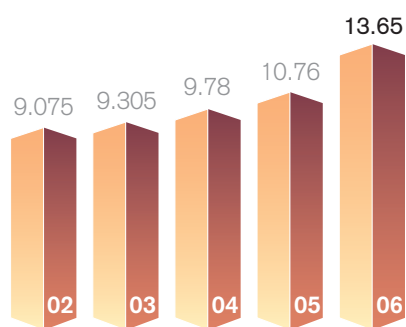
Revenue (£'000)



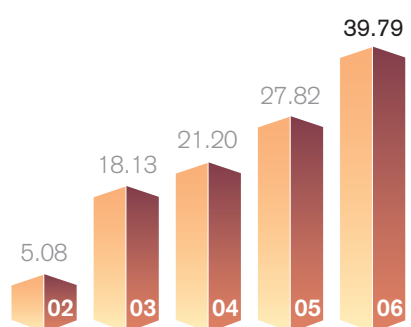
Profit before tax (£'000)



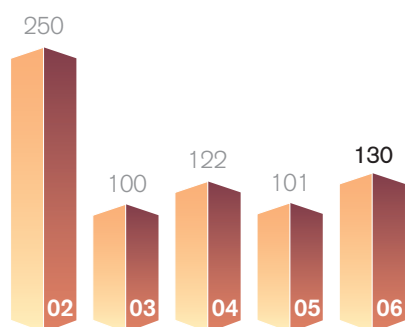
Shareholders' funds (£'000)



Dividends per share (pence)



Diluted earnings per share (pence)



Operating Cash Flow  
(percentage of operating profit)

All figures shown for the years 2002 to 2004 are as previously reported under UK GAAP.

# Chairman's Statement

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I am pleased to report another strong performance for the Latchways group. All areas of the business have contributed to a significant increase in group profits.

The Latchways fall protection products business has produced significant growth, with both the UK and mainland European markets leading the way. Our service related businesses, HCL Safety Limited and HCL Contracts Limited, have made excellent progress during the year which reflects both their much improved cost structures and a number of important contract wins.

The Wingrip product, acquired in 2004, achieved substantial turnover growth in the year. This reflects its increased acceptance by airlines and aircraft manufacturers worldwide. It also reflects major product enhancements introduced by Latchways in the last twelve months.

As a result of these activities the group has achieved record profits this year. This, combined with excellent cash flows, resulted in a very solid balance sheet.

Our results for the year, together with the comparative figures for 2005, have been prepared under International Financial Reporting Standards ("IFRS"). The overall implications of the restatement of 2005 were explained in our interim financial statements and are included in the notes to these financial statements.

## Results

Group revenue for the year ended 31 March 2006 was £28.1 million (2005: £22.4 million), 25% ahead of last year.

Group operating profit was 34% higher than last year at £6.2 million (2005: £4.6 million).

Diluted earnings per share rose 43% to 39.79 pence (2005: 27.82 pence).

## Dividends

Given the continued strength of the underlying business, together with the cash flows emanating from it, the board is recommending a significant increase in the level of dividend. We propose to increase the final dividend for the year by 35% to 9.80 pence per share. Taken together with the interim dividend of 3.85 pence, the total dividend for 2006 of 13.65 pence per share represents a 27% increase on the prior year (2005: 10.76 pence).

Under IFRS, the final dividend is not provided for in these financial statements.

With the exception of 2002, when dividend levels were maintained, Latchways has now increased its dividend every year since flotation in 1997.

## Progress

The group remains focused on the successful strategy that has shaped our business over the past few years. The ongoing improvements in the legislative environment in both the UK and Europe that we have seen in recent years have continued to drive our business. This has been further supported by both an increasing acceptance and enforcement of existing legislation in mainland Europe. This continues to generate exciting opportunities for us and we are making further investments in resources to ensure that we take full advantage of those prospects.

The success of both the HCL businesses and the Wingrip product line since their acquisition has demonstrated the value of niche add-ons which provide synergies with our existing offering. Whilst we are not in the business of making acquisitions unless the business case is compelling, we will continue to seek such additions going forward.

World commodity prices, including stainless steel, remain at very high levels. This continues to affect our product costs. However, as is demonstrated by our gross margin, we have maintained our ability to offset these higher costs through a mixture of product re-sourcing and modest price increases.

# Chairman's Statement

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## Social, Environmental and Employment matters

The group takes its responsibilities towards all its stakeholders seriously. During the year, the group adopted a new policy on Corporate Social Responsibility and Business Ethics, setting out our position on a range of matters encompassing the standards of ethical behaviour to be followed both by and in relation to employees, compliance with laws and regulations, fair competition and dealings with suppliers and customers.

Further, the group is committed to working towards ISO accreditation for both our environmental policies (ISO 14001) and Health and Safety (ISO 18001) during 2006.

## People

Whilst Latchways continues to offer the best product range in our markets, we also recognise that it is the high level of service that we provide to our customers which sets us apart from our competitors. The standard of service that we achieve is entirely due to the efforts of our employees. On behalf of the board I would like to express our thanks to all of them for their continuing support.

## Current Trading and Prospects

The new year has started well with strong sales and order books. Opportunities for new business continue to present themselves. With additional investments in infrastructure and further new product launches due in the coming year, we remain confident of our ability to deliver profitable growth for the current year and beyond.

Paul Hearson, Chairman



# Operating and Financial Review

## Financial Review

The board of Latchways plc is pleased to report these consolidated results for the year ended 31 March 2006. These are the first annual results to be prepared under International Financial Reporting Standards ("IFRS"). All financial data contained in these statements, including comparisons with the previous year, reflect the conversion to IFRS, with reconciliations of the conversion to IFRS from UK GAAP presented in the notes to the financial statements.

This operating and financial review ("OFR"), together with the Chairman's Statement, has been compiled as a Business Review in accordance with the requirements of the Companies Act 1985 Regulations 2005. It is not intended to comply with Reporting Standard 1, "Operating and Financial Review".

## Financial Results

Group revenue for the year was £28.1 million, an increase of 25% over the 2005 figure of £22.4 million. This resulted in an operating profit of £6.2 million, up 34% on 2005 (2005: £4.6 million), and a pre-tax profit of £6.2 million (2005: £4.5 million).

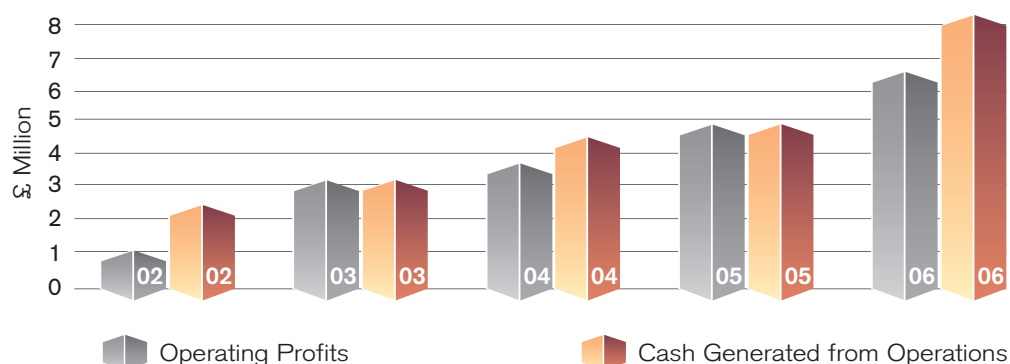
The consolidated gross margin improved by 2.5% to 55.9%, reflecting both operational efficiency enhancements in our subsidiary companies as well as product margin improvements resulting from ongoing efforts to source product overseas. As a result, operating margins improved by 1.4% to 22.0%. Overheads increased by 30% in the year, slightly faster than revenue reflecting the significant investments made in sales and customer service resource.

The effective rate of taxation for the year was 29.3% (2005: 32.3%). The reduction resulted from adjustments to prior year tax accruals relating to both IFRS related changes and also to over-provisions in 2005. In addition, 2005 included consolidation charges which were not allowable for tax purposes.

As a result, basic earnings per share increased by 44% to 40.20 pence (2005: 27.94 pence), whilst diluted earnings per share increased by 43% to 39.79 pence (2005: 27.82 pence).

The group balance sheet strengthened considerably during the year. Cash generated from operations as a proportion of operating profit was 130% (2005: 101%), the fifth consecutive year of cash generation meeting or exceeding operating profit, despite significant revenue growth. Whilst 2006 cash flow was particularly strong, driven by improvements in cash collection and timing of sales, this performance is indicative of the strongly cash-generative nature of the business.

## Five year Cash Flow Profile



# Operating and Financial Review

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Non-current assets were broadly unchanged in the year at £6.2 million (2005: £6.3 million). Intangible assets of £1.4 million (2005: £1.4 million) comprise the valuable brand, intellectual property and customer relationships acquired on the purchase of Wingrip in 2004, internally generated patents and trademarks, and ongoing development costs capitalised in accordance with IFRS. Tangible assets of £2.5 million (2005: £2.5 million) mainly represents the premises at Devizes. These consist of a 2,000 square metre warehouse and head office, together with a further 2 acres of additional land directly adjacent. The group has detailed planning permission for a second unit on this land, providing ample scope for foreseeable future expansion.

As a result of the strong cash flow, net cash, which represents cash and cash equivalents less bank and other borrowings, at the year end was £4.1 million (2005: net debt of £0.6 million). Inventory of £2.1 million was slightly above last year (2005: £2.0 million), reflecting a strong closing order book. Trade receivables reduced by £1.3 million to £5.5 million (2005: £6.8 million), whilst creditor days were 42 days (2005:47 days).

## Strategic Overview

Latchways is a world leader in the provision of fall protection equipment and related services. Our aim is to maximise shareholder return through providing the most innovative and functional equipment to a largely legislation-driven market, with a customer support network and after-sales service that is unrivalled in our industry.

Our products are sold both directly and through a network of trained independent installation companies. We place significant importance on developing strategic partnerships with key customers around the world, and on developing products which address their needs. In addition, as demonstrated by the Wingrip acquisition in 2004, we continue to seek opportunities to acquire niche products to add to our offering.

## Operating Review

The Latchways business is organised and run over three separate segments, each of which is managed independently with strategic input from the group board. These segments are as follows:

### **Safety Products**

This is the main Latchways product business, operating out of the group headquarters in Devizes.

### **Safety Services**

The principal activity of this business is the installation and servicing of safety products.

### **Specialist Fixing**

This business is involved with a range of technical services including structural building refurbishment and specialist fixing solutions.

All three divisions have achieved record trading performances in the past year.

# Operating and Financial Review

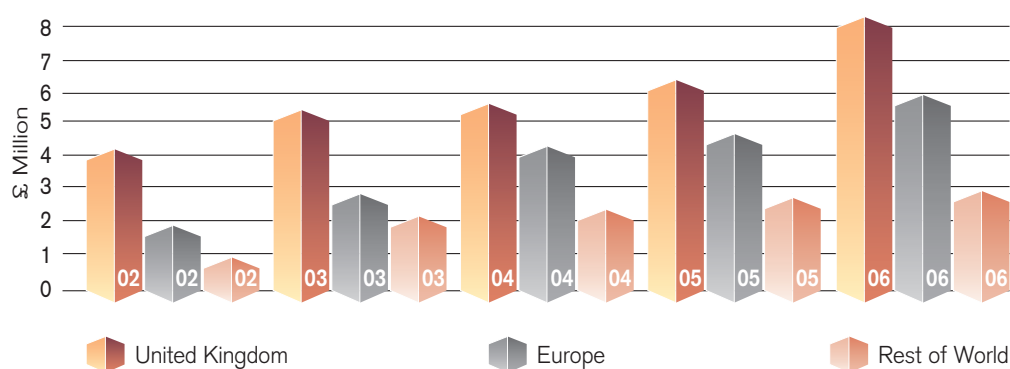
## Safety Products

Latchways designs and manufactures fall protection equipment for people working at height. This equipment is sold worldwide, both directly to end users and also through a network of independent, trained installers.

The business achieved revenue growth of 26% in the year. All geographical sectors saw growth, with the strongest growth in the UK and mainland Europe.

Although a substantial proportion of the increased gross profit was reinvested back into the business during the year, operating profits increased by 18% to £4.6 million, with strong cash flows.

## Five year Product Sales Profile



The UK business continues to perform well, with revenue up 32%, driven by the increasing legislative environment and the strength of the commercial construction sector. During the year we have further strengthened our sales and customer support team. Through our partnerships with key roofing manufacturers and customers, we are able to provide the most comprehensive product range with the most proficient back-up service in the market. The introduction of the Working At Height Regulations in 2005 should serve to reduce the importance of the new-build roofing sector and begin to open up the potentially large retrofit market.

Our European business achieved further growth in the year, with revenue up 27%. Since January, we have significantly increased our presence in Germany, in partnership with our largest European installer. Early signs look promising with significant quote activity and positive feedback from potential customers. Germany has historically failed to achieve its potential as a market for Latchways' products, but we believe that this increased focus will produce results.

We continue our efforts to seek new customers for our electricity systems both in the UK and Europe. By their nature these are long term prospects and timing of both contract wins and rollouts is unpredictable. This year saw reduced product sales into Europe due to the timing of planned maintenance work by our Dutch and Belgian customers, although good orders have been received for the new financial year.

Both North America and the Rest of the World made further progress in the year, with revenue up 9% and 6% respectively. The legislative drivers that assist the UK and Europe are largely not present in these markets. However, the highly litigious nature of North American business continues to provide us with opportunities as customers seek to reduce their exposure to claims. We have identified potential new products specific to that market, which we are currently progressing.

# Operating and Financial Review

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The Wingrip product has built further on its widespread market acceptance during the year, with key targets such as Airbus and the RAF joining our customer list during the period. We will continue to invest in the marketing and development of this product, which has become a significant contributor to Latchways profits in the two years since it was acquired.

## **Safety Services**

This division continued to enjoy the benefits of the far-reaching reorganisations carried out two years ago. While revenue increased by 8% to £7.6 million (2005: £7.0 million), operating profits increased by 144% to £0.8 million (2005: £0.3 million). This was achieved through a combination of tight cost control, combined with improved efficiency in both installation and recertification operations.

In addition, the business continues to be the largest customer of Latchways safety products, representing well over £2 million of Safety Products' UK revenue.

## **Specialist Fixing**

As with Safety Services, this division continued to benefit from the earlier reorganisation. In addition, through focusing on its core skills, the business has won a number of contracts which have enabled it to grow revenue by 62% over the prior year to £3.9 million (2005: £2.4 million) and operating profits by 73% to £0.7 million (2005: £0.4 million).

## **The Operational Environment**

As a provider of fall protection solutions to a global marketplace, the group is subject to a number of external factors which affect its risk profile. The more important of these are discussed below.

### **The Legislative Environment**

The increasing emphasis on Health and Safety legislation throughout the European Union has been one of the key drivers of the fall protection business over the past decade. The UK and certain other EU countries which have interpreted this into specific fall-protection legislation have become significant markets for the Latchways product range. Within the UK, the most obvious examples of this legislation are the Workplace (Health, Safety & Welfare) Regulations 1992, the Construction (Design and Management) Regulations 1994, and, most recently, the Working at Height Regulations 2005. Latchways sees the development of appropriate, workable safety regulations as of critical importance, not just to its own business but to business as a whole. As a result, we have Latchways representatives on a number of key legislative standards committees, both in the UK and overseas.

### **The Commercial Construction Market**

With over 50% of our product sales being exported, Latchways has a diverse and growing range of markets in which we operate. This ensures that we are not excessively dependent on one market for our growth. The largest individual market is the UK commercial construction market, a cyclical business which is currently enjoying a period of strong growth. The 2005 Working at Height Regulations, which increase the responsibilities of building owners to provide fall protection for personnel working in their buildings, together with the investments in infrastructure that will precede the 2012 London Olympics, give us confidence that growth opportunities will continue in the years ahead.

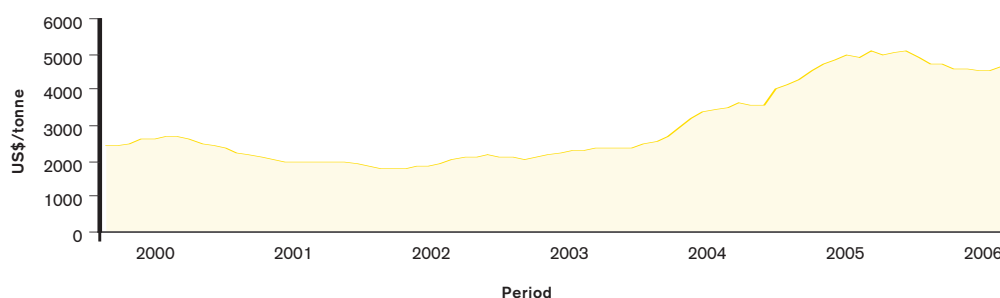
# Operating and Financial Review

## Stainless Steel Commodity Prices

The majority of Latchways' product range is made of Marine Grade Stainless Steel, which has seen significant increases in cost over the past three years. During that same period we have been actively re-sourcing some of our higher volume products overseas, and have been able to offset the resulting cost increases.

