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# GOODWIN PLC

IVY HOUSE FOUNDRY, HANLEY, STOKE-ON-TRENT



DIRECTORS REPORT AND ACCOUNTS  
30<sup>th</sup> APRIL 2011

TUESDAY



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18/10/2011

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COMPANIES HOUSE

# **GOODWIN PLC**

www.goodwin.co.uk

Registered in England and Wales, Number 305907

Established 1883

## *Directors*

J W Goodwin (*Chairman*)  
R S Goodwin (*Managing Director*)  
F A Gaffney  
J Connolly  
M S Goodwin  
A J Baylay  
S R Goodwin

## *Secretary and registered office*

Mrs P Ashley, B A , A C I S  
Ivy House Foundry, Hanley,  
Stoke-on-Trent, ST1 3NR

## *Registrar and share transfer office*

Computershare Investor Services PLC,  
PO Box No 82,  
Bristol, BS99 7NH

## *Auditors*

KPMG Audit Plc,  
One Snowhill, Snow Hill Queensway, Birmingham, B4 6GH

NOTICE IS HEREBY GIVEN that the SEVENTY SIXTH ANNUAL GENERAL MEETING of the company will be held at 10 30 am on Wednesday, 12th October, 2011 at Crewe Hall, Weston Road, Crewe, Cheshire CW1 6UZ, for the purpose of considering and, if thought fit, passing the following resolutions which are proposed as ordinary resolutions

- 1 To receive the report of the Directors and the audited financial statements for the year ended 30th April, 2011
- 2 To approve the payment of the proposed ordinary dividend on the ordinary shares
- 3 To re-elect Mr F A Gaffney as a Director
- 4 To re-elect Mr A J Baylay as a Director
- 5 To re-elect Mr S R Goodwin as a Director
- 6 To approve the Directors' Remuneration Report for the year ended 30th April, 2011
- 7 To re-appoint KPMG Audit Plc as auditor and to authorise the Directors to determine their remuneration

By Order of the Board

Registered Office  
Ivy House Foundry,  
Hanley, Stoke-on-Trent  
26th August, 2011

P ASHLEY  
Secretary

## NOTES TO NOTICE OF ANNUAL GENERAL MEETING

- 1 Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
- 2 To be valid any proxy form or other instrument appointing a proxy must be received by post, by scanned copy sent to [proxies@goodwingroup.com](mailto:proxies@goodwingroup.com) or (during normal business hours only) by hand at Ivy House Foundry, Hanley, Stoke-on-Trent, ST1 3NR no later than 10 30am on 10th October, 2011.
- 3 The return of a completed proxy form or other such instrument will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
- 4 Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
- 5 The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
- 6 To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 10 30am on 10th October, 2011 (or, in the event of any adjournment, 10 30am on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- 7 As at 25th August, 2011 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 7,200,000 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 26th August, 2011 are 7,200,000.
- 8 Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting, or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
- 9 In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions, and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (i) above.
- 10 None of the Directors have service contracts with the Company.
- 11 If approved by shareholders the final dividend will be paid to shareholders on 14th October, 2011.

## **GOODWIN PLC**

### **CHAIRMAN'S STATEMENT**

I am pleased to report the results for the Group for the twelve month period ending 30th April, 2011. The pre-tax profits were £8.2 million (2010: £13.3 million), a decrease of 38% on a revenue of £92.9 million (2010: £93.0 million) which is marginally down on the figures reported for the same period last financial year. The Directors propose a dividend of 29.166p (2010: 27.777p).

Whilst the reported profit before tax is down by 38% as compared to last year, the gross margin earned, £25.4 million, was only lower by 9%. Part of the £5.1 million drop in pre-tax profit relates to increased overheads of the Group associated with Group companies having hired some 50 additional managers in our 22 companies worldwide to assist with the aspired growth over the next five years. The combined cost of hiring and employing these additional people over the last 12 months amounted to just over £2.0 million, and these additional management people will enhance future growth opportunities where the returns should far exceed the investment costs.

