

# **Malvern Tubular Components Limited**

Financial statements

For the year ended 31 March 2006

Grant Thornton 



**Company No. 00370553**

## Company information

<b>Company registration number</b>	00370553
<b>Registered office</b>	Spring Lane Malvern Link Malvern Worcester WR14 1DA
<b>Directors</b>	R Allsop N Silverthorne W E Benson A McClean P F Sauntson
<b>Secretary</b>	M Greensmith
<b>Bankers</b>	National Westminster Bank plc 1st Floor St John's House Church Street Bromsgrove Worcestershire B61 8DN
<b>Solicitors</b>	Orme, Dyke & Yates National Westminster Bank Chambers The Homend Ledbury HR8 1AB
<b>Auditor</b>	Grant Thornton UK LLP Chartered Accountants Registered Auditors Enterprise House 115 Edmund Street Birmingham B3 2HJ

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## Report of the directors

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

### Principal activities and business review

The principal activity of the company during the year was the manufacture of tubular components.

### Results and dividends

The profit for the year, after taxation, amounted to £11,579 (2005: £241,679). Particulars of dividends paid and proposed are detailed in note 9 to the financial statements.

### Financial risk management objectives and policies

The company's principal financial instruments comprise short term borrowings, finance leases, hire purchase contracts and cash. The main purpose of these financial instruments is to raise finance for the company's operations. The company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. The company does not enter into derivative transactions.

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

#### Interest rate risk

The company's policy is to manage its interest cost using a mix of fixed and variable rate debt. The company exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating facilities. The company finances specific large plant acquisitions via finance leases or hire purchase contracts.

#### Foreign currency risk

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

#### Commodity price risk

The company's exposure to the price of steel is high, therefore selling prices are monitored regularly to reduce the impact of such risk and opportunities to reduce manufacturing costs are explored constantly.

#### Credit risk

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

### Liquidity risk

The company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash at bank, an invoice discounting facility, finance leases and hire purchase contracts.

### Directors

The directors who served the company during the year were as follows:

R Allsop  
N Silverthorne  
W E Benson  
A McClean  
P F Sauntson

The company is a wholly owned subsidiary and the interests of the group directors are disclosed in the financial statements of the parent company.

At 31 March 2006 the following options were held in Tricorn Group plc by the non-group directors:

Enterprise management scheme EMI options	At beginning of period Number	Granted during the year Number	Lapsed during the year Number	At end of period Number	Exercise price £
W E Benson	-	75,000	75,000	-	0.20
P F Sauntson	-	75,000	-	75,000	0.10
A McClean	50,000	-	-	50,000	0.20
A McClean	-	25,000	-	25,000	0.10

W E Benson resigned on 31 March 2006.

### Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

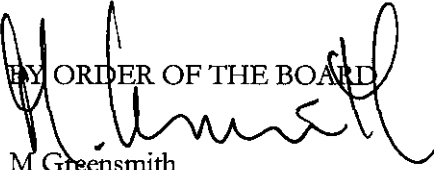
The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

**Auditor**

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD  
  
M Greensmith  
Secretary

Date

24/8/06

## Report of the independent auditor to the members of Malvern Tubular Components Limited

We have audited the financial statements of Malvern Tubular Components Limited for the year ended 31 March 2006 which comprise the principal accounting policies, profit and loss account, balance sheet and notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

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

### **Respective responsibilities of directors and auditor**

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors 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 read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of opinion**

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

## Report of the independent auditor to the members of Malvern Tubular Components Limited (continued)

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

### **Opinion**

In our opinion:

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

*Grant Thornton UK LLP*  
**GRANT THORNTON UK LLP**  
**REGISTERED AUDITORS**  
**CHARTERED ACCOUNTANTS**  
**BIRMINGHAM**

Date 25/8/06

## Principal accounting policies

### Basis of accounting

The financial statements are prepared under the historical cost convention.

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

FRS 25 'Financial Instruments: Disclosure and Presentation'

With the introduction of Financial Reporting Standard 25 there has been a change to the treatment of financial instruments. The new accounting policy detailing the new treatment is set out on page 10. The change in accounting policy does not have an impact on the financial statements for the year ended 31 March 2006 or 2005.

### Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is consolidated within Tricorn Group plc's financial statements.

### Turnover

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

### Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant & Machinery	-	10% - 33%
Motor Vehicles	-	20%

### Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

### Work in progress and finished goods

Work in progress and finished goods are valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress and finished goods.

### Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

## Principal accounting policies

### Finance lease agreements

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments.

### Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

### Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

### Deferred taxation

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

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

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

### 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 are taken into account in arriving at the operating profit.

## Principal accounting policies

### Financial instruments

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

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

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity. Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate. Interest payable/receivable is accrued and charged/credited to the profit and loss account in the year to which it relates.

## Profit and loss account

	Note	2006 £	2005 £
Turnover	1	5,358,230	5,047,077
Cost of sales		3,302,297	2,981,122
Gross profit		2,055,933	2,065,955
Other operating charges	2	1,846,085	1,683,545
<b>Operating profit</b>	3	209,848	382,410
Interest payable and similar charges	6	(194,896)	(67,850)
<b>Profit on ordinary activities before taxation</b>		14,952	314,560
Tax on profit on ordinary activities	7	3,373	72,881
<b>Profit for the financial year</b>	19	11,579	241,679

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

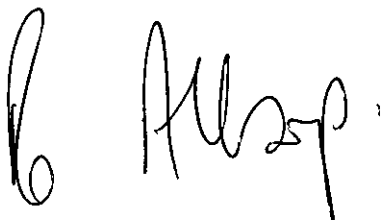
The accompanying accounting policies and notes form part of these financial statements.

## Balance sheet

	Note	2006 £	2005 £
<b>Fixed assets</b>			
Tangible assets	10	<u>500,496</u>	<u>618,809</u>
<b>Current assets</b>			
Stocks	11	577,805	554,618
Debtors	12	1,511,257	1,600,002
Cash at bank		<u>22,102</u>	<u>29,310</u>
		<u>2,111,164</u>	<u>2,183,930</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>2,415,287</u>	<u>2,088,743</u>
<b>Net current (liabilities)/assets</b>		<u>(304,123)</u>	<u>95,187</u>
<b>Total assets less current liabilities</b>		<u>196,373</u>	<u>713,996</u>
<b>Creditors: amounts falling due after more than one year</b>	14	<u>94,260</u>	<u>105,239</u>
		<u>102,113</u>	<u>608,757</u>
<b>Provisions for liabilities</b>			
Deferred taxation	16	<u>54,652</u>	<u>72,875</u>
		<u>47,461</u>	<u>535,882</u>
<b>Capital and reserves</b>			
Called-up equity share capital	19	19,510	19,510
Profit and loss account	20	<u>27,951</u>	<u>516,372</u>
<b>Shareholders' funds</b>	21	<u>47,461</u>	<u>535,882</u>

These financial statements were approved by the directors on 24/8/06 and are signed on their behalf by:

R Allsop  
Director



## Notes to the financial statements

### 1 Turnover

The turnover and profit before tax are attributable to the one principal activity of the company.  
An analysis of turnover is given below:

	2006 £	2005 £
United Kingdom	<u>5,358,230</u>	<u>5,047,077</u>

### 2 Other operating charges

	2006 £	2005 £
Distribution costs	260,041	150,452
Administrative expenses	<u>1,586,044</u>	<u>1,533,093</u>
	<u>1,846,085</u>	<u>1,683,545</u>

### 3 Operating profit

Operating profit is stated after charging/(crediting):

	2006 £	2005 £
Depreciation of owned fixed assets	154,558	108,718
Depreciation of assets held under finance leases and hire purchase agreements	23,139	31,365
Profit on disposal of fixed assets	—	(3,599)
Auditor's remuneration:		
Audit fees	12,000	9,000
Taxation fees	3,000	3,000
Operating lease costs:		
Land and buildings	155,000	142,214
Plant and equipment	3,486	3,857
Vehicles	21,461	11,775
Net loss on foreign currency translation	<u>585</u>	<u>327</u>

#### 4 Directors and employees

The average number of persons employed by the company during the financial year, including the directors, amounted to 85 (2005 - 90).