### Stainless Steel Price History 2000-2006

#### Hot Rolled 316 Grade Plate



## Currency Risk

Latchways has significant exposure to fluctuations in the Sterling/Euro exchange rate, as our European sales are invoiced in Euros. There is also some exposure to the Sterling/USD exchange rate. Both risks are mitigated where possible using forward exchange contracts.

## New Product Development

During the year, significant variants of our vertical systems have been developed to address new customers' requirements, in both the telecommunications and electricity transmission sectors. These are now in production.

In addition, a range of architectural eyebolts were developed and launched during the year. These offer enhanced visual appeal for prestige projects whilst retaining all the strength and reliability of traditional eyebolts.

Product innovation remains a cornerstone of our strategy. The success of the Wingrip Line system, developed during 2004/05, demonstrates the importance of being able to respond to specific customer needs. This was developed in cooperation with Airbus, both for their manufacturing operations and for after-sales maintenance on their aircraft. Latchways employs its own team of engineers and designers whose role we see as central to the future success of our business. This team is dedicated to delivering a stream of new and innovative products to extend our range going forward.

## Prospects

Over the past two years the group has made significant investments in both sales and operational resources, to protect the progress achieved so far and to continue to move the business forward. This investment will continue in the new financial year.

We remain confident in our business model and in the commercial environments in which we operate. By combining quality and customer service with new product offerings, whether internally developed or via niche acquisitions, we will maintain our position as the leaders of our industry.

David Hearson, Chief Executive

# Directors and Advisers

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## Paul Hearson

### **(Non Executive Chairman)**

Paul Hearson (age 55) was appointed to the board as non executive Chairman in June 1995. He was co-founder and Managing Director of Safetynet PLC, a company specialising in computer disaster recovery, until it was sold in February 1999.

## David Hearson

### **(Chief Executive Officer)**

David Hearson (age 55) was appointed Chief Executive Officer in September 1995. He was formerly with IBM in both the UK and overseas.

## Rex Orton

### **(Financial Director and Company Secretary)**

Rex Orton (age 40) joined Latchways in April 1999. He was previously with Sunrise Medical Inc, having trained as a Chartered Accountant with Coopers & Lybrand.

## Alastair Hogg

### **(Sales Director)**

Alastair Hogg (age 30) joined Latchways in 1998 and was appointed to the board in April 2004. He has a marketing degree from the University of Strathclyde.

## James Joll

### **(Non Executive Director)**

James Joll (age 69) joined the board in September 1997. He is a non executive director of a number of companies, and was Finance Director of Pearson plc from 1985 to 1996. In February 2004, James was designated as Senior Independent Director.

## Brian Finlayson

### **(Non Executive Director)**

Brian Finlayson (age 59) joined the board in May 1994. He was formerly Managing Director of Dunedin Capital Partners Ltd.

## Registered Office

Hopton Park, Devizes, Wiltshire SN10 2JP

## Registered Number

1189060

## Directors

N P Hearson, D N Hearson, R A Orton,  
A J Hogg, J A B Joll and B Finlayson

## Secretary

R A Orton

## Auditors

PricewaterhouseCoopers LLP,  
1 Embankment Place, London WC2N 6RH

## Solicitors

Olswang, 90 High Holborn,  
London WC1V 6XX

## Stockbrokers

Bell Lawrie (A division of Brewin Dolphin  
Securities Limited) 48 St Vincent Street,  
Glasgow G2 5TS

## Registrars

Lloyds TSB Registrars, The Causeway, Worthing,  
West Sussex BN99 6DA

## Bankers

Bank of Scotland, Bishopsgate Exchange,  
155 Bishopsgate, London EC2M 3YB

## Investor Relations

Threadneedle Communications,  
107-111 Fleet Street, London EC4A 2AB

# Directors' Report

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The directors present their annual report and financial statements for the year ended 31 March 2006.

## Principal activity

The principal activity of the group in the year under review was the production, distribution and installation of industrial safety products.

## Business review and future developments

The information that fulfils the requirements of the business review can be found in the Chairman's Statement and Operating and Financial Review on pages 4 to 10, which are incorporated in this Directors' Report by reference.

## Result and dividend

The profit for the year after providing for taxation amounted to £4,378,000 (2005: £3,038,000).

The directors declared an interim dividend of 3.85 pence (2005: 3.50 pence) per ordinary share which was paid on 3 March 2006.

The directors recommend a final dividend of 9.80 pence (2005: 7.26 pence) per ordinary share to be paid on 8 September 2006 to all those shareholders whose names appear on the register on 11 August 2006. In accordance with IFRS, this dividend has not been provided for in these financial statements (see note 5).

The retained profit, after dividends paid in the year, of £3,168,000 (2005: £1,939,000) has been transferred to reserves.

## Research and development

The group has an active programme of research and development. The total expensed for the year appears in note 3 to the financial statements. Details of amounts capitalised as intangible assets are given in note 8 to the financial statements.

## Share capital

Information relating to the share capital of the company is given in note 19 to the financial statements.

## Financial instruments

For information on the financial risk management strategy of the group and of the exposure of the group to currency risk, credit risk, and liquidity risk, please refer to note 17.

## Directors

The present directors of the company are set out in the summary of Directors and Advisers.

All directors served throughout the year ended 31 March 2006.

In accordance with the articles of association D N Hearson and J A B Joll retire by rotation at the annual general meeting and offer themselves for re-election. In addition, in accordance with provision A.7.2 of the Combined Code, N P Hearson and B Finlayson offer themselves for annual re-election.

The interests of the directors in the shares and share options of the company are disclosed in the Directors' Remuneration Report.

# Directors' Report

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## Directors' interests in contracts

There were no contracts in which directors notified any interest during the year.

## Directors' and officers' liability insurance

During the year the group maintained an insurance policy which indemnifies the group and directors and officers of the company in respect of loss arising from claims made against them in connection with the performance of their duties.

## Employees

Latchways recognises the benefits of keeping employees fully informed of its progress and of events which directly affect them and their working conditions. Information is provided on training and other matters of concern by means of regular briefings and meetings with management. The group actively encourages ownership of its shares by its employees, and operates a share option scheme for key employees.

Latchways has a policy of equal opportunities and non-discrimination in all forms of employment. Training is actively encouraged for all employees. Group policy is to give full and fair consideration to employment of disabled persons, having regard to their particular aptitudes and abilities and their training and career development. If employed persons become disabled, all possible assistance is given to them to continue in their existing job, or in an alternative position within the group.

## Creditor payment policy

Whilst no formal code of payments is followed, it is the group's policy to settle all debts with its creditors on a timely basis. It seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The group had 42 days' purchases outstanding at 31 March 2006 (2005: 47 days). The Company had 37 days' purchases outstanding (2005: 41 days).

## Donations

Charitable donations paid during the year in respect of community affairs amounted to £9,482 (2005: £4,372). There were no political contributions (2005: Nil).

# Directors' Report

## Substantial interests

At 21 June 2006 the directors had been notified of the following interests, which represented 3% or more of the issued ordinary share capital of the group.

<b>Shareholder</b>	<b>Number of ordinary shares of 5p each</b>	<b>% of the issued ordinary share capital of the group</b>
Jupiter Asset Management Limited	<b>1,390,444</b>	<b>12.8</b>
Merrill Lynch Investment Managers Group Limited	<b>1,316,565</b>	<b>12.1</b>
Axa Investment Managers UK Limited	<b>1,142,286</b>	<b>10.5</b>
Schroder Investment Management Limited	<b>1,140,336</b>	<b>10.5</b>
Merrill Lynch UK Special Situations Fund*	<b>782,367</b>	<b>7.2</b>
Amvescap plc	<b>595,700</b>	<b>5.5</b>
D N Hearson	<b>411,166</b>	<b>3.8</b>
Montanaro Investment Managers Limited	<b>357,424</b>	<b>3.3</b>

\*This holding is included in the Merrill Lynch Investment Managers Group Limited holding shown above.

## Annual General Meeting

Accompanying this report is the Notice of Annual General Meeting, which sets out certain special business resolutions. These relate to the renewal of the authority of the directors to allot relevant securities and the renewal of the company's authority to purchase its own shares.

## Auditors

PricewaterhouseCoopers LLP are the auditors of Latchways plc.

For each of the persons who were directors at the time this report was prepared, the following applies:

- so far as the directors are aware, there is no relevant audit information (ie information needed by the companies' auditors in connection with preparing their report) of which the companies' auditors are unaware; and
- the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the companies' auditors are aware of that information.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the group will be proposed at the 2006 annual general meeting.

R A Orton

Company Secretary

# Corporate Governance

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The group is committed to high standards of Corporate Governance. The board endorses the main and supporting principles and the provisions of the Combined Code on Corporate Governance of the Financial Reporting Council (the Code), subject to the few limited exceptions set out below.

As a small company, Latchways enjoys a significant degree of control from the close operational involvement of the executive directors, as well as frequent contact between the non executive directors and each of the executives. Whilst the board recognises the increasing emphasis on compliance with set criteria, we see these external factors as complementary to our own internal standards, which are tailored to the size and complexity of our business. Wherever reasonably practical, the group has sought to comply with the Code, provided this does not inhibit the efficient running of the business.

## Statement of Compliance

In the opinion of the board, the group has complied fully with the provisions of the Code throughout the year, except for the following:

### **Code provision A.3.1**

Brian Finlayson, non executive director, has served on the board for over nine years. The Code identifies this as being relevant to the determination of the director's independence, but it is for the board to determine whether independence is actually undermined. As will be explained later, the board is firmly of the view that Brian Finlayson is independent in character and judgement. With effect from September 2006, James Joll will also have served on the board for nine years. The board is also of the opinion that James Joll is independent in character and judgement.

### **Code provision B.2.1 and C.3.1**

The remuneration and audit committees comprise the two independent non executive directors, and the Chairman. The board is of the view that two members are insufficient to ensure open debate and hence the Chairman is included, despite being de facto non-independent. As a result, the remuneration of the Chairman is set by the board, along with that of the non executive directors.

### **Code provision A.6.1**

The board carries out rigorous reviews of its own performance and that of its committees. However, formal individual performance reviews are not carried out. The small, close-working nature of the board is such that any under-performance would be immediately apparent. Consequently, the board is of the view that a formal process would be unnecessary and potentially divisive. The Chairman explicitly encourages any board member with concerns over individual director's performances to identify those to himself or the Senior Independent Director at any time.

The remainder of this statement sets out the ways in which the group complies with the detailed provisions of the Code.

## Directors

### (a) The Board

The group is headed by the board, which comprises the Chairman, two independent non executive directors, and three executive directors. Biographies and details of length of tenure can be found in the summary of Directors and Advisers.

Terms of appointment of the non executive directors can be obtained on request from the Company Secretary.

The management of the business is delegated to the executive directors by the board. The general managers of the subsidiary companies HCL Safety Limited and HCL Contracts Limited report to the Chief Executive Officer.

The board is ultimately responsible to shareholders for the overall performance of the business, within a set framework of internal controls and risk management. There is a written schedule of matters that are reserved for the board. These include, inter alia, the formulation of strategy; approval of major capital investments, acquisitions and disposals; monitoring of internal controls and risk management processes; approval of annual budgets; approval of dividends and dividend policy; policy in important areas.

Below board level, clear approval levels exist for authority that individuals have to make financial commitments on behalf of the company. Annual performance budgets for the subsidiaries are developed by the operational managers with support from the central finance function. Beyond this, the general managers are given the operational responsibility to run their business as they see fit, whilst working with group management to ensure that group and subsidiary goals are consistent.

The board meets at least four times a year. Board papers are produced by the Company Secretary and circulated to all directors at least a week in advance of each meeting.

Certain responsibilities are delegated by the board to the three board committees: the Audit Committee, the Nomination Committee, and the Remuneration Committee. The board has set detailed terms of reference for each of these committees, copies of which are available on request from the Company Secretary. Audit Committee meetings are open to all members of the board except where a conflict of interest may arise. Remuneration and Nomination Committee meetings are open to committee members only. Each committee is provided with sufficient resources to perform its duties.

Membership of the board committees is as follows:

- Audit Committee: Brian Finlayson (Chairman), Paul Hearson, James Joll.
- Remuneration Committee: James Joll (Chairman), Brian Finlayson, Paul Hearson.
- Nomination Committee: Paul Hearson (Chairman), Brian Finlayson, James Joll, David Hearson.

In the year ended 31 March 2006, the board met four times. All the directors attended every meeting. In the event that a director cannot attend a meeting, he is able to relay any comments that he may have on the board papers or any agenda item to the meeting via the Company Secretary.

In the event that a director has concerns which cannot be resolved about the running of the group or a proposed action, they have the right to have their concerns minuted. In the event of a director's resignation, they would be required to write to the board confirming whether they have any such concerns.

The group purchases insurance to cover its directors and officers against their costs in defending themselves in civil legal proceedings taken against them in that capacity and in respect of damages resulting from any such action. To the extent allowed by UK law, the group also indemnifies its directors and officers. Neither the insurance nor the indemnity provide cover where the director has acted fraudulently or dishonestly.

# Corporate Governance

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## **(b) Chairman and Chief Executive**

The group recognises the differing roles of the Chairman and the Chief Executive Officer, and these roles are duly separated. As has been the case since before flotation in October 1997, the Chairman, Paul Hearson, is the twin brother of David Hearson, the Chief Executive Officer. Paul Hearson became Chairman prior to the appointment of David Hearson and hence was independent upon appointment. Paul Hearson does not take part in Remuneration Committee discussions relating to his brother's remuneration.

Paul Hearson has also been on the board for over nine years. As Chairman, he is de facto non-independent, but is now, under the terms of the Code, subject to annual re-election at the annual general meeting.

## **(c) Board Balance and Independence**

As allowed by provision A.3.2 of the Code, Latchways, as a small company, has two non executive directors, excluding the Chairman. These are James Joll and Brian Finlayson. Both non executive directors are considered by the board to be independent. Whilst Brian Finlayson has served on the board for a period in excess of nine years, and James Joll will reach nine years service in September 2006, the board is of the view that their strength of character and judgement are such that this in no way impairs their independence. In the board's opinion, their replacement would not be in the interests of shareholders. The composition of the board is the subject of frequent review and discussion, but at this time is considered appropriate to the needs of the business. Both non executive directors will, under the terms of the Code, be subject to annual re-election at the annual general meeting.

The Chairman is a member of all the board committees and he also chairs the Nomination Committee, although he would not lead the consideration of his successor. The board is of the view that the deliberations of the committees are enhanced by their including three, rather than two, non executive directors.

The shareholdings of the non executive directors are not considered to be so significant as to impair independence.

The board believes that the fact that Audit Committee meetings are open to all directors improves efficiency and clarity and ensures that all directors have an equal understanding of issues facing the business. However, the committee does meet with the auditors at least once a year without the executives present.

The board has identified James Joll as the Senior Independent Director. Given the small size of the board, his principal role is to provide an additional contact point for shareholders if they have reason for concern which contact through the normal channels of Chairman, Chief Executive or Financial Director has either failed to resolve or is inappropriate.

## **(d) Appointments to the board**

There is a formal and transparent procedure for the appointment of new directors to the board, the responsibility for which is delegated to the Nomination Committee. The committee's terms of reference are available from the Company Secretary. The committee meets as required by the Chairman. During the period under review, the committee did not formally meet as no appointments to the board were made, although regular discussions were held at full board meetings. For the Chairman and any non executive director appointment, the appointment would begin with an appraisal of the existing skills, knowledge and experience available to the board. A description of the requirements for the new non executive would then be agreed with an external search consultant, who would then present a shortlist of candidates to the Chairman (or, in the event that the appointment was of a new chairman, the Senior Independent Director), and the Chief Executive. Each candidate would then undergo interviews with committee members and a final evaluation meeting held to determine the appointment.

For executive appointments, the process would be similar except in the circumstances of an appropriate internal candidate being identified. The latter was the case with the appointment of Alastair Hogg, who was promoted to the board in 2004 to reflect the progress that group sales had made under his management.

# Corporate Governance

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## **(e) Information and Professional Development**

The Chairman takes responsibility for ensuring that the directors receive accurate, timely and clear information. Monthly management reports are provided within ten working days of the month end, providing full management accounts with commentary for the previous month. Papers are prepared and circulated at least a week in advance of all committee meetings.

On appointment to the board, new directors are given a detailed induction as to their responsibilities by the group's lawyers and the Company Secretary.

The board believes that, given the experienced nature of its members, the identification of training requirements can be left to the individual directors, or, in the case of the executive team, the Chief Executive.

The Company Secretary acts as an adviser to the board on all matters concerning corporate governance, and he ensures that board procedures are complied with. All directors have access to his advice, as well as independent professional advice, where needed, at the group's expense. No such independent advice was taken in the year to 31 March 2006.

The appointment or removal of the Company Secretary is a matter for the board as a whole.

## **(f) Performance Evaluation**

A formal, annual appraisal process for the board is in place and takes place every February. The evaluation covers the role of the board, its structure and effectiveness, as well as that of the three committees.