Significant amounts of money have been spent on R & D as covered on page 6 of this report, together with higher than expected non capitalised costs of setting up computerised financial and management accounting systems in Brazil where much of the available software is unable to keep pace with the government tax regulation changes.

On the more positive side, the Refractories Engineering segment of the Group where we have seven overseas companies in China, India, Thailand & Brazil, along with our pump company in India, did particularly well this year and achieved an average of 24% pre-tax profit growth contributing over £4.2 million to Group profits in the year just completed.

In the Engineering segment our two valve companies, Goodwin International Ltd. and Noreva GmbH, had a more difficult year. For the past three years they have recorded excellent results, but with a keenness to not lose market share during the downturn over the past 18 months in the petrochemical business, they took on many smaller contracts that overloaded their administration systems. This coupled with the requirement for even more documentation resulted in them being unable to maintain their previous levels of profitability. Our company in Germany also had a very difficult contract. With more efficient computerised costing systems now commissioned in both companies and with the business levels in the petrochemical industry returning to normal, we have good reason to believe that their performance should now improve. The Group order work load as at 30th April, 2011 was good and stood at £64 million which represents about seven months work.

During the year Andrew Baylay, Director and General Manager of Dupré Minerals, and Simon Goodwin, Director and General Manager of Goodwin Refractory Services, were appointed to the Board of Goodwin PLC to better represent the Refractories Engineering segment of the Group.

## **GOODWIN PLC**

### **CHAIRMAN'S STATEMENT** *(continued)*

With our focus on growing our activity in the rapidly developing economies, we are in the process of adding a further 120,000 square feet of manufacturing space overseas such that we are suitably prepared to meet the rapidly growing market demands. We expect to see more than double the business growth rate over the next ten years in these parts of the world as compared to Europe and the USA

R & D in Goodwin Steel Castings has resulted in a patent being granted to the company for its unique way of producing very large super nickel castings capable of operating at higher temperatures in advanced ultra super critical fossil fuelled power stations. These will soon become the norm due to their increased operational efficiency, thus resulting in reduced CO<sub>2</sub> emissions per megawatt of electricity generated.

R & D in Easat Antennas has seen the introduction of turnkey projects for both ground movement radar and primary radar systems.

A key performance indicator remains the generation of profits from diverse growing markets without systemic dependency. With our 10 overseas manufacturing companies our ability to trade within each country regardless of currency exchange has improved. As mentioned earlier in this report, significant profit is now starting to flow from our overseas operations where greater levels of natural growth are expected.

At our annual international business conference for all General Managers and senior managers, many of whom travel from our overseas subsidiaries, best practice is exchanged and new strategies are targeted. This rigorous performance monitoring and comparison leads to Group targets being agreed and set which include Health & Safety, risk reduction, social responsibility and energy reduction targets as well as the more conventional profit targets. These are then overseen by the Board who continue to review governance on a country by country basis.

Since the Board released the block on activity growth in March 2010 following signs that a large part of the world economy was coming out of recession, the pressure on cash flow has increased especially as it continues to be difficult to obtain contract stage payments even from the wealthiest customers who are still trying to conserve their cash flow. The Group's gearing, whilst higher than we would like, remains relatively low at 38%, but this reflects the investment in R & D in the UK and the development costs of our overseas companies.

The decision to increase the dividend by 5% to £2.1 million this year is an indication of the Board's confidence in the future performance of the Group.

We remain indebted to our employees in the UK and overseas who through their hard work continue to take the Group forward



J. W. Goodwin  
Chairman

26th August, 2011

# GOODWIN PLC

## REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report and audited financial statements for the year ended 30th April, 2011

### Business review

The principal activity of the Group is mechanical and refractory engineering. The consolidated results for the year may be summarised as follows

|                        | <b>2011</b>    | 2010    |
|------------------------|----------------|---------|
|                        | <b>£'000</b>   | £'000   |
| Revenue                | <b>92,908</b>  | 92,996  |
| Profit before taxation | <b>8,205</b>   | 13,311  |
| Tax on profit          | <b>(3,997)</b> | (3,980) |
| Profit after taxation  | <b>4,208</b>   | 9,331   |

Comments on the results for the year, including business review, are given in the Chairman's statement