The aggregate payroll costs of the above were:

	2006 £	2005 £
Wages and salaries	1,418,826	1,663,238
Social security costs	147,946	147,120
Other pension costs	40,329	34,615
	<u>1,607,101</u>	<u>1,844,973</u>

#### 5 Directors

Remuneration in respect of directors was as follows:

	2006 £	2005 £
Emoluments receivable	225,781	185,987
Value of company pension contributions to money purchase schemes	11,939	10,712
	<u>237,720</u>	<u>196,699</u>

The number of directors who accrued benefits under company pension schemes was as follows:

	2006 No	2005 No
Money purchase schemes	<u>4</u>	<u>4</u>

#### 6 Interest payable and similar charges

	2006 £	2005 £
Interest payable on bank borrowing	44,580	52,089
Interest payable to group undertakings	135,815	-
Finance charges	14,501	15,761
	<u>194,896</u>	<u>67,850</u>

## 7 Taxation on ordinary activities

### (a) Analysis of charge in the year

	2006 £	2005 £
Current tax:		
UK Corporation tax based on the results for the year at 30% (2005 - 30%)	21,596	-
Under provision in prior year	-	6
Total current tax	<u>21,596</u>	<u>6</u>
Deferred tax:		
Origination and reversal of timing differences	(18,223)	72,875
Tax on profit on ordinary activities	<u>3,373</u>	<u>72,881</u>

### (b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher/lower than the standard rate of corporation tax in the UK of 30% (2005 - 30%).

	2006 £	2005 £
Profit on ordinary activities before taxation	<u>14,952</u>	<u>314,560</u>
Profit on ordinary activities by rate of tax	4,486	94,368
Utilisation of tax losses	-	(99,534)
Expenses not deductible for tax purposes	925	41,208
Effects of other tax rates	(4,485)	(750)
Adjustments to tax charge in respect of previous periods	-	6
Depreciation in excess of capital allowances	20,670	(2,468)
Group relief claimed	-	(32,824)
Total current tax (note 8(a))	<u>21,596</u>	<u>6</u>

## 8 Dividends

### Dividends on shares classed as equity

	2006 £	2005 £
Declared at the year-end		
Equity dividends on ordinary shares	<u>500,000</u>	<u>-</u>

**9 Tangible fixed assets**

	Plant & Machinery £	Motor Vehicles £	Total £
Cost			
At 1 April 2005	2,566,187	64,845	2,631,032
Additions	59,384	—	59,384
Disposals	—	(9,795)	(9,795)
At 31 March 2006	<u>2,625,571</u>	<u>55,050</u>	<u>2,680,621</u>
Depreciation			
At 1 April 2005	1,960,993	51,230	2,012,223
Charge for the year	172,237	5,460	177,697
On disposals	—	(9,795)	(9,795)
At 31 March 2006	<u>2,133,230</u>	<u>46,895</u>	<u>2,180,125</u>
Net book value			
At 31 March 2006	<u>492,341</u>	<u>8,155</u>	<u>500,496</u>
At 31 March 2005	<u>605,194</u>	<u>13,615</u>	<u>618,809</u>

Included within the net book value of £500,496 is £153,580 (2005 - £260,987) relating to assets held under finance leases and hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £23,139 (2005 - £31,365).

**10 Stocks**

	2006 £	2005 £
Raw materials	365,200	282,279
Work in progress	72,735	102,135
Finished goods	139,870	170,204
	<u>577,805</u>	<u>554,618</u>

**11 Debtors**

	2006 £	2005 £
Trade debtors	1,193,122	1,092,316
Amounts owed by group undertakings	255,701	450,586
Other debtors	759	624
Prepayments and accrued income	61,675	56,476
	<u>1,511,257</u>	<u>1,600,002</u>