Given the small size of both the group and the board, no formal appraisals of individual performances are carried out. Regular contacts are maintained between all directors, both as a group and individually, and the board does not feel that such a formal process would add anything to the effectiveness of the board. However, the Chairman explicitly encourages any board member with concerns over individual director's performances to identify those to him at any time. Any concerns over the Chairman's performance would be addressed to the Senior Independent Director.

## **(g) Re-election**

All directors are subject to re-election at intervals of not more than three years.

Non executive directors are appointed for an initial period of three years. Subject to shareholder approval, they may serve three such terms, after which they must submit themselves for annual re-election. Due to the length of their tenure, all three non executive directors are now subject to annual re-election.

## Accountability and Audit

### **(a) Directors' responsibilities**

The board recognises its' responsibilities with respect to financial reporting, and these are set out in the Statement of Directors' Responsibilities.

### **(b) Going Concern**

After making enquiries, and reviewing the preliminary budget and cash flow forecast for the forthcoming year, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

## **(c) Internal Control and Risk Management**

The group maintains a comprehensive system of internal control, including financial, operational and compliance controls. This system is intended to manage, rather than eliminate, business risk. Such a system can only provide reasonable, not absolute, assurance against material misstatement or loss.

On an annual basis, the board reviews the effectiveness of the system of internal control. This review takes place every February, with the last such review occurring in February 2006, with specific reviews at other times where necessary. Due to the small size of the group, the system of control benefits from the close day to day involvement of the executive board members. In addition, the framework of internal control comprises:

Operational control environment—there is a clearly defined organisational structure within which lines of responsibility and delegation of activity are clearly defined.

Risk management—management has a clear responsibility for the identification of risks facing the business and for putting in place procedures to mitigate and monitor risks. Regular strategic review meetings are held by a sub committee of the board to identify key risks to the business, and the appropriate actions necessary to mitigate those risks. These reviews are wide ranging, encompassing not only internal procedures but also the fall protection industry. The board is updated on these issues at least quarterly through a standing item on the board agenda.

Information and control procedures—the group has a comprehensive process of financial reporting. The board approves the annual budget of the group and monthly performance is reviewed against this budget.

## **(d) Audit Committee**

The Audit Committee comprises Brian Finlayson, Paul Hearson and James Joll. It is chaired by Brian Finlayson. With the exception of Paul Hearson, the board considers all members of the committee to be independent. The board considers that both Brian Finlayson and James Joll have relevant and recent financial experience.

The executive directors all attend Audit Committee meetings, at the invitation of the Chairman, but the committee also meets with the company's auditors without the executives present at least once a year.

The committee meets at least three times a year. Three meetings were held in the year ended 31 March 2006, which were attended by all the members. Formal terms of reference exist and can be obtained on request from the Company Secretary.

The principal roles of the committee are as follows:

- Monitoring the integrity of the financial statements and any other price sensitive announcements made by the group;
- Reviewing the group's internal financial controls;
- Making recommendations to the board relating to the appointment of the group's external auditors (including remuneration and terms of engagement);
- Reviewing the external auditor's appointment, scope and independence;
- Considering the need for an internal audit function.

The review of the group's internal controls and risk management processes is performed by the board as a whole.

# Corporate Governance

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## **(e) Auditor Independence**

The group uses its external auditors, PricewaterhouseCoopers LLP, for additional tasks such as corporate tax advice and acquisition due diligence. Given the small size of the non-audit fees paid by the group in relation to the total fee income of PricewaterhouseCoopers, the board does not feel that this undermines the auditors' independence at all, and the benefits in terms of cost that result from the auditors' knowledge of our business are significant. This balance remains under ongoing review by the audit committee.

## **(f) Business Ethics / Resolution of Staff Concerns**

During the year, the group introduced a policy on Corporate Social Responsibility and Business Ethics. This included a formal "whistle-blowing" process which enables employees to take genuine concerns directly to the Chief Executive for resolution. Employees reporting matters under this policy are protected from any negative consequences.

## **(g) Internal Audit**

The Audit Committee has considered the need for an internal audit function and has concluded that, given the size of the business, an internal audit function is currently unnecessary.

## Relations with Shareholders

The group attaches great importance to its relationships with its shareholders, both institutional and private. The Chief Executive Officer and the Financial Director meet with major shareholders at least twice a year, as well as analysts and the financial press on an ad hoc basis. Private investors are encouraged to participate in the annual general meeting and the group regularly plays host to investors club visits.

During their meetings with major shareholders, the executives have offered meetings with either the Chairman and/or the Senior Independent Director, should the shareholders wish. Feedback is also received through the group's brokers. Any feedback received by the executives is reported to the board at or before the next board meeting.

The annual general meeting, which this year takes place on Friday, September 1st, and for which the notice is included in this Annual Report, plays an important role in communication with shareholders. The group encourages attendance and participation from all shareholders. All members of the board attend the meeting and are available for questions. All proxy votes are counted and the balances for and against each resolution are disclosed at the meeting. A separate resolution is proposed on each substantially separate issue.

# Directors' Remuneration Report

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This report has been compiled in accordance with the Directors' Remuneration Report regulations contained in Schedule 7A to the Companies Act 1985 and also in accordance with Schedule B of the Combined Code on Corporate Governance (the Code).

## Remuneration policy

This part of the remuneration report is unaudited.

The group's policy on remuneration is to attract, retain and incentivise employees, recognising that they are key to the ongoing success of the business.

Consistent with this policy, Latchways sets levels of salary and other benefits for the executive directors which are intended to be competitive and appropriate to the duties and responsibilities undertaken by each director. Individual contracts comprise a mixture of fixed and performance-related remuneration designed to motivate directors of the quality required by the group.

The board delegates all responsibility for setting executive remuneration, including pension contributions and contractual terms, to the remuneration committee, which is described below. Given the size of the group, responsibility for setting the remuneration of senior management rests with the Chief Executive.

The performance related elements of the executive directors' contracts comprise a mix of share options and bonuses. Share option awards are reviewed annually by the remuneration committee, taking into account existing shareholdings, option entitlements and total compensation, and are normally subject to performance criteria related to earnings per share. Options are awarded at market value.

Bonus payments are based solely on the performance of the group. Levels of bonus and target performance are determined annually by the remuneration committee, and are related to diluted earnings per share. The level of bonus achievable is significant in relation to non-performance related pay. The maximum bonus achievable is capped at levels currently not exceeding 125% of the executive's basic salary. The remuneration committee feels that this is the most appropriate mechanism for aligning management and shareholders' interests.

Non executive directors' remuneration, including that of the Chairman, is determined annually by the board as a whole. It is paid only as salary and is not subject to pension or bonus. The level of remuneration reflects the time commitment and responsibilities of the role. Non executive directors are not eligible to participate in the group's share option schemes.

In making its judgements on these matters, the remuneration committee has taken account of external measures, including those relating to comparable companies and positions.

# Directors' Remuneration Report

## Directors' Service Contracts

This part of the remuneration report is unaudited.

Executive directors' service contracts are valid until the director reaches the company retirement age, currently 65, and have notice periods of not more than one year. In the event of termination, compensation payouts will not exceed one year's notice. Non executive directors are appointed for an initial period of three years and, subject to shareholder approval, may be re-appointed for similar periods. After three such periods, non executive directors are subject to annual re-election.

The details of directors' service contracts are as follows;

	<b>Date of Contract</b>	<b>Expiry Date</b>	<b>Notice Period</b>
Paul Hearson	09.06.06	08.06.07	6 months
Brian Finlayson	09.06.06	08.06.07	6 months
James Joll	09.06.06	08.06.07	6 months
David Hearson	27.08.04	N/A	12 months
Alastair Hogg	27.08.04	N/A	12 months
Rex Orton	27.08.04	N/A	12 months

## The Remuneration Committee

This part of the remuneration report is unaudited.

The remuneration committee comprises the Chairman, Paul Hearson and the two independent non executive directors, Brian Finlayson and James Joll. It is chaired by James Joll. The committee met twice during the year, with all members attending both meetings.

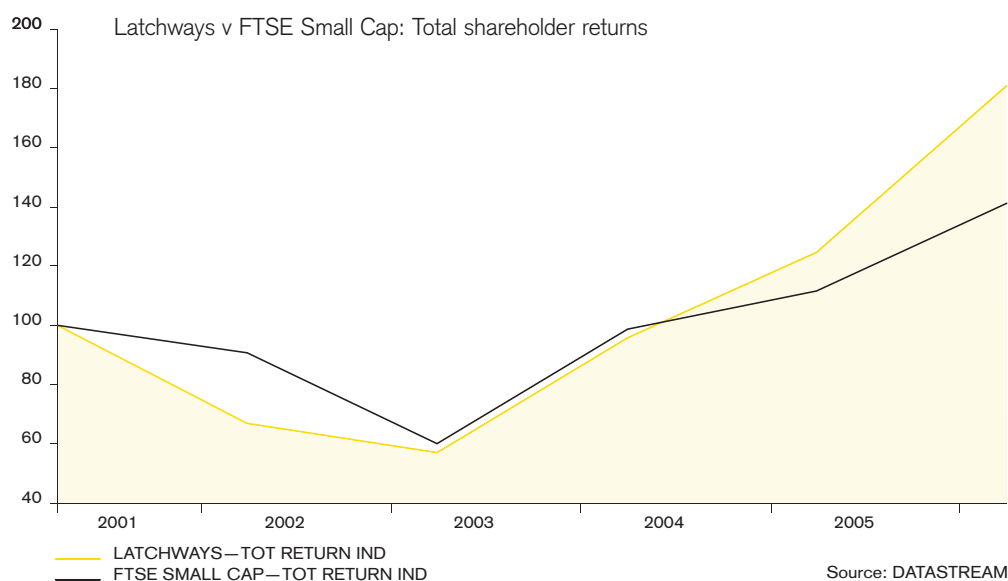
Written terms of reference for the committee exist and can be obtained on request from the Company Secretary.

The board notes the Code requirement that all members of the committee should be independent non executives. However, the board has taken the view that a committee of two members is insufficient to ensure appropriate debate and thus Paul Hearson, the board Chairman, is included. Paul Hearson does not participate in discussions regarding the remuneration of David Hearson.

# Directors' Remuneration Report

## Performance graph

This part of the remuneration report is unaudited.



April 2001 = 100%

The graph shows the performance of Latchways shares over the five years since April 2001, including dividends. During this turbulent period, Latchways has out-performed the FTSE Small Cap Index, giving a total shareholder return of 79% compared to 41% by the FTSE Small Cap index. In the twelve months to 31st March 2006, Latchways out-performed the same index, returning 45% against 27% for the FTSE Small Cap Index.

In the opinion of the directors, the FTSE Small Cap Index is the most appropriate index against which the total shareholder return of Latchways should be measured because it is an index of similar sized companies to Latchways.

# Directors' Remuneration Report

## Directors' detailed emoluments

This part of the remuneration report is audited.

	Fees	Salary	Bonus	Pension	Benefits	Total	Total
	£'000	£'000	£'000	£'000	£'000	2006	2005
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
N P Hearson	24	–	–	–	–	24	18
B Finlayson	18	–	–	–	–	18	15
D N Hearson	–	147	160	29	36	372	355
A J Hogg	–	97	80	19	15	211	176
J A B Joll	18	–	–	–	–	18	15
R A Orton	–	115	80	23	12	230	215
	<b>60</b>	<b>359</b>	<b>320</b>	<b>71</b>	<b>63</b>	<b>873</b>	<b>794</b>
2005	48	347	304	45	50	794	

Note: Pension contributions are paid to a group personal pension plan, which is a defined contribution scheme. Only basic salary is pensionable. Benefits in kind include the provision of a company car (excluding D N Hearson who, until October 2004, received a car allowance of £6,000), fuel (excluding R A Orton), medical and life insurance for all executive directors.

No director waived emoluments in the year ended 31 March 2006 or the prior year.

## Interests in shares

This part of the remuneration report is unaudited.

The interests of the directors and their families in the share capital were as follows:

	31 March 2006	31 March 2005
	Ordinary 5p	Ordinary 5p
N P Hearson	54,480	54,480
B Finlayson	103,074	103,074
D N Hearson	411,166	411,166
A J Hogg	2,000	2,000
J A B Joll	16,000	16,000
R A Orton	5,000	5,000

There were no changes in the interests of directors between 31 March 2006 and 20 June 2006.

# Directors' Remuneration Report

## Interests in share options

This part of the remuneration report is audited.

Share options are granted according to individual merit.

Details of options over the ordinary shares of the company held by directors are set out below:

	1 April 2005	Number Granted in the year	Exercised/ (lapsed)	31 March 2006	Exercise price (pence)	Grant Date	Date from which exercisable	Expiry Date
R A Orton	34,782	–	–	<b>34,782</b>	349.0	28.06.99	28.06.02	28.06.09
	34,090	–	–	<b>34,090</b>	352.5	04.02.00	04.02.03	04.02.10
	69,782	–	–	<b>69,782*</b>	287.5	31.07.01	31.07.04	31.07.11
D N Hearson	34,782	–	–	<b>34,782*</b>	287.5	31.07.01	31.07.04	31.07.11
A J Hogg	5,290	–	–	<b>5,290</b>	472.5	01.07.00	01.07.03	01.07.10
	17,391	–	–	<b>17,391</b>	287.5	31.07.01	31.07.04	31.07.11
	50,000	–	–	<b>50,000**</b>	345.0	24.06.04	24.06.05	24.06.14

\*These options were subject to performance criteria relating to earnings per share performance in the three years ended 31st March 2004. These criteria were met.

\*\*50,000 options were granted to Alastair Hogg on 24 June 2004, following his election to the board as Group Sales Director. 25,000 of these options are not subject to performance criteria, and vest in three equal tranches on the first, second and third anniversaries of the grant. The remaining 25,000 are subject to similar vesting periods, but with the added performance criterion that earnings per share must increase by at least 10% per annum over the three years from 1 April 2004 for the options to vest. The first tranche for the year ended 31 March 2005 vested on 24 June 2005, whilst the second tranche for the year ended 31 March 2006 will vest on 24 June 2006.

The market value of the company's ordinary shares as at 31 March 2006 was 610p, and the range of market prices during the year was 402.5p to 615p.

No directors have been granted share options in the shares in the company or other group entities during the year. None of the terms and conditions of the share options was varied during the year. All options were granted in respect of qualifying services.

No options were exercised by the directors during the year.

On behalf of the board.

**J A B Joll**

Chairman of the Remuneration Committee

## Statement of Directors' Responsibilities

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Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that year. In preparing those financial statements, the directors are required to:

- (a) Select suitable accounting policies and then apply them consistently;
- (b) Make judgements and estimates that are reasonable and prudent;
- (c) State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (d) Prepare financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the consolidated financial statements.

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

The maintenance and integrity of the Latchways plc website are the responsibility of the directors. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**R A Orton**

Company Secretary

30 June 2006

# Independent Auditors' Report to the Members of Latchways plc

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We have audited the group and parent company financial statements (the "financial statements") of Latchways plc for the year ended 31 March 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by 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 to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, 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 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

# Independent Auditors' Report to the Members of Latchways plc

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## **Basis of audit opinion**

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

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

## **Opinion**

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2006 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2006 and of its cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

**PricewaterhouseCoopers LLP**

**Chartered Accountants and Registered Auditors**

London

30 June 2006

# Group Income Statement

for the year ended 31 March 2006

	Note	2006 £'000	2005 £'000
<b>Revenue</b>	1	<b>28,079</b>	22,382
Cost of sales		<b>(12,394)</b>	(10,439)
<b>Gross profit</b>		<b>15,685</b>	11,943
Administrative expenses		<b>(9,506)</b>	(7,330)
<b>Operating profit</b>		<b>6,179</b>	4,613
Interest payable and similar charges	2	<b>(140)</b>	(159)
Interest receivable	2	<b>158</b>	34
<b>Profit before taxation</b>	3	<b>6,197</b>	4,488
Taxation	4	<b>(1,819)</b>	(1,450)
<b>Profit for the year attributable to equity shareholders</b>		<b>4,378</b>	3,038
<b>Earnings per share expressed in pence per share</b>			
– Basic	6	<b>40.20</b>	27.94
– Diluted	6	<b>39.79</b>	27.82

The results for the year arose wholly from continuing operations.