### Proposed dividends

The Directors recommend that an ordinary dividend of 29 166p per share be paid to shareholders on the register at the close of business on 16th September, 2011 (2010 27 777p per share). If approved by shareholders, the final dividend will be paid to shareholders on 14th October, 2011

### Freehold land and buildings

The Directors consider that the market value of the Group's freehold land and buildings is in excess of the values disclosed in the Group balance sheet

### Directors

The Directors of the Company who have served during the year are set out below

J W Goodwin  
R S Goodwin  
F A Gaffney  
J Connolly  
M S Goodwin  
A J Baylay (appointed 10th December, 2010)  
S R Goodwin (appointed 10th December, 2010)

The interests of the Directors in the share capital of the Company at the beginning and end of the financial year were as follows

|                             | Number of 10p ordinary shares |                   |
|-----------------------------|-------------------------------|-------------------|
|                             | <b>30th April, 2011</b>       | 30th April, 2010* |
| <i>Beneficial</i>           |                               |                   |
| J W Goodwin                 | <b>65,939</b>                 | 5,435             |
| R S Goodwin                 | <b>91,474</b>                 | 179,254           |
| J W Goodwin and R S Goodwin | <b>1,992,916</b>              | 1,946,346         |
| J W Goodwin and R S Goodwin | <b>1,202,983</b>              | 1,177,087         |
| F A Gaffney                 | <b>7,131</b>                  | 7,131             |
| M S Goodwin                 | <b>149,498</b>                | 173,540           |
| S R Goodwin                 | <b>177,003</b>                | 174,949           |
| <i>Non beneficial</i>       |                               |                   |
| J W Goodwin and E M Goodwin | <b>33,252</b>                 | 145,122           |

\*or date of appointment if later

There have been no changes in the directors' interests between 30th April, 2011 and 3rd August, 2011

The Directors retiring in accordance with the Articles are Mr F A Gaffney, Mr A J Baylay and Mr S R Goodwin who, being eligible, offer themselves for re-election

No Director has a service agreement with the Company, nor any beneficial interest in the share capital of any subsidiary undertaking

The Company does not have any share option schemes for employees or Directors

### Shareholdings

The Company has been notified that as at 2nd August, 2011, the following had an interest in 3% or more of the issued share capital of the Company

J W and R S Goodwin 1,992,916 shares (27.68%), J W and R S Goodwin 1,202,983 shares (16.71%) These shares are registered in the names of J M Securities Limited and J M Securities (No 3) Limited respectively J H Ridley 508,246 shares (7.06%), Rulegale Nominees (JAMSCLT) 256,494 shares (3.56%), L R Dean 236,500 shares (3.28%)

### Share capital

The Company's issued share capital comprises a single class of share capital which is divided into ordinary shares of 10p each Information concerning the issued share capital in the Company is set out in note 18 to the financial statements on page 33

All of the Company's shares are ranked equally and the rights and obligations attaching to the Company's shares are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in England and Wales or by writing to the Company Secretary

There are no restrictions on the voting rights of shares and there are no restrictions in their transfer other than

- Certain restrictions as may from time to time be imposed by laws and regulations (for example insider trading laws), and

- Pursuant to the Model Code whereby Directors of the Company require approval to deal in the Company's shares

Additionally, the Company is not aware of any agreements between shareholders of the Company that may result in restrictions on the transfer of ordinary shares or voting rights

The Directors have not been given the authority to issue or buy back the shares of the Company

### Research and Development

The Group continues to invest in research and development activities Expenditure continued to be incurred during the year within Goodwin Steel Castings Limited on the production of nickel alloy castings for the next generation of heat efficient power stations Easat Antennas has invested in the development of transportable radar systems and solid state transceivers In the Refractories Engineering division, investment has been made in high performance recipes, silicon rubber, moulding powder and wax products, and in nano particle technology

### Carbon Reduction Commitment

Long term reduction targets The Group declared an annual CRC report usage of 17,396 MWh (9,411 tonnes CO<sub>2</sub>) for electricity and 20,549 MWh (3,772 tonnes of CO<sub>2</sub>) for gas for the year to March 2011 Energy efficiencies are targeted but, because of expected production increases and higher heat inputs required to make advanced high temperature resistant alloys, our emissions will not meet the 80% cut targeted by Government by 2050