**12 Creditors: amounts falling due within one year**

	2006	2005
	£	£
Invoice discounting facility	373,777	451,871
Trade creditors	383,643	449,864
Amounts owed to group undertakings	779,949	835,094
Corporation tax	21,596	—
Other taxation and social security	140,570	141,710
Dividend	500,000	—
Amounts due under finance leases and hire purchase agreements	39,341	60,648
Other creditors	17,581	31,070
Accruals and deferred income	158,830	118,486
	<u>2,415,287</u>	<u>2,088,743</u>

The following liabilities disclosed under creditors falling due within one year are secured by the company:

	2006	2005
	£	£
Invoice discounting facility	<u>373,777</u>	<u>451,871</u>

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

	2006	2005
	£	£
Amounts owed to group undertakings	18,811	18,811
Amounts due under finance leases and hire purchase agreements	75,449	86,428
	<u>94,260</u>	<u>105,239</u>

**14 Commitments under finance leases and hire purchase agreements**

Future commitments under finance leases and hire purchase agreements are as follows:

	2006	2005
	£	£
Amounts payable within 1 year	39,341	60,648
Amounts payable between 1 and 2 years	34,506	27,605
Amounts payable between 3 and 5 years	40,943	58,823
	<u>114,790</u>	<u>147,076</u>

## 15 Deferred taxation

The movement in the deferred taxation provision during the year was:

	2006 £	2005 £
Provision brought forward	72,875	-
Profit and loss account movement arising during the year	(18,223)	72,875
Provision carried forward	<u>54,652</u>	<u>72,875</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2006 £	2005 £
Excess of taxation allowances over depreciation on fixed assets	62,920	82,021
Other timing differences	(8,268)	(9,146)
	<u>54,652</u>	<u>72,875</u>

The company has unprovided deferred tax in relation to trading losses of £nil (2004: £18,518).

## 16 Leasing commitments

At 31 March 2006 the company had annual commitments under non-cancellable operating leases as set out below.

	2006		2005	
	Land & Buildings £	Other Items £	Land & Buildings £	Other Items £
Operating leases which expire:				
Within 1 year	-	4,858	-	3,477
Within 2 to 5 years	30,000	6,899	30,000	14,757
After more than 5 years	125,000	-	125,000	-
	<u>155,000</u>	<u>11,757</u>	<u>155,000</u>	<u>18,234</u>

**17 Related party transactions**

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.

**18 Share capital**

Authorised share capital:

	2006 £	2005 £
20,000 Ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

Allotted, called up and fully paid:

	2006 No	£	2005 No	£
Ordinary shares of £1 each	<u>19,510</u>	<u>19,510</u>	<u>19,510</u>	<u>19,510</u>
Equity shares				
Ordinary shares of £1 each	<u>19,510</u>	<u>19,510</u>	<u>19,510</u>	<u>19,510</u>

**19 Profit and loss account**

	2006 £	2005 £
Balance brought forward	516,372	274,693
Profit for the financial year	11,579	241,679
Equity dividends declared	(500,000)	—
Balance carried forward	<u>27,951</u>	<u>516,372</u>

**20 Reconciliation of movements in shareholders' funds**

	2006 £	2005 £
Profit for the financial year	11,579	241,679
Equity dividends declared	(500,000)	—
Net (reduction)/addition to shareholders' funds	(488,421)	241,679
Opening shareholders' funds	535,882	294,203
Closing shareholders' funds	<u>47,461</u>	<u>535,882</u>

**21 Pensions**

The company operated a defined contribution scheme throughout the year. The company has made contributions of £40,329 (2005: £34,615) on behalf of its employees.

**22 Contingencies**

The directors have confirmed that there were no contingent liabilities which should be disclosed at 31 March 2006 or 31 March 2005.

**23 Capital commitments**

The directors have confirmed that there were no capital commitments at 31 March 2006 or 31 March 2005.

**24 Ultimate parent company**

The company's ultimate parent undertaking is Tricorn Group plc, a company incorporated in England and Wales. This is the largest and smallest group of which the company is a member and for which group accounts are prepared. Copies of the group accounts can be obtained from Spring Lane, Malvern, Worcestershire, WR14 1DA. The company's immediate parent undertaking is MTC Holdings Limited a company incorporated in England and Wales.