# Balance Sheets

as at 31 March 2006

	Note	Group		Company	
		2006 £'000	2005 £'000	2006 £'000	2005 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	7	2,208	2,208	453	453
Intangible assets	8	1,386	1,449	1,257	1,332
Property, plant and equipment	9	2,537	2,531	2,480	2,465
Investment in subsidiaries	10	–	–	2,662	2,662
Deferred income tax assets	18	65	149	41	149
		<b>6,196</b>	<b>6,337</b>	<b>6,893</b>	<b>7,061</b>
<b>Current assets</b>					
Inventories	11	2,102	2,041	1,883	1,780
Trade and other receivables	12	5,454	6,795	3,599	4,412
Cash and cash equivalents	13	5,554	1,434	4,960	1,109
		<b>13,110</b>	<b>10,270</b>	<b>10,442</b>	<b>7,301</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Financial liabilities					
– Borrowings	16	(652)	(652)	(652)	(652)
– Derivative financial instruments	17	(28)	–	(28)	–
Trade and other payables	14	(3,402)	(3,600)	(2,229)	(2,321)
Current tax liabilities	15	(1,205)	(771)	(716)	(554)
		<b>(5,287)</b>	<b>(5,023)</b>	<b>(3,625)</b>	<b>(3,527)</b>
<b>Net current assets</b>		<b>7,823</b>	<b>5,247</b>	<b>6,817</b>	<b>3,774</b>
<b>Non-current liabilities</b>					
Financial liabilities					
– Borrowings	16	(768)	(1,420)	(768)	(1,420)
Deferred income tax liabilities	18	(212)	(408)	(212)	(428)
		<b>(980)</b>	<b>(1,828)</b>	<b>(980)</b>	<b>(1,848)</b>
<b>Net assets</b>		<b>13,039</b>	<b>9,756</b>	<b>12,730</b>	<b>8,987</b>
<b>Shareholders' equity</b>					
Ordinary shares	19	545	544	545	544
Share premium	21	1,072	999	1,072	999
Other reserves		156	136	156	136
Retained earnings	22	11,266	8,077	10,957	7,308
<b>Total shareholders' equity</b>		<b>13,039</b>	<b>9,756</b>	<b>12,730</b>	<b>8,987</b>

The financial statements, which comprise the group income statement, the group and company balance sheets, the group and company statements of changes in shareholders' equity, the group and company cash flow statements and the related notes, were approved by the Board of Directors on 9th June 2006 and were signed on its behalf by:

N P Hearson, Chairman  
R A Orton, Financial Director

## Statements of Changes in Shareholders' Equity

Group	Notes	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Capital Redemption Reserve £'000	Share Based Payments £'000	Total Reserves £'000
<b>1 April 2004</b>		655	974	6,138	–	–	7,767
Net profit		–	–	3,038	–	–	3,038
Cancellation of deferred shares		(111)	–	–	111	–	–
Share options							
– Proceeds from shares issued		–	25	–	–	–	25
– Value of employee services		–	–	–	–	25	25
Dividends	5	–	–	(1,099)	–	–	(1,099)
<b>At 31 March 2005</b>		544	999	8,077	111	25	9,756
Adoption of IAS 39		–	–	21	–	–	21
<b>At 1 April 2005</b>		544	999	8,098	111	25	9,777
Net profit		–	–	4,378	–	–	4,378
Share options							
– Proceeds from shares issued		1	73	–	–	–	74
– Value of employee services		–	–	–	–	20	20
Dividends	5	–	–	(1,210)	–	–	(1,210)
<b>At 31 March 2006</b>		545	1,072	11,266	111	45	13,039

## Statements of Changes in Shareholders' Equity

Company		Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Capital Redemption Reserve £'000	Share Based Payments £'000	Total Reserves £'000
	Notes						
<b>1 April 2004</b>		<b>655</b>	<b>974</b>	<b>5,807</b>	–	–	<b>7,436</b>
Net profit		–	–	2,600	–	–	2,600
Cancellation of deferred shares		(111)	–	–	111	–	–
Share options							
– Proceeds from shares issued		–	25	–	–	–	25
– Value of employee services		–	–	–	–	25	25
Dividends	5	–	–	(1,099)	–	–	(1,099)
<b>At 31 March 2005</b>		<b>544</b>	<b>999</b>	<b>7,308</b>	<b>111</b>	<b>25</b>	<b>8,987</b>
Adoption of IAS 39		–	–	21	–	–	21
<b>At 1 April 2005</b>		<b>544</b>	<b>999</b>	<b>7,329</b>	<b>111</b>	<b>25</b>	<b>9,008</b>
Net profit	30	–	–	4,838	–	–	4,838
Share options							
Proceeds from shares issued		1	73	–	–	–	74
– Value of employee services		–	–	–	–	20	20
– Dividends paid	5	–	–	(1,210)	–	–	(1,210)
<b>At 31 March 2006</b>		<b>545</b>	<b>1,072</b>	<b>10,957</b>	<b>111</b>	<b>45</b>	<b>12,730</b>

# Cash Flow Statements

## Cash flow statements for the year ended 31 March 2006

	Note	Group		Company	
		2006 £'000	2005 £'000	2006 £'000	2005 £'000
<b>Cash flows from operating activities</b>					
Cash generated from operations	23	8,013	4,648	5,921	4,379
Interest paid		(121)	(150)	(121)	(150)
Tax paid		(1,498)	(1,216)	(1,279)	(1,201)
Net cash from operating activities		6,394	3,282	4,521	3,028
<b>Cash flows from investing activities</b>					
Acquisition of businesses (net of cash acquired)	24	–	(1,196)	–	(1,196)
Interest received		148	34	106	34
Purchase of property, plant and equipment		(359)	(247)	(330)	(216)
Purchase of intangible assets		(174)	(246)	(107)	(150)
Development expenditure capitalised		(95)	(149)	(95)	(149)
Dividend received		–	–	1,550	–
Net cash used in investing activities		(480)	(1,804)	1,124	(1,677)
<b>Cash flows from financing activities</b>					
Net proceeds from issue of Ordinary share capital		74	25	74	25
Repayment of borrowings		(658)	(1,243)	(658)	(1,243)
Dividends paid to shareholders	5	(1,210)	(1,099)	(1,210)	(1,099)
Net cash used in financing activities		(1,794)	(2,317)	(1,794)	(2,317)
<b>Net increase/(decrease) in cash and cash equivalents</b>					
		4,120	(839)	3,851	(966)
Cash and cash equivalents at 1 April		1,434	2,273	1,109	2,075
Cash and cash equivalents at 31 March	13	5,554	1,434	4,960	1,109

# Accounting Policies

## Accounting policies for the year ended 31 March 2006

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, except for those relating to the classification and measurement of financial instruments. The group has made use of the exemption available under IFRS 1 to only apply IAS 32 and IAS 39 from 1 April 2005.

### Basis of preparation

These financial statements have been prepared in accordance with the EU-adopted International Financial Reporting Standards (IFRS) and IFRIC interpretations and with those parts of the Companies Act 1985 which are applicable to companies reporting under IFRS. They have been prepared under the historical cost convention, as modified by the revaluation of derivative instruments at fair value through the income statement.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the group's accounting policies. A summary of the most important of these policies is set out below.

### Consolidation

#### **Subsidiaries**

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation.

### Critical estimates and judgements

To be able to prepare accounts according to generally accepted accounting principles, management and the Board of directors must make estimates and assumptions that affect the asset and liability items and revenue and expense items recorded in the final accounts as well as other information, such as that provided on contingent liabilities. These estimates are based on historical experience and various other assumptions that management and the Board believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Areas comprising critical judgment that may significantly impact earnings and financial position are valuation of intangible assets, share based payments, income taxes, and litigation and contingent liabilities, all of which are discussed in the respective notes.

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary or business at the date of the acquisition. As permitted by IFRS 1, goodwill arising on acquisitions prior to 1 April 2004 (the date of transition to IFRS) has been frozen at the UK GAAP carrying value at that date.

Goodwill is tested annually for impairment, or earlier if circumstances indicate that an impairment may have occurred, and is carried at cost less any accumulated impairment losses. Any identified impairments would be charged directly to the income statement. The annual impairment tests are carried out at the cash-generating unit level, with goodwill being assigned to those units for the purpose of the tests.

# Accounting Policies

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## Patents, trademarks and registered designs, and acquired intangible assets

Patents, trademarks and registered designs include all costs relating to their applications prior to their registration. The costs are written off in equal instalments over their estimated useful lives, which are of up to 20 years duration. All other patent costs are written off as incurred.

Acquired intangible assets, which include, inter alia, brands, customer relationships, intellectual property and order books, are capitalised on acquisition at their fair values. They are then amortised in equal instalments over their estimated useful lives, which are of up to 12 years duration.

## Development costs

All ongoing research expenditure is expensed in the income statement in the period in which it is incurred. Where a product is technically feasible, production and sales are intended, a market exists and sufficient resources are available to complete the project, development costs are capitalised and amortised on a straight line basis over the estimated useful life of the respective product, to a maximum of three years from product launch.

## Software licences

Acquired computer software licences which do not form part of the operating software acquired with a piece of hardware are capitalised on the basis of all costs incurred in bringing them into use. These costs are amortised over a maximum of three years.

## Property, plant and equipment

Property, plant and equipment are stated at cost, including incidental costs of acquisition, less accumulated depreciation and any impairment in value. Depreciation is calculated so as to write off the cost of property, plant and equipment, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are as follows:

Freehold buildings	2%
Plant and machinery	20% – 50%
Motor vehicles	20% – 25%
Fixtures and fittings	15% – 50%
Computer equipment	33%

Freehold land is not depreciated. Assets in the course of construction are not depreciated until they are brought into use. In the opinion of the board the market value of land and buildings is not significantly different to historic cost.

## Investments

Investments in subsidiary undertakings are stated at cost plus incidental costs of acquisition.

## Impairment of assets

At each reporting date the group considers whether there is any indication that non-current assets (other than goodwill) are impaired. If there is such an indication, the group carries out an impairment test by measuring the asset's recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. If the recoverable amount is less than the carrying amount, an impairment loss is recognised and the asset is written down to its recoverable amount.

## Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost includes all direct expenditure.

# Accounting Policies

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## Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

## Cash and cash equivalents

Cash and cash equivalents consist of cash balances and short term deposits.

## Operating leases

Rental payments under operating leases are charged to the income statement as they fall due. The group does not use finance leases.

## Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantially enacted, at the balance sheet date, and any adjustment to tax payable in respect of previous years.

As required by IAS 12 (Revised) the group provides deferred income tax using the balance sheet liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying values. Deferred income taxation is determined using the tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date and are expected to apply when the related deferred tax asset or liability is realised or settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax balances are not discounted.

## Pensions

The group operates two group personal pension plans, which are defined contribution schemes. These are available to all UK employees after an initial qualifying employment period, and both group and employee make defined contributions to the schemes. The costs to the group of such contributions are charged to the income statement in the period to which they relate.

## Share capital and reserves

Equity comprises issued capital, share premium and reserves.

## Share based payments

The group issues equity-settled, share-based payments, in the form of share options, to certain employees. In accordance with IFRS 2, such payments are measured at fair value at the date of grant. Fair value is measured using the Black-Scholes pricing model and is expensed on a straight line basis in the income statement over the vesting period, based on the group's estimate of the number of shares that will eventually vest. The group has taken advantage of the exemption available and has applied the provisions of IFRS 2 only to those options granted after 7 November 2002 and which had not vested by 1 January 2005.

## Revenue

Revenue, which excludes VAT, represents the net invoiced sales of goods and services supplied.

Revenue is recognised at the point at which the group receives the right to consideration, which is either on despatch of goods or completion of contract work.

# Accounting Policies

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## Segmental reporting

The group recognises three business segments for reporting purposes.

Safety Products – fall protection products sold directly to third parties.

Safety Services – installation and inspection of fall protection and other equipment.

Specialist Fixing – safety critical structural refurbishment services.

The group also recognises geographical segments as follows:

United Kingdom	Europe
North America	Other

## Dividends

In accordance with IAS 10, dividend distributions to the company's shareholders are recognised as a liability in the financial statements in the period in which the distribution is authorised. In the case of the interim dividend, this is the period in which the board approves the interim dividend, whilst for the final dividend, this will be the period in which the distribution is approved by the shareholders in general meeting.

Dividends receivable by the holding company from its subsidiaries are recognised when the right to receive the dividend is established. This is normally the same time as the dividend is received in cash.

## Derivative financial instruments

The group uses two forms of derivative financial instruments; forward contracts for the purpose of hedging against the exchange risk of foreign currency-denominated sales and interest rate swaps for the purpose of fixing interest rates on significant borrowings.

Such derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently re-measured in future periods at their fair value. The method of recognising the resulting change in fair value is dependant upon whether the derivative qualifies for hedge accounting. Where hedge accounting is not applied, changes in the fair value of the related derivatives are recognised in the income statement.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date, whilst the fair value of interest rate swaps is determined using the three month LIBOR rate at the balance sheet date.

### **Comparative period**

As permitted under IFRS 1, the group has elected not to restate the results for the year ended 31 March 2005 for IAS 32 "Financial Instruments: Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Accordingly, the accounting policy noted below as previously applied under UK GAAP and FRS 13 "Financial Instruments" is relevant for the comparative period.

From time to time, the group uses foreign currency forward contracts and foreign currency borrowings to reduce exposure to foreign exchange rates. Any gain or loss is taken to the profit and loss account upon maturity of the contracts.

The group also uses interest rate swaps to reduce exposure to fluctuations in interest rates. The costs of the swaps are taken to the profit and loss accounts as they arise.

## Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences arising are taken to the income statement as they arise.

## Provisions

Provisions are recognised when the group has a present obligation, whether legal or commercial, as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when that reimbursement is virtually certain. The group does not discount provisions.

# Notes to the Financial Statements

## 1. Segmental reporting

### Primary reporting format – business segments

At 31 March 2006, the group is organised into three main business segments.

Safety Products  
 Safety Services  
 Specialist Fixing

Sales from the Safety products segment to the Safety Services segment were £2,192,000 (2005: £1,996,000). All inter-segment pricing is determined on an arm's length basis.

All assets and liabilities of the group are allocated to the individual segments.

Year Ended 31 March 2006	Safety Products £'000	Safety Services £'000	Specialist Fixing £'000	Consolidation Adjustments £'000	Group £'000
<b>Continuing operations</b>					
<b>Revenue</b>	18,802	7,562	3,907	(2,192)	28,079
Segment result	4,642	767	747	23	6,179
Interest expense					(140)
Interest income					158
Profit before tax					6,197
Income taxes					(1,819)
Profit for the year from continuing operations					4,378
Segment assets	17,335	2,556	897	(1,482)	19,306
Segment liabilities	(4,605)	(1,684)	(754)	776	(6,267)
<b>Other segment items</b>					
Capital expenditure (including acquisitions)	532	70	26		628
Depreciation (note 9)	315	22	16		353
Amortisation of intangible assets (note 8)	277	55	–		332
Impairment of trade receivables	64	90	24		178

# Notes to the Financial Statements

## 1. Segmental reporting (continued)

Year Ended 31 March 2005	Safety Products £'000	Safety Services £'000	Specialist Fixing £'000	Consolidation Adjustments £'000	Group £'000
<b>Continuing operations</b>					
<b>Revenue</b>	14,948	7,013	2,417	(1,996)	22,382
Segment result	3,938	314	431	(70)	4,613
Interest expense					(159)
Interest income					34
Profit before tax					4,488
Income taxes					(1,450)
Profit for the year from continuing operations					3,038
Segment assets	14,362	2,769	1,083	(1,607)	16,607
Segment liabilities	(5,375)	(1,389)	(508)	421	(6,851)
<b>Other segment items</b>					
Capital expenditure (including acquisitions)	1,711	109	18		1,838
Depreciation (note 9)	288	38	3		329
Amortisation of intangible assets (note 8)	372	39	–		411
Impairment of trade receivables	120	153	(47)		226

### Secondary format—geographical segments

The group manages its business segments in the UK, which is the home country of the parent.

The sales analysis in the table below is based on the location of the customer. All significant assets are located in the UK, which is where all orders are received. All capital expenditure is incurred in the UK.

	Group	
	2006 £'000	2005 £'000
<b>Continuing operations</b>		
UK	18,576	14,473
Europe	6,459	5,093
North America	2,382	2,193
Other	662	623
	<b>28,079</b>	<b>22,382</b>

# Notes to the Financial Statements

## 2. Finance costs — net

	Group	
	2006	2005
	£'000	£'000
Interest expense:		
Interest payable on bank borrowings	(134)	(145)
Amortisation of issue costs of bank loan	(6)	(9)
Interest payable on other loans	–	(5)
Interest and similar charges payable	(140)	(159)
Interest income	158	34
Finance costs – net	18	(125)

## 3. Profit before taxation

	Group	
	2006	2005
	£'000	£'000
The following items have been included in arriving at operating profit		
Staff costs (note 25)	5,776	4,960
Inventories		
– Cost of inventories recognised as an expense (included in cost of sales)	7,628	6,537
Movement on inventory reserve	105	(68)
Depreciation of property, plant and equipment:		
– Owned assets	353	329
Amortisation of intangibles (included in administrative expenses)	332	411
Other operating lease rentals payable		
– Plant, machinery and vehicles	351	267
– Property	146	134
Repairs and maintenance expenditure on property, plant and equipment	96	23
Research and development expenditure	598	450
Trade receivables impairment	178	226
Net gain on foreign exchange	(109)	(42)

# Notes to the Financial Statements

## 3. Profit before taxation (continued)

### Services provided by the group's auditor

During the year the group obtained the following services from the group's auditor at costs as detailed below:

	Group	
	2006 £'000	2005 £'000
Audit services		
– Statutory audit	59	46
Further assurance services	33	–
Tax services		
– Compliance services	10	20
	<b>102</b>	<b>66</b>

In addition, in 2005 the auditors, PricewaterhouseCoopers LLP, received fees totalling £20,000 in respect of their work on the acquisition of the Wingrip business. These costs were included within the goodwill calculation detailed in note 24.