Goodwin Steel Castings Ltd under their Levy Exchange Agreement (separate from the aforementioned figures) reported 8,565 tonnes of CO<sub>2</sub> in the period During this time they manufactured steam valves capable of controlling 8,000 MW of power station generating capacity These, when installed by our customers with other equipment, enable the power stations to run at higher temperatures giving an approximate 4% power station efficiency saving This is equivalent to a reduction in coal usage that would otherwise have been needed to produce 2.8 million MWh per year - or a saving of 1.5 million tonnes of CO<sub>2</sub> per year The target is to increase production of these items by 15% for the next 2 years

Performance against targets Year end March 2011 versus year end March 2008 has seen a static usage of internally used power All capital projects have achieved improved energy efficiency and growth

Persons responsible and engaged in reduction of energy use The Chairman is responsible for collation and monitoring under the CRC The Company's engineers together with the business unit General Managers are tasked with saving energy

### Risks and Uncertainties

The Group's operations expose it to a variety of risks and uncertainties, including

**Market risk** The Group provides a range of products and services, and there is a risk that the demand for these services will vary from time to time because of competitor action or economic cycles As shown in Note 2 to the financial statements, the Group operates across a range of geographical regions, and its turnover is split across the UK, Europe, North America, the Pacific Basin and the rest of the world This spread reduces risk in any one territory Similarly, the Group operates in both mechanical and refractory engineering sectors, mitigating the risk of a downturn in any one product area The potential risk of the loss of any key customer is limited as, typically, no single customer accounts for more than 10% of turnover

**Technical risk** The Group develops and launches new products as part of its strategy to enhance the long-term value of the Group Such development projects carry business risks, including reputational risk, abortive expenditure and potential customer claims which may have a material impact on the Group The potential risk here is seen as small given the Group is developing products in areas in which it is knowledgeable and new products are extensively tested prior to their release into the market

**Health and safety** The Group's operations involve the typical health and safety hazards inherent in manufacturing and business operations The Group is subject to numerous laws and regulations relating to health and safety around the world Hazards are managed by carrying out risk assessments and introducing appropriate controls

**Acquisitions** The Group's growth plan over recent years has included a number of acquisitions There is the risk that these, or future acquisitions, fail to provide the planned value This risk is mitigated through extensive financial and technical due diligence during the acquisition process and the Group's knowledge of the markets they operate in

**Financial risk** The principal financial risks faced by the Group are changes in market prices (interest rates, foreign exchange rates and commodity prices), credit risks and liquidity The Group has in place risk management policies

that seek to limit the adverse effects on the financial performance of the Group by using various instruments and techniques, including credit insurance, stage payments, forward foreign exchange contracts and interest rate caps and swaps. Further information on the financial risk management objectives and policies is set out in Note 19 to the financial statements on page 33.

#### **Donations**

The Company made no political contributions during the year.

Donations by the Group for charitable purposes amounted to £23,000 (2010 £65,250).

#### **Employee consultation**

The Group takes seriously its responsibilities to employees and, as a policy, provides employees systematically with information on matters of concern to them. It is also the policy of the Group to consult where appropriate, on an annual basis, with employees or their representatives so that their views may be taken into account in making decisions likely to affect their interests.

#### **Employment of disabled persons**

The policy of the Group is to offer the same opportunity to disabled people, and those who become disabled, as to all others in respect of recruitment and career advancement, provided their disability does not prevent them from carrying out the duties required of them.

#### **Creditor payment policy**

The Company has not adopted any formal code or standards on supplier payment practice. The Company's policy is to settle payments having negotiated and advised terms and conditions with suppliers on a contract by contract basis. The Company has no trade creditors at 30th April, 2011 (2010 Nil).