## 4. Taxation

### Analysis of charge in the year

	Group	
	2006 £'000	2005 £'000
Current tax on income for the year at 30% (2005: 30%)	1,979	1,398
Adjustments in respect of prior periods	(48)	(14)
Total current tax	1,931	1,384
Deferred tax for current year	(22)	66
Adjustments in respect of prior periods	(90)	–
Total deferred tax	(112)	66
<b>Total taxation charge</b>	<b>1,819</b>	<b>1,450</b>

The tax for the period is lower (2005: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Group	
	2006 £'000	2005 £'000
Profit before taxation	6,197	4,488
Profit before taxation multiplied by rate of corporation tax in the UK of 30% (2005: 30%)	1,859	1,346
Effects of:		
Adjustments to tax in respect of prior period	(138)	(14)
Expenses not deductible for tax purposes	125	118
Deferred tax movement on unexercised share options	(27)	–
Total taxation (continuing operations)	<b>1,819</b>	<b>1,450</b>

# Notes to the Financial Statements

## 5. Dividends

Group and company	2006 £'000	2005 £'000
Final Paid: 7.26p (2005: 6.60p) per 5p share	790	718
Interim paid: 3.85p (2005: 3.50p) per 5p share	420	381
	<b>1,210</b>	1,099

In addition, the directors are proposing a final dividend in respect of the financial year ending 31 March 2006 of 9.80p (2005: 7.26p) per share which will absorb an estimated £1,069,000 of shareholders' funds (2005: £790,000). It will be paid on 8 September 2006 to shareholders who are on the register of members on 11 August 2006.

## 6. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The group has only one such category: those share options granted to employees where the exercise price is less than the average market price of the company's ordinary shares during the year. The average market price for the year was 516.3p (2005:374.7p).

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

Group	Earnings £'000	2006 Weighted average number of shares Thousand	Per-share amount pence	Earnings £'000	2005 Weighted average number of shares Thousand	Per-share amount pence
<b>Basic EPS</b>						
Earnings attributable to ordinary shareholders	4,378	10,891	40.20	3,038	10,873	27.94
Effect of dilutive share options	–	115	(0.41)	–	49	(0.12)
<b>Diluted EPS</b>	4,378	11,006	39.79	3,038	10,922	27.82

# Notes to the Financial Statements

## 7. Goodwill

	Group £'000	Company £'000
Cost		
At 1 April 2005 and 31 March 2006	2,208	453
Aggregate impairment		
At 1 April 2005 and 31 March 2006	–	–
<b>Net book amount at 31 March 2006</b>	<b>2,208</b>	<b>453</b>
	Group £'000	Company £'000
Cost		
At 1 April 2004	1,755	–
Additions	453	453
<b>At 31 March 2005</b>	<b>2,208</b>	<b>453</b>
Aggregate impairment		
At 1 April 2004 and 31 March 2005	–	–
<b>Net book amount at 31 March 2005</b>	<b>2,208</b>	<b>453</b>

The carrying amounts of goodwill by division are as follows:

	Safety Products £'000	Safety Services £'000	Specialist Fixing £'000	Total £'000
UK	453	1,193	562	2,208

All of the recoverable amounts were measured based on value in use.

The goodwill carried in the Safety Products division represents goodwill acquired on the acquisition of Wingrip in April 2004. It also represents the goodwill carried in the company.

The key assumptions used in the value in use calculations for all three divisions were as follows:

- The forecast net profit margin. This was based on the achieved results for the divisions over the previous two years, and assuming a prudent uplift in business for the forthcoming year. Thereafter, net profit margins were assumed to be flat.
- The risk adjusted discount rate. The discount rate is based on the risk free rate for 10 year UK Gilts, adjusted for a risk premium to reflect the increased risk of investing in equities. In making this adjustment, the required data are the equity market risk premium (that is, the increased return required over and above the risk free rate by an investor who is investing in a company of average risk) and the risk adjustment applied to reflect whether the specific segment is more or less risky than average.
- The relative risk adjustment (or "beta") applied to discount rates to reflect the risk inherent in the group. This adjustment was as published by Bloomberg in April 2006.

The above assumptions resulted in a discount rate of 7.9%.

Given the underlying performance of the assets to which the goodwill relates, management are confident that no impairment of goodwill exists at the balance sheet date. For all three divisions, future performance would need to deteriorate markedly for the value in use to fall below carrying value.

# Notes to the Financial Statements

## 8. Intangibles

Group	Patents & Trademarks £'000	Computer Software £'000	Brands £'000	Intellectual Property £'000	Customer Relationships £'000	Order Book £'000	Development Costs £'000	Total £'000
Cost								
At 1 April 2005	785	528	173	216	293	61	444	2,500
Additions – internally generated	66	108	–	–	–	–	95	269
<b>At 31 March 2006</b>	<b>851</b>	<b>636</b>	<b>173</b>	<b>216</b>	<b>293</b>	<b>61</b>	<b>539</b>	<b>2,769</b>
Aggregate amortisation and impairment								
At 1 April 2005	372	285	14	36	37	61	246	1,051
Charge for the period	37	122	14	36	37	–	86	332
<b>At 31 March 2006</b>	<b>409</b>	<b>407</b>	<b>28</b>	<b>72</b>	<b>74</b>	<b>61</b>	<b>332</b>	<b>1,383</b>
<b>Net Book Amount at 31 March 2006</b>	<b>442</b>	<b>229</b>	<b>145</b>	<b>144</b>	<b>219</b>	<b>–</b>	<b>207</b>	<b>1,386</b>

Group	Patents & Trademarks £'000	Computer Software £'000	Brands £'000	Intellectual Property £'000	Customer Relationships £'000	Order Book £'000	Development Costs £'000	Total £'000
Cost								
At 1 April 2004	722	345	–	–	–	–	295	1,362
Additions – through business combinations	–	–	173	216	293	61	–	743
Additions – internally generated	63	183	–	–	–	–	149	395
<b>At 31 March 2005</b>	<b>785</b>	<b>528</b>	<b>173</b>	<b>216</b>	<b>293</b>	<b>61</b>	<b>444</b>	<b>2,500</b>
Aggregate amortisation and impairment								
At 1 April 2004	316	169	–	–	–	–	155	640
Charge for the period	56	116	14	36	37	61	91	411
<b>At 31 March 2005</b>	<b>372</b>	<b>285</b>	<b>14</b>	<b>36</b>	<b>37</b>	<b>61</b>	<b>246</b>	<b>1,051</b>
<b>Net Book Amount at 31 March 2005</b>	<b>413</b>	<b>243</b>	<b>159</b>	<b>180</b>	<b>256</b>	<b>–</b>	<b>198</b>	<b>1,449</b>

# Notes to the Financial Statements

## 8. Intangibles

Company	Patents & Trademarks £'000	Computer Software £'000	Brands £'000	Intellectual Property £'000	Customer Relationships £'000	Order Book £'000	Development Costs £'000	Total £'000
Cost								
At 1 April 2005	785	340	173	216	293	61	444	2,312
Additions – internally generated	66	41	–	–	–	–	95	202
<b>At 31 March 2006</b>	<b>851</b>	<b>381</b>	<b>173</b>	<b>216</b>	<b>293</b>	<b>61</b>	<b>539</b>	<b>2,514</b>
Aggregate amortisation and impairment								
At 1 April 2005	372	214	14	36	37	61	246	980
Charge for the period	37	67	14	36	37	–	86	277
<b>At 31 March 2006</b>	<b>409</b>	<b>281</b>	<b>28</b>	<b>72</b>	<b>74</b>	<b>61</b>	<b>332</b>	<b>1,257</b>
<b>Net Book Amount at 31 March 2006</b>	<b>442</b>	<b>100</b>	<b>145</b>	<b>144</b>	<b>219</b>	<b>–</b>	<b>207</b>	<b>1,257</b>

Company	Patents & Trademarks £'000	Computer Software £'000	Brands £'000	Intellectual Property £'000	Customer Relationships £'000	Order Book £'000	Development Costs £'000	Total £'000
Cost								
At 1 April 2004	722	253	–	–	–	–	295	1,270
Additions – through business combinations	–	–	173	216	293	61	–	743
Additions – internally generated	63	87	–	–	–	–	149	299
<b>At 31 March 2005</b>	<b>785</b>	<b>340</b>	<b>173</b>	<b>216</b>	<b>293</b>	<b>61</b>	<b>444</b>	<b>2,312</b>
Aggregate amortisation and impairment								
At 1 April 2004	316	137	–	–	–	–	155	608
Charge for the period	56	77	14	36	37	61	91	372
<b>At 31 March 2005</b>	<b>372</b>	<b>214</b>	<b>14</b>	<b>36</b>	<b>37</b>	<b>61</b>	<b>246</b>	<b>980</b>
<b>Net Book Amount at 31 March 2005</b>	<b>413</b>	<b>126</b>	<b>159</b>	<b>180</b>	<b>256</b>	<b>–</b>	<b>198</b>	<b>1,332</b>

# Notes to the Financial Statements

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## 8. Intangibles (continued)

All amortisation charges in the year have been charged through administrative expenses in the income statement.

The following useful lives have been determined for the intangible assets acquired in April 2004:

Brand names	12 years
Intellectual Property	6 years
Customer relationships	8 years
Order book	3 months

The brand name acquired in 2004 was "Wingrip".

The customer relationships acquired with the Wingrip product have been assessed in terms of retention rates and forecast levels of business. These are considered to have an approximate life of eight years.

The intellectual property acquired related to the designs and "know how" attributed to the Wingrip product. This was assessed in terms of the costs to replicate a similar product from conception, and is considered to have an approximate life of six years.

The forward order book acquired for the Wingrip product was for approximately three months orders.

Development costs are capitalised, where appropriate, in accordance with IAS 38. It is then amortised on a straight-line basis over the first three years of the life of the ensuing product, commencing on the date of the first commercial sale. An annual review is undertaken of each capitalised project to ensure that capitalisation remains appropriate.

# Notes to the Financial Statements

## 9. Property, plant and equipment

Group	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, equipment and motor vehicles £'000	Total £'000
<b>Cost</b>				
At 1 April 2005	2,191	1,118	948	4,257
Additions at cost	17	197	145	359
Disposals	(8)	(155)	(36)	(199)
<b>At 31 March 2006</b>	<b>2,200</b>	<b>1,160</b>	<b>1,057</b>	<b>4,417</b>
<b>Accumulated depreciation</b>				
At 1 April 2005	189	812	725	1,726
Charge for the year	41	159	153	353
Disposals	(8)	(155)	(36)	(199)
<b>At 31 March 2006</b>	<b>222</b>	<b>816</b>	<b>842</b>	<b>1,880</b>
<b>Net book amount at 31 March 2006</b>	<b>1,978</b>	<b>344</b>	<b>215</b>	<b>2,537</b>

Group	Freehold Land and buildings £'000	Plant and Machinery £'000	Fixtures, fittings, equipment and motor vehicles £'000	Total £'000
<b>Cost</b>				
At 1 April 2004	2,124	1,048	838	4,010
Additions at cost	67	70	110	247
<b>At 31 March 2005</b>	<b>2,191</b>	<b>1,118</b>	<b>948</b>	<b>4,257</b>
<b>Accumulated depreciation</b>				
At 1 April 2004	154	667	576	1,397
Charge for the year	35	145	149	329
<b>At 31 March 2005</b>	<b>189</b>	<b>812</b>	<b>725</b>	<b>1,726</b>
<b>Net book amount at 31 March 2005</b>	<b>2,002</b>	<b>306</b>	<b>223</b>	<b>2,531</b>

There are no assets held under finance leases.

In accordance with IFRS 1, 'First time adoption of International Financial Reporting Standards' and IAS 17, 'Leases', the group has reviewed the classification of all leases at the opening balance sheet date of 1 January 2004. In reviewing leases of land and buildings in accordance with IAS 17 the land and buildings elements of the lease need to be considered separately. However, no leases have required reclassification as a result of this review.

The group's freehold properties have not been re-valued. In the opinion of the directors, there is no material difference between the historical cost and the market value of these properties.

# Notes to the Financial Statements

## 9. Property, plant and equipment (continued)

Company	Freehold Land and buildings £'000	Plant and Machinery £'000	Fixtures, fittings, equipment and motor vehicles £'000	Total £'000
<b>Cost</b>				
At 1 April 2005	2,191	1,025	800	4,016
Additions at cost	17	173	140	330
Disposals	(8)	(155)	(36)	(199)
<b>At 31 March 2006</b>	<b>2,200</b>	<b>1,043</b>	<b>904</b>	<b>4,147</b>
<b>Accumulated depreciation</b>				
At 1 April 2005	189	722	640	1,551
Charge for the year	41	134	140	315
Disposals	(8)	(155)	(36)	(199)
<b>At 31 March 2006</b>	<b>222</b>	<b>701</b>	<b>744</b>	<b>1,667</b>
<b>Net book amount at 31 March 2006</b>	<b>1,978</b>	<b>342</b>	<b>160</b>	<b>2,480</b>

Company	Freehold Land and buildings £'000	Plant and Machinery £'000	Fixtures, fittings, equipment and motor vehicles £'000	Total £'000
<b>Cost</b>				
At 1 April 2004	2,124	959	717	3,800
Additions at cost	67	66	83	216
<b>At 31 March 2005</b>	<b>2,191</b>	<b>1,025</b>	<b>800</b>	<b>4,016</b>
<b>Accumulated depreciation</b>				
At 1 April 2004	154	594	515	1,263
Charge for the year	35	128	125	288
<b>At 31 March 2005</b>	<b>189</b>	<b>722</b>	<b>640</b>	<b>1,551</b>
<b>Net book amount at 31 March 2005</b>	<b>2,002</b>	<b>303</b>	<b>160</b>	<b>2,465</b>

# Notes to the Financial Statements

## 10. Investments

	Company	
	2006 £'000	2005 £'000
Investment in subsidiary undertakings		
As at 1 April 2005 and 31 March 2006	<b>2,662</b>	2,662

The subsidiary undertakings, all of which are wholly owned and registered in England and Wales are as follows:

Name	Principal Activity	Category	% Held
HCL Group Plc	Holding Company	Ordinary £1	100%
HCL Safety Limited*	Safety system installation and services	Ordinary £1	100%
HCL Contracts Limited*	Structural repair of buildings	Ordinary £1	100%
HCL Management Limited*	Dormant company	Ordinary £1	100%

\*denotes a subsidiary of HCL Group Plc

## 11. Inventories

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Raw materials and consumables	<b>1,447</b>	1,317	<b>1,338</b>	1,056
Finished goods	<b>655</b>	724	<b>545</b>	724
	<b>2,102</b>	2,041	<b>1,883</b>	1,780

## 12. Trade and other receivables

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Amounts falling due within one year:				
Trade debtors	<b>5,488</b>	6,717	<b>3,036</b>	3,757
Less: Provision for impairment of receivables	<b>(505)</b>	(435)	<b>(258)</b>	(218)
Trade debtors – net	<b>4,983</b>	6,282	<b>2,778</b>	3,539
Amounts owed by group companies	–	–	<b>456</b>	525
Other debtors	<b>152</b>	132	<b>152</b>	131
Prepayments and accrued income	<b>319</b>	381	<b>213</b>	217
	<b>5,454</b>	6,795	<b>3,599</b>	4,412

# Notes to the Financial Statements

## 13. Cash and cash equivalents

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
<b>Cash and cash equivalents</b>				
Cash at bank and in hand	5,554	1,434	4,960	1,109

## 14. Trade and other payables

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Trade payables	1,599	1,990	935	1,313
Other tax and social security payable	151	143	64	60
Other creditors	403	391	54	18
Accruals	1,249	1,076	1,176	930
	<b>3,402</b>	<b>3,600</b>	<b>2,229</b>	<b>2,321</b>

## 15. Current tax liabilities

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
<b>Current tax liabilities</b>	1,205	771	716	554

# Notes to the Financial Statements

## 16. Financial liabilities — Borrowings

Current	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
<b>Bank loans due within one year or on demand:</b>				
Secured	652	652	652	652
<b>Non-Current</b>				
Non-Current	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
<b>Bank loans:</b>				
Secured	768	1,420	768	1,420
Due within 1 to 2 years	653	653	653	653
Due within 2 to 5 years	115	767	115	767
	<b>768</b>	<b>1,420</b>	<b>768</b>	<b>1,420</b>

In 2006, the Group had two loans outstanding. The first of these, which was used to fund the HCL Group acquisition, is secured against Latchways' premises at Hopton Park, Devizes, Wiltshire, by a fixed and floating charge over the net assets of the company, and by a fixed and floating charge over the share capital of HCL Group Plc. This loan was subject to a two year payment holiday, with payments commencing in November 2003. The second loan is secured against Latchways' premises, and by a fixed and floating charge over the net assets of the company. Both loans are subject to an interest rate that varies by reference to LIBOR.

These loans are stated net of £16,000 (2005: £22,000) in respect of loan issue costs which are being amortised over the period of the loans.

The effective interest rates at the balance sheet dates were as follows:

	2006	2005
Bank borrowings	6.45%	6.45%

# Notes to the Financial Statements

## 17. Financial instruments

As detailed in the Accounting Policies disclosure, the group has elected not to restate the results for the year ended 31 March 2005 for IAS 32 "Financial Instruments: Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". For ease of presentation, the information required under FRS 13 "Financial Instruments" has been disclosed in the comparative information in this note.

### Financial risk management strategy

The group uses financial instruments to provide flexibility regarding its working capital requirements and to enable it to manage specific financial risks to which it is exposed. Transactions are only undertaken if they relate to actual underlying exposures and hence cannot be viewed as speculative. Specifically, the group uses financial instruments to manage its foreign exchange, interest rate and liquidity risks.

### Foreign exchange risk

The group invoices export customers within the Euro Zone in Euros. In addition, certain other overseas customers are invoiced in local currency.

The group monitors its exposure to currency fluctuations on an ongoing basis. Euro and US Dollar currency exposure is managed using forward exchange contracts. These are designated as hedges of foreign exchange risk on anticipated export sales. The group hedges approximately 60% of expected Euro sales for the following six months. US Dollar sales are hedged when confirmed orders are received.

The group has not applied hedge accounting to its foreign exchange hedges due to the immateriality of the balances involved.

At the year end, the group had trade receivables denominated in Euros of £812,000 (2005: £1,512,000) and in US Dollars of £275,000 (2005: £394,000).

### Interest rate risk—Financial liabilities

The group has both interest bearing assets and interest bearing liabilities. The interest bearing liabilities are the subject of an interest rate swap which, at the year end, resulted in 85% of the group's interest bearing liabilities being at a fixed rate. The effect of the interest rate swap is to fix the interest rate at 5.2% plus 1.25%. Due to immateriality the group has not applied hedge accounting to the interest rate swap.

### Interest rate risk—Financial assets

The weighted average interest yield on Sterling and Euro balances during the year was 3.6% (2005: 2.7%). Interest yields on other currencies were not material.

As at 31 March 2006, the group had cash balances denominated in Euros of £216,000 (2005: Overdraft of £357,000), and in US Dollars of £141,000 (2005: Overdraft of £311,000).

### Credit risk

Concentrations of credit risk with respect to trade receivables are limited due to the group's customer base being large and unrelated. Due to this, management believe there is no further credit risk provision required in excess of normal provision for doubtful receivables.

### Liquidity risk

To provide additional flexibility, the group has a £250,000 overdraft facility which next falls due for review in May 2007, which was not utilised at 31 March 2006. Interest on this facility is charged at LIBOR plus 1.25%. This is considered by management to provide adequate flexibility given the current liquidity of the business.

Numerical financial instruments disclosures are set out below.

# Notes to the Financial Statements

## 17. Financial instruments

Group and Company	Assets £'000	Liabilities £'000
<b>At 31 March 2006</b>		
Interest rate swaps	–	(8)
Forward foreign currency contracts—cash flow hedge	–	(20)
	–	(28)

As the group elected to recognise the adjustments from UK GAAP to IFRS relating to derivatives, financial assets and liabilities, and hedging arrangements with effect from 1 April 2005, there were no related assets or liabilities recognised as at 31 March 2005.

In accordance with IAS 39, 'Financial instruments: Recognition and measurement', Latchways plc has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No such embedded derivatives were identified.

### Net fair values of derivative financial instruments

The net fair values of derivative financial instruments and designated cash flow hedges at the balance sheet date were:

Group and Company	2006 £'000	2005 £'000
<b>Contracts with positive fair values:</b>		
Interest rate swaps	–	–
Forward foreign currency contracts	–	29
<b>Contracts with negative fair values:</b>		
Interest rate swaps	(8)	(4)
Forward foreign currency contracts	(20)	(4)

The net fair value losses at 31 March 2006 on open forward foreign exchange contracts that hedge the foreign currency risk of anticipated future sales are £20,000 (2005: Gains of £25,000). Due to immateriality these have been charged to the income statement at the balance sheet date. There were no derivatives outstanding at the balance sheet date that were designated as fair value hedges (2005: none).

### Interest rate swaps

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2006 was £1,200,000 (2005: £1,680,000).

At 31 March 2006 the fixed interest rate was 6.45% (2005: 6.45%) including 1.25% margin, and floating rate was 5.75% (LIBOR plus 1.25%) (2005: 6.00%). The loss has been taken to the income statement.

### Fair values of non-derivative financial assets and financial liabilities

Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at prevailing interest rates and by applying year end exchange rates. The carrying amounts of both short-term and long-term assets and liabilities approximate to book value.

# Notes to the Financial Statements

## 18. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2005: 30%).

The movement in the net deferred tax balance is as shown below:

Non-Current	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
At 1 April	259	193	279	221
(Credit)/charge to income statement	(112)	66	(108)	58
At 31 March	147	259	171	279

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

### Deferred tax liabilities—Group and Company

	Accelerated tax depreciation £'000	Other £'000	Total £'000
At 1 April 2005	(80)	(328)	(408)
Credited to income statement	30	166	196
At 31 March 2006	(50)	(162)	(212)

### Deferred tax assets—Group

	Accelerated tax depreciation £'000	Other £'000	Total £'000
At 1 April 2005	19	130	149
Charged to income statement	—	(84)	(84)
At 31 March 2006	19	46	65

### Deferred tax assets—Company

	Accelerated tax depreciation £'000	Other £'000	Total £'000
At 1 April 2005	—	129	129
Charged to income statement	—	(88)	(88)
At 31 March 2006	—	41	41

# Notes to the Financial Statements

## 19. Called up share capital

### Group and Company

<b>Authorised</b>	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
12,821,603 (2005:12,821,603) ordinary shares of 5p each	<b>641</b>	641

<b>Issued and fully paid</b>	<b>shares</b>		<b>shares</b>	
Ordinary shares of 5p each				
At 1 April	<b>10,879,801</b>	<b>544</b>	10,871,106	544
Allotted under share option schemes	<b>24,962</b>	<b>1</b>	8,695	–
At 31 March	<b>10,904,763</b>	<b>545</b>	10,879,801	544

### Potential issues of ordinary shares

Certain senior executives hold options to subscribe for shares in the company at prices ranging from 287.5p to 472.5p under the share option schemes approved by shareholders at October 1997 and July 2001. Options on 24,962 shares were exercised in 2006 generating cash proceeds of £74,000. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below:

### Group and Company

<b>Date of grant</b>	<b>Exercise dates</b>	<b>Number of options 2006</b>	<b>Number of options 2005</b>	<b>Exercise price</b>
28.06.99	28.06.02 – 28.06.09	34,782	34,782	349.0p
06.07.99	06.07.02 – 06.07.09	21,246	21,246	353.0p
04.02.00	04.02.03 – 04.02.10	34,090	38,062	352.5p
01.07.00	01.07.03 – 01.07.10	5,290	5,290	472.5p
31.07.01	31.07.02 – 31.07.11	22,486	52,171	287.5p
31.07.01	31.07.04 – 31.07.11	104,564	104,564	287.5p
26.11.01	26.11.02 – 26.11.11	8,474	8,474	295.0p
24.06.04	24.06.05 – 24.06.14	50,000	50,000	345.0p

# Notes to the Financial Statements

## 20. Share based payments

The Enterprise Management Incentive (EMI) scheme was introduced in July 2001. Under the EMI scheme the remuneration committee can grant options over shares in the company to employees of the company. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years. Awards under the EMI are generally reserved for employees at senior management level and above.

The company has made only one grant of options under this scheme since January 2003, being the grant of 50,000 options to A J Hogg, director, on 24 June 2004. Full details of this are included in the Directors' remuneration report.

Exercise of an option is subject to continued employment. Options were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	24/06/2004
Share price at grant date	£3.45
Exercise price	£3.45
Number of employees	1
Shares under option	50,000
Vesting period (years)	1-3
Expected volatility	38%
Option life (years)	10
Expected life (years)	5
Risk free rate	5.09%
Expected dividends expressed as a dividend yield	2.5%
Possibility of ceasing employment before vesting	0%
Expectations of meeting performance criteria	100%
Fair value per option	£1.12

The expected volatility is based on historical volatility over the last five years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. A reconciliation of option movements over the year to 31 March 2006 is shown below.

	2006		2005	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	314,589	£3.19	287,269	£3.15
Granted	–	–	50,000	£3.45
Forfeited	(8,695)	£2.88	(13,985)	£3.57
Exercised	(24,962)	£2.98	(8,695)	£2.88
Outstanding at 31 March	280,932	£3.22	314,589	£3.19
Exercisable at 31 March	247,599	£3.19	264,589	£3.14

Range of exercise prices	Weighted average exercise price	2006		2005	
		Number of shares	Weighted average remaining life: Contractual	Number of shares	Weighted average remaining life: Contractual
£2.87 – £2.95	£2.88	135,524	5.3	165,209	6.3
£3.45 – £3.53	£3.49	140,118	5.2	144,090	6.1
£4.72	£4.72	5,290	4.3	5,290	5.3

The weighted average share price during the period for options exercised over the year was £5.45 (2005: £4.40). The total charge for the year relating to employee share based payment plans was £20,000 (2005: £25,000), all of which related to equity-settled share based payment transactions. After deferred tax, the total charge was £14,000 (2005: £18,000).

# Notes to the Financial Statements

## 21. Share premium account

<b>Group and company</b>	<b>£'000</b>
At 1 April 2004	974
Premium on shares issued during the year under the share option schemes	25
At 1 April 2005	999
Premium on shares issued during the year under the share option schemes	73
<b>At 31 March 2006</b>	<b>1,072</b>

## 22. Retained earnings

	<b>Group £'000</b>	<b>Company £'000</b>
At 31 March 2005	8,077	7,308
IAS 39 Conversion adjustment	21	21
At 1 April 2005	8,098	7,329
Profit for the year	4,378	4,838
Dividends paid	(1,210)	(1,210)
<b>At 31 March 2006</b>	<b>11,266</b>	<b>10,957</b>
	<b>Group £'000</b>	<b>Company £'000</b>
At 1 April 2004	6,138	5,807
Profit for the year	3,038	2,600
Dividends paid	(1,099)	(1,099)
At 31 March 2005	<b>8,077</b>	<b>7,308</b>

# Notes to the Financial Statements

## 23. Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities.

### Cash generated from operations

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
<b>Continuing operations</b>				
Net profit (excluding dividends received)	4,378	3,038	3,288	2,600
Adjustments for:				
Tax	1,819	1,450	1,333	1,213
Depreciation	353	329	315	288
Amortisation of intangible assets	246	320	191	281
Amortisation of development costs	86	91	86	91
Share option charge	20	25	20	25
Interest income	(158)	(34)	(119)	(34)
Interest expense	140	159	140	159
Movement on financial instruments	49	–	49	–
Changes in working capital (excluding effects of acquisitions and disposal of subsidiaries)				
(Increase)/decrease in Inventories	(61)	(556)	(103)	(696)
(Increase)/decrease in Trade and other receivables	1,340	(1,026)	813	33
Increase/(decrease) in Trade and other payables	(199)	852	(92)	419
Cash generated from continuing operations	8,013	4,648	5,921	4,379

## 24. Acquisition of Wingrip

The group made no acquisitions during the year to 31 March 2006.

On 2 April 2004, Latchways plc acquired the assets of the Wingrip business from Rota Limited.

No tangible assets were acquired as a result of this transaction. All intangible assets acquired were recognised at their respective fair values. The residual excess of cost over the net assets acquired is recognised as goodwill in the financial statements.

	Pre-acquisition book value £'000	Fair Value £'000
Intangible fixed assets:		
- Brand	–	173
- Intellectual property	–	216
- Customer relationships	–	293
- Order book	–	61
Net assets acquired	–	743
Goodwill		453
Consideration		1,196
Consideration comprised:		
Cash		1,150
Professional fees		46
		1,196

As the Wingrip acquisition took place on the second day of the financial year, there is no material difference between reported results and the results which would have been reported if the acquisition had been made at the beginning of the period.

# Notes to the Financial Statements

## 25. Employees and directors

	Group	
<b>Staff costs for the group during the year</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	4,981	4,303
Social security costs	510	406
Other pension costs	285	251
	<b>5,776</b>	<b>4,960</b>
<b>Average monthly number of people (excluding executive directors) employed</b>	<b>2006</b>	<b>2005</b>
	<b>No</b>	<b>No</b>
<b>By business group</b>		
Safety Products	63	62
Safety Services	90	83
Specialist Fixing	63	51
	<b>216</b>	<b>196</b>
<b>Directors</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Aggregate emoluments	802	749
Company contributions to money purchase pension schemes	71	45
	<b>873</b>	<b>794</b>

Three directors (2005: three) have retirement benefits accruing under money purchase pension schemes.

	Group	
<b>Key management compensation</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Salaries and short-term employee benefits	980	899
Post-employment benefits	82	54
Share based payments	20	25
Social security costs	106	98
	<b>1,188</b>	<b>1,076</b>

The key management figures given above include directors and general managers of subsidiary companies.

	Company	
	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Salaries and short-term employee benefits	802	749
Post-employment benefits	71	45
Share based payments	20	25
Social security costs	89	83
	<b>982</b>	<b>902</b>

The key management figures given above include the directors of Latchways plc.

# Notes to the Financial Statements

## 26. Operating lease commitments — minimum lease payments

Group	2006		2005	
	Property £'000	Vehicles plant and equipment £'000	Property £'000	Vehicles plant and equipment £'000
<b>Total commitments under non-cancellable operating leases:</b>				
Payable within one year	109	316	107	306
Payable between one and five years	163	175	226	268
	<b>272</b>	<b>491</b>	<b>333</b>	<b>574</b>

Company	2006		2005	
	Property £'000	Vehicles plant and equipment £'000	Property £'000	Vehicles plant and equipment £'000
<b>Total commitments under non-cancellable operating leases:</b>				
Payable within one year	13	76	3	65
Payable between one and five years	15	50	–	71
	<b>28</b>	<b>126</b>	<b>3</b>	<b>136</b>

The group and company lease various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The group and company also lease plant, machinery and vehicles under non-cancellable operating lease agreements.

## 27. Contingent liabilities

The group and company had no contingent liabilities as at 31 March 2006 (2005:none).

## 28. Capital and other financial commitments

At 31 March 2006 capital expenditure authorised by the board and contracted for but not provided in these financial statements was £nil (2005: £nil) in both the group and the company.

## 29. Post balance sheet events

There have been no significant post balance sheet events.

## 30. Company income statement

The company has taken advantage of the exemption in Section 230 of the Companies Act from publishing a separate income statement. A profit of £4,838,000 (2005: £2,600,000) before dividends paid has been dealt with in the books of Latchways plc. This includes £1,550,000 (2005: £nil) in respect of dividend income received from subsidiary companies in the year.

## 31. Related party transactions

During the year, Latchways plc made sales of £2,192,000 (2005: £1,996,000) to HCL Safety Limited. At the year end the balance outstanding to Latchways plc from HCL Safety Limited was £456,000 (2005: £525,000). A dividend of £1,550,000 (2005: £nil) was received by Latchways plc from HCL Group Plc.

# Notes to the Financial Statements

## 32. Reconciliation of net assets and profit under UK GAAP to IFRS

### Basis of transition to IFRS

#### Application of IFRS 1: First time adoption of International Accounting Standards

The group prepared its consolidated financial statements under UK Generally Accepted Accounting Principles (UK GAAP) for all reporting periods to 31 March 2005. With effect from 1 January 2005 all companies listed on any recognised European Union stock exchange are required to report in accordance with International Financial Reporting Standards (IFRS). These financial statements include comparative IFRS financial information for the year ended 31 March 2005. Therefore the group's IFRS transition date is 1 April 2004, being the first day of the comparative period.

In preparing these financial statements in accordance with IFRS 1, the group has applied the mandatory exemptions and certain of the optional exemptions from full retrospective application of IFRS.

#### Exemptions from full retrospective application applied by the group

The group has elected to apply the following optional exemptions from full retrospective application.

- Business combinations exemption

The group has not restated business combinations that took place prior to the 1 April 2004 transition date, as allowed under IFRS 1.

- Restatement of comparatives for IAS 32 and IAS 39.

The group has elected to recognise the adjustments from UK GAAP to IFRS relating to derivatives, financial assets and liabilities, and hedging arrangements, with effect from 1 April 2005.

- Share-based payment transaction exemption.

The group adopted IFRS 2 early by applying it from 1 April 2004 only to those options granted after 7 November 2002 but which had not vested by 1 January 2005.

#### Exceptions from full retrospective application followed by the group

The group has applied the following mandatory exceptions from retrospective application.

- Derecognition of financial assets and liabilities exception.

Financial assets and liabilities derecognised before 1 April 2004 are not re-recognised under IFRS. The application of the exception from restating comparatives for IAS 32 and IAS 39 means that the group recognised from 1 April 2005 any financial assets and financial liabilities derecognised since 1 April 2004 that do not meet the IAS 39 derecognition criteria. Management did not choose to apply the IAS derecognition criteria to an earlier date.