#### **Disclosure of information to auditors**

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### **Corporate governance**

##### *Introduction*

The Board has always felt that it should be recognised that what may be appropriate for the larger company may not necessarily be so for the smaller company, a point raised previously in the Cadbury Code of Best Practice. The Board continues to be conscious of its non-compliance with certain aspects of the revised Code, as detailed below, but does not believe that at this stage in the Group's development and circumstances it is appropriate to change its own operational or governance structure just to gain compliance. As before, where it does not comply, the Board is happy to provide its explanations for not doing so on the basis that it believes that such non-compliance is more appropriate to the shareholders' and other stakeholders' long term interests.

##### *Compliance statement*

The Company is required to report on compliance with the detailed requirements of the UK Corporate Governance Code (formerly the Combined Code) throughout the year. In relation to all of the provisions except those mentioned here the Company complied throughout the period. Further details on all areas are given below.

The Group does not comply with aspects of the Code's requirements paragraphs A4, C3, B1, B2 and D2 in terms of non-executive Directors and the requirement for an Audit Committee, Remuneration Committee and Nominations Committee and Senior Independent Director.

The roles of the Chairman in running the Board and the Managing Director in running the Group's businesses are well understood. It is not considered necessary to have written job descriptions. This is contrary to paragraph A2.1. The Chairman and Managing Director do not retire by rotation, which is contrary to paragraph B7 of the Code.

There is no formal schedule of matters reserved for the Board, which is contrary to paragraph A1.1.

The internal audit function was established during the year and since that date the Company has been working towards compliance with C3.5.

##### *The Board*

The Board, which comprises seven Executive Directors, meets formally by itself and with subsidiary Directors on a regular basis. In view of the Group's present size and proven track record, non-executive directors are not thought to be appropriate, due to the cost likely to be involved and the lack of opportunity for adding significant value to the business. The Chairman and Managing Director do not retire by rotation. With this exception, all Directors retire at the first AGM after their initial appointment and then by rotation at least every three years.

During the year, the Board met formally fifteen times. Details of attendees at these meetings are set out below.

|             |  |
|-------------|--|
| J W Goodwin | 15 out of 15 attended  |
| R S Goodwin | 13 out of 15 attended  |
| F A Gaffney | 12 out of 15 attended  |
| J Connolly  | 14 out of 15 attended  |
| M S Goodwin | 15 out of 15 attended  |
| A J Baylay  | 4 out of 4 attended (since appointment on 10th December, 2010) |
| S R Goodwin | 4 out of 4 attended (since appointment on 10th December, 2010) |



Regular informal meetings are also held to enable all members of the Board to discuss relevant issues with local management and staff at the business units

The Board retains full responsibility for the direction and control of the Group and, whilst there is no formal schedule of matters reserved for the Board, all acquisitions and disposals of assets, investments and material capital-related projects are, as a matter of course, specifically reserved for Board decision

#### *Board evaluation*

The Chairman and Managing Director address the development and training needs of the Board as a whole. An evaluation of the effectiveness and performance of the Board and the subsidiary Directors has been carried out by the Chairman and Managing Director, by way of personal discussions and individual performance evaluation against financial targets

All Directors have reasonable access to the Company Secretary and to independent professional advice at the Company's expense

#### *Board Committees*

The Board has not operated a separate Audit Committee, Remuneration Committee or Nomination Committee during the year due to its size and composition. However, the Board as a whole has fulfilled many of the roles specified in the revised UK Corporate Governance Code (formerly the Combined Code) for these sub-committees including

- review of the interim and annual financial statements and associated announcements,
- making recommendations in relation to the re-appointment, remuneration and terms of engagement of the external auditors,
- reviewing the external auditors' work plan, audit process, independence and objectivity,
- reviewing the scope of work for the internal audit function,
- reviewing the "whistle-blowing" procedures

#### *Internal control*

The Board has overall responsibility for the Group's system of internal control (including operational, financial, compliance and risk management controls), which is designed to manage rather than eliminate risk and provides only reasonable reassurance against material misstatement or loss. Except as noted in this Corporate Governance report, the Board confirms that the system of internal control accords with the UK Corporate Governance Code