- Hedge accounting exception.

Management has claimed hedge accounting from 1 April 2005 only if the hedge relationship meets all the hedge accounting criteria under IAS 39. Due to immateriality hedge accounting has not been applied for these financial statements.

- Estimates exception.

As there is no evidence that estimates made under UK GAAP at the transition date were in error, estimates under IFRS are consistent with those original estimates.

# Notes to the Financial Statements

## 32 (a). Reconciliation of net assets and profit under UK GAAP to IFRS – Group

### Equity as at 1 April 2004

	UK GAAP £'000	Notes	Effect of Transition to IFRS £'000	IFRS £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill	1,755			1,755
Intangible assets	406	(a)	316	722
Property, plant and equipment	2,789	(b)	(176)	2,613
Deferred income tax assets	–	(c)	112	112
	<b>4,950</b>		<b>252</b>	<b>5,202</b>
<b>Current assets</b>				
Inventories	1,485			1,485
Trade and other receivables	5,769			5,769
Cash and cash equivalents	2,273			2,273
	<b>9,527</b>			<b>9,527</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Financial liabilities				
– Borrowings	(1,236)			(1,236)
Trade and other payables	(3,466)	(d)	718	(2,748)
Current tax liabilities	(603)			(603)
	<b>(5,305)</b>		<b>718</b>	<b>(4,587)</b>
<b>Net current assets</b>	<b>4,222</b>		<b>718</b>	<b>4,940</b>
<b>Non-current liabilities</b>				
Financial liabilities				
– Borrowings	(2,070)			(2,070)
Deferred income tax liabilities	(81)	(e)	(224)	(305)
	<b>(2,151)</b>		<b>(224)</b>	<b>(2,375)</b>
<b>Net assets</b>	<b>7,021</b>		<b>746</b>	<b>7,767</b>
<b>Shareholders' equity</b>				
Ordinary share capital	(655)			(655)
Share premium	(974)			(974)
Other reserves	–			–
Retained earnings	(5,392)	(f)	(746)	(6,138)
<b>Total shareholders' equity</b>	<b>(7,021)</b>		<b>(746)</b>	<b>(7,767)</b>

# Notes to the Financial Statements

## Explanation of the effect of transition of IFRS

<b>(a) Intangible Assets</b>	<b>£'000</b>
IAS 38 Capitalisation of development costs incurred	140
IAS 38 Reclassification of computer software from property, plant & equipment	176
Total increase to intangible assets	<b>316</b>
<b>(b) Property, plant &amp; equipment</b>	<b>£'000</b>
IAS 38 Reclassification of computer software to intangible assets	(176)
Total decrease to property, plant & equipment	<b>(176)</b>
<b>(c) Deferred income tax assets</b>	<b>£'000</b>
IAS 12 Separate disclosure of deferred income tax assets and liabilities	112
Total increase to deferred income tax assets	<b>112</b>
<b>(d) Proposed dividend</b>	<b>£'000</b>
IAS 10 Reversal of accrued proposed final dividend no longer recognised	718
Total decrease to trade and other payables	<b>718</b>
<b>(e) Deferred income tax liabilities</b>	<b>£'000</b>
IAS 38 Deferred income tax liability on development cost capitalised	(42)
IAS 12 Balance sheet approach applied to industrial buildings allowances	(70)
IAS 12 Separate disclosure of deferred income tax assets and liabilities	(112)
Total increase to deferred income tax liability	<b>(224)</b>
<b>(f) Retained Earnings</b>	<b>£'000</b>
IAS 38 Development cost capitalised	(140)
IAS 38 Deferred income tax liability on development cost capitalised	42
IAS 12 Balance sheet approach applied to industrial buildings allowances	70
IAS 10 Reversal of accrued proposed final dividend no longer recognised	(718)
Total increase to retained earnings	<b>(746)</b>

# Notes to the Financial Statements

## 32 (a). Reconciliation of net assets and profit under UK GAAP to IFRS – Group (continued)

### Equity as at 31 March 2005

	UK GAAP £'000	Notes	Effect of Transition to IFRS £'000	IFRS £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill	2,655	(a)	(447)	2,208
Intangible assets	413	(b)	1,036	1,449
Property, plant and equipment	2,774	(c)	(243)	2,531
Deferred income tax assets	–	(d)	149	149
	<b>5,842</b>		<b>495</b>	<b>6,337</b>
<b>Current assets</b>				
Inventories	2,041			2,041
Trade and other receivables	6,795			6,795
Cash and cash equivalents	1,434			1,434
	<b>10,270</b>			<b>10,270</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Financial liabilities				
– Borrowings	(652)			(652)
Trade and other payables	(4,390)	(e)	790	(3,600)
Current tax liabilities	(801)	(f)	30	(771)
	<b>(5,843)</b>		<b>820</b>	<b>(5,023)</b>
<b>Net current assets</b>	<b>4,427</b>		<b>820</b>	<b>5,247</b>
<b>Non-current liabilities</b>				
Financial liabilities				
– Borrowings	(1,420)			(1,420)
Deferred income tax liabilities	(93)	(g)	(315)	(408)
	<b>(1,513)</b>		<b>(315)</b>	<b>(1,828)</b>
<b>Net assets</b>	<b>8,756</b>		<b>1,000</b>	<b>9,756</b>
<b>Shareholders' equity</b>				
Ordinary share capital	(544)			(544)
Share premium	(999)			(999)
Other reserves	(111)	(h)	(25)	(136)
Retained earnings	(7,102)	(i)	(975)	(8,077)
<b>Total shareholders' equity</b>	<b>(8,756)</b>		<b>(1,000)</b>	<b>(9,756)</b>

# Notes to the Financial Statements

## Explanation of the effect of transition of IFRS

<b>(a) Goodwill</b>	<b>£'000</b>
IFRS 3 Reversal of goodwill amortisation calculated under UK GAAP but not longer permitted under IFRS	296
IFRS 3 Reclassification of acquired goodwill into identifiable intangible assets	(743)
Total decrease to Goodwill asset	<b>(447)</b>
<b>(b) Intangible Assets</b>	<b>£'000</b>
IFRS 3 Reclassification of acquired goodwill into identifiable intangible assets	743
IFRS 3 Amortisation of acquired intangible assets during the period	(148)
IAS 38 Capitalisation of development costs incurred	198
IAS 38 Reclassification of computer software from property, plant & equipment	243
Total increase to intangible assets	<b>1,036</b>
<b>(c) Property, plant &amp; equipment</b>	<b>£'000</b>
IAS 38 Reclassification of computer software to intangible assets	(243)
Total decrease to property, plant & equipment	<b>(243)</b>
<b>(d) Deferred income tax assets</b>	<b>£'000</b>
IAS 12 Separate disclosure of deferred income tax assets and liabilities	141
IFRS 2 Deferred income tax asset created on recognition of share based payments	8
Total increase to deferred income tax assets	<b>149</b>
<b>(e) Proposed dividend</b>	<b>£'000</b>
IAS 10 Reversal of accrued proposed final dividend no longer recognised	790
Total decrease to trade and other payables	<b>790</b>
<b>(f) Current tax liabilities</b>	<b>£'000</b>
IFRS 3 Corporation tax credit on amortisation of acquired intangible assets	30
Total decrease to current tax liabilities	<b>30</b>
<b>(g) Deferred income tax liabilities</b>	<b>£'000</b>
IFRS 3 Deferred income tax impact of not amortising purchased goodwill	(51)
IAS 38 Deferred income tax liability on development cost capitalised	(59)
IAS 12 Balance sheet approach applied to industrial buildings allowances	(64)
IAS 12 Separate disclosure of deferred income tax assets and liabilities	(141)
Total increase to deferred income tax liability	<b>(315)</b>

# Notes to the Financial Statements

## 32 (a). Reconciliation of net assets and profit under UK GAAP to IFRS – Group (continued)

### Explanation of the effect of transition of IFRS

<b>(h) Share based payment</b>	<b>£'000</b>
IFRS 2 reserve created for the effect of recognising share based payments under IFRS 2	(25)
<b>Total increase in IFRS 2 reserve</b>	<b>(25)</b>
<b>(i) Retained Earnings</b>	<b>£'000</b>
IFRS 3 Goodwill amortisation not permitted under IFRS	(296)
IFRS 3 Deferred income tax charge arising from writing back amortisation of purchased goodwill	51
IFRS 3 Amortisation of acquired intangible assets during the period	148
IFRS 3 Corporation tax credit on amortisation of acquired intangible assets	(30)
IFRS 2 Charge for recognition of share based payment	25
IFRS 2 Deferred income tax asset on recognition of share based payment	(8)
IAS 38 Development cost capitalised	(198)
IAS 38 Deferred income tax liability on development cost capitalised	59
IAS 12 Balance sheet approach applied to industrial buildings allowances	64
IAS 10 Reversal of accrued proposed final dividend no longer recognised	(790)
<b>Total increase to retained earnings</b>	<b>(975)</b>

### Net income to 31 March 2005

	UK GAAP £'000	Notes	Effect of Transition to IFRS £'000	IFRS £'000
<b>Revenue</b>	22,382			22,382
Cost of Sales	(10,439)			(10,439)
<b>Gross Profit</b>	11,943			11,943
Net operating expenses	(7,511)	(a, b, c, d)	181	(7,330)
<b>Operating profit</b>	4,432		181	4,613
Interest payable and similar charges	(159)			(159)
Interest receivable	34			34
<b>Profit before taxation</b>	4,307		181	4,488
Taxation	(1,426)	(e, f)	(24)	(1,450)
<b>Profit for the period attributable to equity shareholders</b>	<b>2,881</b>		<b>157</b>	<b>3,038</b>

# Notes to the Financial Statements

## Explanation of the effect of transition of IFRS

<b>(a) Goodwill amortisation</b>	<b>£'000</b>
IFRS 3 Reversal of goodwill amortisation calculated under UK GAAP but no longer permitted under IFRS	296
<b>(b) Share based payment</b>	
IFRS 2 Charge recognising share based payments under IFRS 2	(25)
<b>(c) Capitalisation of development costs</b>	
IAS 38 Net impact in period of capitalising and amortising development costs	58
<b>(d) Amortisation of acquired intangible assets</b>	
IFRS 3 Amortisation charge for intangible assets identified on Wingrip acquisition	(148)
<b>Total impact on operating expense and profit before taxation</b>	<b>181</b>
<b>(e) Deferred taxation</b>	<b>£'000</b>
Deferred income tax impact of writing back amortisation of purchased goodwill	(51)
Deferred income tax impact of IFRS 2 share based payment charge	8
Deferred income tax impact of capitalised development costs	(17)
Deferred income tax on IAS 12 balance sheet method application to buildings	6
<b>Total deferred taxation impact</b>	<b>(54)</b>
<b>(f) Current taxation</b>	
Net current tax credit on amortisation of acquired intangible assets	30
<b>Total taxation impact</b>	<b>(24)</b>
<b>Total net impact of IFRS transition</b>	<b>157</b>

## Adoption of IAS 32 and 39

As stated earlier, the group has elected to apply the exception from restatement of comparatives for IAS 32 and 39. As a result, the group has applied previous UK GAAP rules to derivatives, financial assets and financial liabilities and to hedging relationships for the comparative information. The adjustments required for differences between UK GAAP and IAS 32 and 39 are recognised at 1 April 2005. These adjustments are as follows:

	<b>£'000</b>
Increase to financial assets arising from fair value of financial derivatives	29
Increase to financial liabilities arising from fair value of financial derivatives	(4)
Increase in deferred tax liability through recognition of financial assets and liabilities	(4)
<b>Total increase to retained earnings and equity</b>	<b>21</b>

## Changes to the cash flow statements

The consolidated cash flow statement prepared under IFRS presents substantially the same information as required under UK GAAP.

Under IFRS only three categories of cash flow activity are required to be reported; operating, investing and financing. There are no material differences between the cash flow statement presented under IFRS and the cash flow statement under UK GAAP, although the capitalisation and amortisation of development costs results in increased capital expenditure and adjustments to operating profit for non-cash amortisation.

# Notes to the Financial Statements

## 32 (b). Reconciliation of net assets and profit under UK GAAP to IFRS – Company

### Equity as at 1 April 2004

	UK GAAP £'000	Notes	Effect of Transition to IFRS £'000	IFRS £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill	—			—
Intangible assets	406	(a)	256	662
Property, plant and equipment	2,654	(b)	(116)	2,538
Investment in subsidiaries	2,662		—	2,662
Deferred income tax assets	—	(c)	92	92
	<b>5,722</b>		<b>232</b>	<b>5,954</b>
<b>Current assets</b>				
Inventories	1,084			1,084
Trade and other receivables	4,445			4,445
Cash and cash equivalents	2,075			2,075
	<b>7,604</b>			<b>7,604</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Financial liabilities				
– Borrowings	(1,236)			(1,236)
Trade and other payables	(2,621)	(d)	718	(1,903)
Current tax liabilities	(600)			(600)
	<b>(4,457)</b>		<b>718</b>	<b>(3,739)</b>
<b>Net current assets</b>	<b>3,147</b>		<b>718</b>	<b>3,865</b>
<b>Non-current liabilities</b>				
Financial liabilities				
– Borrowings	(2,070)			(2,070)
Deferred income tax liabilities	(109)	(e)	(204)	(313)
	<b>(2,179)</b>		<b>(204)</b>	<b>(2,383)</b>
<b>Net assets</b>	<b>6,690</b>		<b>746</b>	<b>7,436</b>
<b>Shareholders' equity</b>				
Ordinary share capital	(655)			(655)
Share premium	(974)			(974)
Other reserves	—			—
Retained earnings	(5,061)	(f)	(746)	(5,807)
<b>Total shareholders' equity</b>	<b>(6,690)</b>		<b>(746)</b>	<b>(7,436)</b>

# Notes to the Financial Statements

## Explanation of the effect of transition of IFRS

<b>(a) Intangible Assets</b>	<b>£'000</b>
IAS 38 Capitalisation of development costs incurred	140
IAS 38 Reclassification of computer software from property, plant & equipment	116
Total increase to intangible assets	<b>256</b>
<b>(b) Property, plant &amp; equipment</b>	<b>£'000</b>
IAS 38 Reclassification of computer software to intangible assets	(116)
Total decrease to property, plant & equipment	<b>(116)</b>
<b>(c) Deferred income tax assets</b>	<b>£'000</b>
IAS 12 Separate disclosure of deferred income tax assets and liabilities	92
Total increase to deferred income tax assets	<b>92</b>
<b>(d) Proposed dividend</b>	<b>£'000</b>
IAS 10 Reversal of accrued proposed final dividend no longer recognised	718
Total decrease to trade and other payables	<b>718</b>
<b>(e) Deferred income tax liabilities</b>	<b>£'000</b>
IAS 38 Deferred income tax liability on development cost capitalised	(42)
IAS 12 Balance sheet approach applied to industrial buildings allowances	(70)
IAS 12 Separate disclosure of deferred income tax assets and liabilities	(92)
Total increase to deferred income tax liability	<b>(204)</b>
<b>(f) Retained Earnings</b>	<b>£'000</b>
IAS 38 Development cost capitalised	(140)
IAS 38 Deferred income tax liability on development cost capitalised	42
IAS 12 Balance sheet approach applied to industrial buildings allowances	70
IAS 10 Reversal of accrued proposed final dividend no longer recognised	(718)
Total increase to retained earnings	<b>(746)</b>

# Notes to the Financial Statements

## 32 (b). Reconciliation of net assets and profit under UK GAAP to IFRS – Company (continued)

Equity as at 31 March 2005

	UK GAAP £'000	Notes	Effect of Transition to IFRS £'000	IFRS £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill	996	(a)	(543)	453
Intangible assets	413	(b)	919	1,332
Property, plant and equipment	2,591	(c)	(126)	2,465
Investment in subsidiaries	2,662		–	2,662
Deferred income tax assets	–	(d)	149	149
	<b>6,662</b>		<b>399</b>	<b>7,061</b>
<b>Current assets</b>				
Inventories	1,780			1,780
Trade and other receivables	4,412			4,412
Cash and cash equivalents	1,109			1,109
	<b>7,301</b>			<b>7,301</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Financial liabilities				
– Borrowings	(652)			(652)
Trade and other payables	(3,111)	(e)	790	(2,321)
Current tax liabilities	(584)	(f)	30	(554)
	<b>(4,347)</b>		<b>820</b>	<b>(3,527)</b>
<b>Net current assets</b>	<b>2,954</b>		<b>820</b>	<b>3,774</b>
<b>Non-current liabilities</b>				
Financial liabilities				
– Borrowings	(1,420)			(1,420)
Deferred income tax liabilities	(113)	(g)	(315)	(428)
	<b>(1,533)</b>		<b>(315)</b>	<b>(1,848)</b>
<b>Net assets</b>	<b>8,083</b>		<b>904</b>	<b>8,987</b>
<b>Shareholders' equity</b>				
Ordinary share capital	(544)			(544)
Share premium	(999)			(999)
Other reserves	(111)	(h)	(25)	(136)
Retained earnings	(6,429)	(i)	(879)	(7,308)
<b>Total shareholders' equity</b>	<b>(8,083)</b>		<b>(904)</b>	<b>(8,987)</b>

# Notes to the Financial Statements

## Explanation of the effect of transition of IFRS

<b>(a) Goodwill</b>	<b>£'000</b>
IFRS 3 Reversal of goodwill amortisation calculated under UK GAAP but not longer permitted under IFRS	200
IFRS 3 Reclassification of acquired goodwill into identifiable intangible assets	(743)
Total decrease to Goodwill asset	<b>(543)</b>
<b>(b) Intangible Assets</b>	<b>£'000</b>
IFRS 3 Reclassification of acquired goodwill into identifiable intangible assets	743
IFRS 3 Amortisation of acquired intangible assets during the period	(148)
IAS 38 Capitalisation of development costs incurred	198
IAS 38 Reclassification of computer software from property, plant & equipment	126
Total increase to intangible assets	<b>919</b>
<b>(c) Property, plant &amp; equipment</b>	<b>£'000</b>
IAS 38 Reclassification of computer software to intangible assets	(126)
Total decrease to property, plant & equipment	<b>(126)</b>
<b>(d) Deferred income tax assets</b>	<b>£'000</b>
IAS 12 Separate disclosure of deferred income tax assets and liabilities	141
IFRS 2 Deferred income tax asset created on recognition of share based payments	8
Total increase to deferred income tax assets	<b>149</b>
<b>(e) Proposed dividend</b>	<b>£'000</b>
IAS 10 Reversal of accrued proposed final dividend no longer recognised	790
Total decrease to trade and other payables	<b>790</b>
<b>(f) Current tax liabilities</b>	<b>£'000</b>
IFRS 3 Corporation tax credit on amortisation of acquired intangible assets	30
Total decrease to current tax liabilities	<b>30</b>
<b>(g) Deferred income tax liabilities</b>	<b>£'000</b>
IFRS 3 Deferred income tax impact of not amortising purchased goodwill	(51)
IAS 38 Deferred income tax liability on development cost capitalised	(59)
IAS 12 Balance sheet approach applied to industrial buildings allowances	(64)
IAS 12 Separate disclosure of deferred income tax assets and liabilities	(141)
Total increase to deferred income tax liability	<b>(315)</b>

# Notes to the Financial Statements

## 32 (b). Reconciliation of net assets and profit under UK GAAP to IFRS – Company (continued)

### **Explanation of the effect of transition of IFRS**

<b>(h) Share based payment</b>	<b>£'000</b>
IFRS 2 reserve created for the effect of recognising share based payments under IFRS 2	(25)
<hr/>	
Total increase in IFRS 2 reserve	(25)
<hr/>	
<b>(i) Retained Earnings</b>	<b>£'000</b>
IFRS 3 Goodwill amortisation not permitted under IFRS	(200)
IFRS 3 Deferred income tax charge arising from writing back amortisation of purchased goodwill	51
IFRS 3 Amortisation of acquired intangible assets during the period	148
IFRS 3 Corporation tax credit on amortisation of acquired intangible assets	(30)
IFRS 2 Charge for recognition of share based payment	25
IFRS 2 Deferred income tax asset on recognition of share based payment	(8)
IAS 38 Development cost capitalised	(198)
IAS 38 Deferred income tax liability on development cost capitalised	59
IAS 12 Balance sheet approach applied to industrial buildings allowances	64
IAS 10 Reversal of accrued proposed final dividend no longer recognised	(790)
<hr/>	
Total increase to retained earnings	(879)
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# Notes to the Financial Statements

<b>Net income to 31 March 2005</b>	<b>£'000</b>
<b>UK GAAP Profit after tax</b>	<b>2,539</b>
IFRS 3 Reversal of goodwill amortisation not allowed under IFRS	149
IFRS 3 Amortisation of intangible assets identified on Wingrip acquisition (net of tax)	(118)
IFRS 2 Charge recognising share based payments (net of deferred tax)	(17)
IAS 38 Net impact of capitalising and amortising development costs	41
IAS 12 Deferred income tax on balance sheet method application to buildings	6
<b>IFRS Profit after tax</b>	<b>2,600</b>

## Adoption of IAS 32 and 39

As stated earlier, the company has elected to apply the exception from restatement of comparatives for IAS 32 and 39. As a result, the company has applied previous UK GAAP rules to derivatives, financial assets and financial liabilities and to hedging relationships for the comparative information. The adjustments required for differences between UK GAAP and IAS 32 and 39 are recognised at 1 April 2005. These adjustments are as follows:

	<b>£'000</b>
Increase to financial assets arising from fair value of financial derivatives	29
Increase to financial liabilities arising from fair value of financial derivatives	(4)
Increase in deferred tax liability through recognition of financial assets and liabilities	(4)
<b>Total increase to retained earnings and equity</b>	<b>21</b>

## Changes to the cash flow statement

The company cash flow statement prepared under IFRS presents substantially the same information as required under UK GAAP.

Under IFRS only three categories of cash flow activity are required to be reported; operating, investing and financing. There are no material differences between the cash flow statement presented under IFRS and the cash flow statement under UK GAAP, although the capitalisation and amortisation of development costs results in increased capital expenditure and adjustments to operating profit for non-cash amortisation.

# Notice of Annual General Meeting

**This document is important and requires your immediate attention.** If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional independent adviser authorised under the Financial Services and Markets Act 2000.

Latchways plc (Registered Number 1189060)

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at Hopton Park, Devizes, Wiltshire SN10 2JP on 1 September 2006 at 12 noon for the following purposes:

Ordinary business

1. To receive and adopt the directors' report and accounts for the year ended 31 March 2006.
2. To declare a final dividend on the ordinary share capital of the Company.
3. To re-elect B Finlayson as a director.
4. To re-elect N P Hearson, Chairman, as a director.
5. To re-elect J A B Joll as a director.
6. To re-elect D N Hearson as a director.
7. To receive and adopt the Directors' Remuneration Report for the year ended 31 March 2006.
8. To reappoint PricewaterhouseCoopers LLP as auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
9. To authorise the directors to fix the remuneration of the auditors.

## Special Business

To consider and, if thought fit, to pass the following resolutions of which numbers 10 and 13 will be proposed as ordinary resolutions and numbers 11 and 12 as special resolutions:

10. For the purposes of Section 80 of the Companies Act 1985 (the "Act"), the directors be and they are hereby generally and unconditionally authorised, in substitution for any existing authority to allot relevant securities (within the meaning of section 80 of the Act), to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £95,842 provided that this authority shall expire five years from the date of the passing of this resolution (unless previously revoked, varied or extended by the Company in general meeting), except that the Company may before the expiry of such period make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such period and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority hereby conferred had not expired.
11. The directors be and are hereby empowered (pursuant to section 95 of the Act within the meaning of section 94 of the Act) to allot equity securities wholly for cash, either pursuant to the authority conferred upon them by resolution 10 above or by an allotment of equity securities such as is referred to in section 94(3A) of the Act as if section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited to:
  - 11.1 the allotment of equity securities in connection with a rights issue; and
  - 11.2 the allotment (otherwise than pursuant to sub-paragraph 11.1 above) of equity securities up to an aggregate nominal amount of £27,262;

and shall expire on the earlier of the conclusion of the next annual general meeting of the Company and the date falling fifteen months after the date of the passing of the resolution (unless previously revoked, varied or extended by the Company in general meeting) except that the Company may before the expiry of any power contained in this resolution make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

# Notice of Annual General Meeting

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In this resolution 11:

- (a) "rights issue" means an offer of equity securities open for acceptance for a period fixed by the directors to holders of ordinary shares on the register on a fixed record date in proportion to their respective holdings of such shares in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory);
  - (b) the nominal amount of any securities should be taken to be, in the case of a right to subscribe for or convert any securities into shares of the Company, the nominal amount of the shares which may be allotted pursuant to such right; and
  - (c) words or expressions defined in or for the purposes of sections 89-96 inclusive of the Act shall bear the same meanings.
12. The Company be and is hereby generally and unconditionally authorised, in accordance with section 166 of the Act, to make market purchases (within the meaning of section 163 of the Act) of ordinary shares of 5 pence each in the capital of the Company ("ordinary share") on such terms and in such manner as the directors may from time to time determine, provided that:
- (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 15% of the Company's issued share capital;
  - (b) the minimum price which may be paid for an ordinary share is 5 pence per share;
  - (c) the maximum price which may be paid for share is an amount equal to 105% of the average middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;
  - (d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;
  - (e) the authority hereby conferred shall expire on the earlier of the next annual general meeting of the Company and the date following eighteen months from the date of the passing of this resolution (unless revoked, varied or extended by the Company in general meeting by special resolution); and
  - (f) the company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.
13. That the amendments to the Latchways plc Enterprise Management Incentive Scheme (the "Scheme") which are summarised in Note 5.3 of the Notes to this Notice of Annual General Meeting and which are shown in the marked-up version of the Scheme rules produced to the meeting (and, for the purposes of identification, signed by the Chairman) be and they are hereby approved and the directors be and they are hereby authorised to adopt the amendments and to take all steps which they consider necessary or expedient to carry the same into effect.

By order of the board  
Rex Orton  
Company Secretary

Registered office:  
Hopton Park  
Devizes  
Wiltshire  
SN10 2JP

30 June 2006

# Notes

1. Any member of the Company entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and, on a poll, vote on his or her behalf. A proxy need not be a member of the Company. To be valid, a form of proxy, and any power of attorney under which it is signed, must be lodged with the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6ZR, no later than 48 hours before the time of the annual general meeting. A form of proxy is enclosed.
2. The completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person.
3. The following documents are available for inspection by members at the registered office of the Company on weekdays (except bank holidays) during normal business hours, and at the place of the meeting for not less than fifteen minutes before the meeting draws to its conclusion:
  - 3.1 the register of directors' interests required to be kept under section 325 of the Act; and
  - 3.2 copies of the directors' contracts of service.
4. Short biographies of each of the directors offering themselves for re-election are on page 8 of the annual report and accounts.
  - 4.1 Both B Finlayson and N P Hearson have held non executive roles on the board for over nine years. Furthermore, with effect from 28 August 2006, J A B Joll will have held a non-executive role on the board for nine years. For this reason, in accordance with the Combined Code they are subject to annual re-election. In the opinion of the board, all these directors continue to be effective and significantly enhance the performance of the board as a whole. In the case of B Finlayson and J A B Joll, the board is of the view that the length of their tenure in no way affects their independence of view. As Chairman, N P Hearson is deemed non-independent by the Combined Code.
5. The following is an explanation of the resolutions relating to special business:
  - 5.1 The right of the directors to allot relevant securities in the capital of the Company requires in most cases the prior authorisation of the shareholders in general meeting under section 80 of the Act. Resolution 10 will be put to members as special business to authorise the directors to allot ordinary shares with a nominal value of £95,842 out of the Company's unissued ordinary share capital representing approximately 17.6 per cent of the Company's current issued ordinary share capital. The authority shall expire 5 years from the date of passing the resolution.
  - 5.2 New regulations which came into force in December 2003 now permit the Company to purchase its own shares and, rather than cancel those shares, to hold them as treasury shares, in which case they would carry no voting rights and no entitlement to any dividend for as long as they are held as treasury shares. The Company does not currently hold any of its own shares as treasury shares. The authority provided by resolution 11 would permit the directors to allot for cash equity securities or sell any shares held as treasury shares with an aggregate nominal value of £27,262 equal to approximately 5 per cent of the Company's issued ordinary share capital for cash without first offering them pro rata to existing shareholders.

The Company will thereby be given greater flexibility when considering future opportunities but the interests of existing shareholders will be protected as, except in the case of a rights issue or the allotment of shares under the Company's employees' share option scheme, the proportionate interests of shareholders cannot, without their consent, be reduced by the issue for cash of new equity securities or the sale of any shares held as treasury shares representing more than 5 per cent of the current issued share capital. Save for the issue of shares pursuant to options granted under the Company's employees' share option scheme, the directors have no present intention to allot any part of the unissued share capital of the Company or, without the prior approval of the Company in general meeting, to make any issue which would effectively alter the control of the Company or the nature of its business. The authority will expire immediately following the annual general meeting next following the resolution of, if earlier, 15 months following the resolution being passed.

In exercising the authority to purchase ordinary shares, the directors may treat the shares that have been bought back as either cancelled or held in treasury (or a combination of both) and to the extent that any such shares are held in treasury, earnings per share will only be increased on a temporary basis, until such time as the shares are re-sold out of treasury.

- 5.3 Under the Latchways plc Enterprise Management Incentive Scheme (the "Scheme") which was adopted in 2001, employees of the Company and its subsidiaries may be granted options over shares in the Company. Those options may be either "EMI Options" or "Unapproved Options". On the exercise of an Unapproved Option, National Insurance contributions are charged on the amount by which the value of the shares acquired exceeds the aggregate exercise price paid to acquire them. The National Insurance contributions liability includes an employee liability and an employer liability; it is a term of the Scheme that, in accordance with the relevant tax legislation, the optionholder pays the employer National Insurance contributions.

This term was included when the Scheme was introduced to mitigate its costs of operation. Following subsequent amendments to tax legislation, the optionholder's employer may be entitled on exercise of an option to claim a deduction in calculating its profits chargeable to corporation tax equal to the amount by which the value of shares acquired on the exercise of an option exceeds the exercise price paid to acquire them. Because the Group should be able to benefit from the availability of any such deduction, it is, therefore, proposed that the rules of the Scheme be amended so that the Remuneration Committee can decide when an option is exercised whether to require the optionholder to pay the employer National Insurance contributions (and, if so, how much). In the absence of any decision by the Remuneration Committee the employer will pay all the employer National Insurance contributions arising; if the Remuneration Committee decides that the optionholder should pay only a part of the employer National Insurance contributions arising, the employer will pay the remainder. In deciding whether to require the optionholder to pay the employer National Insurance contributions (and, if so, how much) the Remuneration Committee will take into account the circumstances relevant at the time of exercise including the availability and amount of any corporation tax deduction in respect of the option.

The amendments will apply to options granted before and after they are adopted (provided, in the case of an option granted before the amendments are adopted, the option is not exercised before the amendments are adopted).

Shareholders' approval to the proposed amendments is required.

Following a review of the Scheme, the Remuneration Committee also proposes to update the rules to reflect changes in legislation and practice since the Scheme was originally adopted. Shareholders' approval of these amendments is not being sought.

The rules of the Scheme, marked-up to show the proposed amendments, will be available for inspection from the date of despatch of this Notice until the close of the Annual General Meeting at the offices of Olswang, 90 High Holborn, London WC1V 6XX, and at the Meeting for 15 minutes prior to the meeting and during the meeting.

6. The board considers that the resolutions numbered 1 to 13 to be proposed at the AGM are in the best interests of the shareholders as whole and recommends you to vote in favour of them. Directors who hold shares in the company intend to vote in favour of these resolutions in respect of their holdings.



# Form of Proxy for use at Annual General Meeting

**Latchways plc** (Registered number 1189060)

I/We

(BLOCK LETTERS)

of

(a) member(s) of Latchways plc entitled to attend and vote at the above meeting, hereby appoint the chairman of the meeting or\*

as my/our proxy to vote for me/us and to act on my/our behalf at the annual general meeting of the Company convened for 1 September 2006 at 12 noon, and every adjournment thereof.

\*If you wish to appoint a proxy other than the chairman, please delete the reference to the chairman of the meeting (initialling the deletion) and insert the name of your proxy in the space provided. A proxy must attend the meeting in person to represent you.

I/We direct the proxy to vote on the resolutions set out in the notice convening the meeting as follows:

Resolutions	For	Against
1. To receive the accounts and adopt them		
2. To declare a final dividend		
3. To re-elect B Finlayson		
4. To re-elect N P Hearson		
5. To re-elect J A B Joll		
6. To re-elect D N Hearson		
7. To receive the remuneration report and adopt it		
8. To re-appoint the auditors		
9. To authorise the directors to fix the auditors' remuneration		
10. To authorise the directors under section 80		
11. To authorise the directors under section 95		
12. To authorise the Company under section 166		
13. To approve and adopt amendments to the Latchways plc Enterprise Management Incentive Scheme		

Dated this

day of

2006

(Signature)

Notes

- Please indicate with an x in the spaces provided above how you wish your vote to be cast. Your proxy will vote or abstain from voting as he/she thinks fit if no clear indication is given.
- To be valid this proxy must be lodged with the Company's registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZR, not later than 48 hours before the time for which the meeting has been convened.
- Any alterations made in the form of proxy should be initialled.
- In the case of a corporation the proxy should be completed under its common seal or signed by its attorney or by an officer on its behalf.
- In the case of joint-holders the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint-holders. For this purpose seniority will be determined by the order in which the names stand in the register of members in respect of the joint-holding.
- The completion and return of the form of proxy will not preclude ordinary shareholders attending and voting at the meeting should they subsequently decide to do so.









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