The Board meets with an agenda to discuss corporate strategy, to formulate and monitor the progress of business plans for all subsidiaries and to identify, evaluate and manage the business risks faced. The management philosophy of the Group is to operate its subsidiaries on an autonomous basis, subject to overall supervision and evaluation by the Board, with formally defined areas of responsibility and delegation of authority. The Group has put in place formal lines of reporting with subsidiary management meeting with the Directors on a regular basis

The Board considers that the close involvement of the Company's Directors in all areas of the day-to-day operations of the Group's business represents the most effective ongoing control over its financial and business risks. In particular, authority is limited to the Company Directors in key risk areas such as treasury management, capital expenditure and other investment decisions. The Directors annually review the effectiveness of the internal financial control system including considering reports from management, discussions with senior personnel throughout the Group, and consideration by the Board of any reports from the external auditor. These procedures have been in place throughout the year and up to the date of this report and accord with the Turnbull Guidance

#### *Corporate governance*

Given the close involvement of the Company's Directors in the operation of the business, the Board does not currently consider that a formal review of non-financial controls would provide any additional benefit in their review of the effectiveness of the Group's internal controls

During the year the Group has set up an internal audit function and has recruited a Group Internal Auditor. The Group's executive Directors and senior management will continue to have close involvement on a day-to-day operational basis and the scope and results of internal audit work to be performed will be kept under review in the coming year

#### *Directors' remuneration*

The remuneration of the Directors is considered by the Board so that no Director determines his own salary

Details of each element of the Directors' remuneration are given in the Directors' Remuneration Report on page 10

#### *External audit*

The external auditor is appointed annually at the Annual General Meeting. The Board considers the re-appointment of the auditor, and assesses on an annual basis the qualification, expertise, cost, independence and objectivity of the external auditor. In addition, the Board regularly monitors the level of non-audit services provided to the Group by the external auditor to ensure that their independence is not compromised

#### *Shareholder relations*

All shareholders are encouraged to participate in the Company's Annual General Meeting

The Board complies with the recommendations of the Combined Code that the notice of the Annual General Meeting and related papers should be sent to shareholders at least twenty working days before the meeting

The Directors attend the Annual General Meeting. The Chairman will be available to answer questions at the forthcoming Annual General Meeting. In addition, proxy votes will be counted and the results announced after any vote on a show of hands

The Chairman ensures that the views of shareholders are communicated to the Board as a whole, ensuring that Directors develop an understanding of the views of major shareholders


*Going concern*

The current global economic conditions will to some degree impact on the Group, its customers and suppliers but it is too early to be precise about the scale and duration of these effects. The Directors have reviewed the Group's forecasts along with reasonable possible changes in trading performance from these uncertainties. The Group, however, has considerable access to financial resources together with a diverse range of products and customers across wide geographic areas and industries. As a consequence, after making enquiries the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and have continued to adopt the going concern basis in preparing the financial statements.

**Auditors**

In accordance with Section 489 of the Companies Act 2006, a resolution is to be proposed at the forthcoming Annual General Meeting for the re-appointment of KPMG Audit Plc as auditors of the Company.

Approved by the Board of Directors and signed on its behalf by



J W GOODWIN  
Chairman

Ivy House Foundry,  
Hanley, Stoke-on-Trent, ST1 3NR  
26th August, 2011

# GOODWIN PLC

## DIRECTORS' REMUNERATION REPORT

### Introduction

This report is submitted in accordance with the Directors' Remuneration Report Regulations

### Consideration by the Directors of matters relating to Directors' remuneration

The remuneration policy is set by the Board as a whole and is described below

### Remuneration policy

The Group's policy in respect of Directors' remuneration for the forthcoming years is to provide individual packages which are determined having due regard to the Company's current and projected profitability, the employee's specific areas of responsibility and performance, their related knowledge and experience in the Company's specific fields of operation, the external labour market and their personal circumstances whereby the Board sets a package to remunerate and motivate the individual so as to best serve the Company. All Board members have access to independent advice when considered appropriate. In forming its policy, the Board has given full consideration to the Combined Code's best practice provisions on remuneration policy, service contracts and compensation and has considered the remuneration levels of Directors of comparative companies.

The Board does not, at present, consider it necessary to include a performance related element within the remuneration of individual Directors.

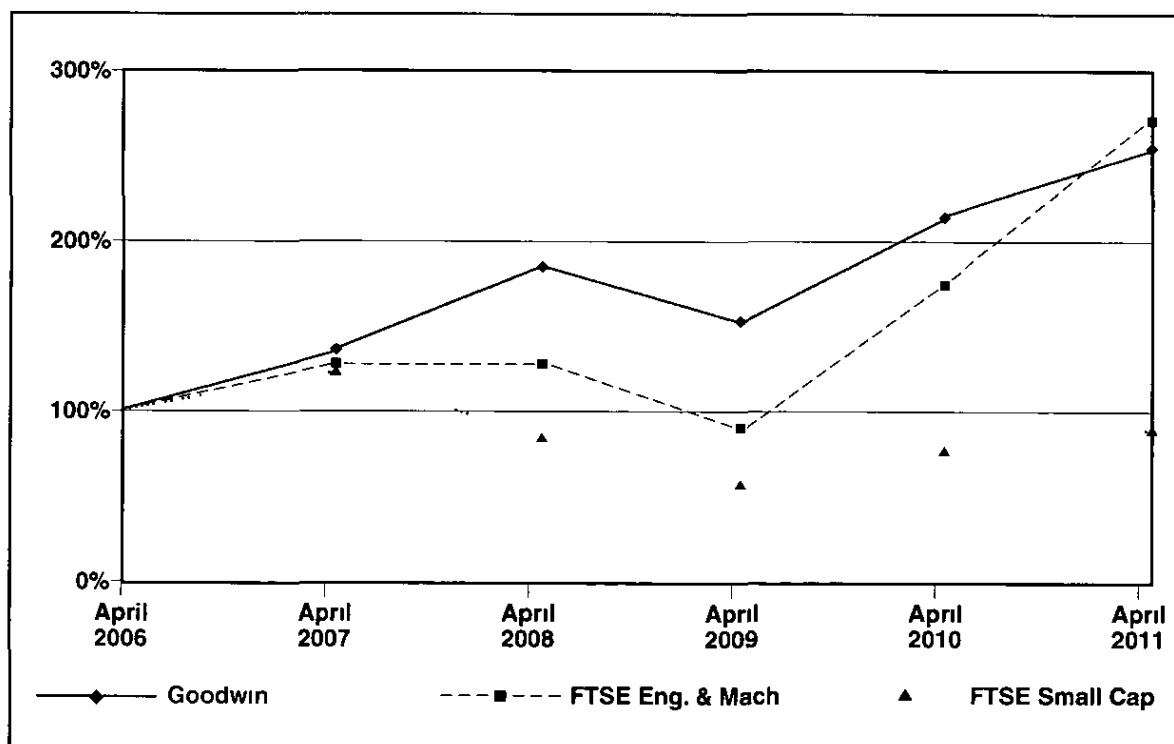
### Service contracts

None of the Directors has a service contract, a Director may resign at any time by notice in writing to the Board. There are no set minimum notice periods but all Directors other than the Chairman and Managing Director are subject to retirement by rotation. No compensation is payable to Directors on leaving office.

### Total shareholder return

The following graph compares the Company's total shareholder return over the five years ended 30th April, 2011 with that for the FTSE Small-Cap share index and the FTSE Engineering and Machinery Sector Index.

The FTSE Small-cap Share Index was chosen as it is a relevant broad equity market index for smaller quoted companies.



## DIRECTORS' REMUNERATION REPORT *(continued)*

### Details of individual emoluments and compensation

The auditors are required to report on the information contained in this section of the Directors' Remuneration Report

|   | Salary        | Benefits<br>in kind | Total         | Total         | Pension<br>contrib-<br>utions | Pension<br>contrib-<br>utions |
|---|---------------|---------------------|---------------|---------------|-------------------------------|-------------------------------|
|   | 2011<br>£'000 | 2011<br>£'000       | 2011<br>£'000 | 2010<br>£'000 | 2011<br>£'000                 | 2010<br>£'000                 |
| J W Goodwin                                 | 273           | 36                  | 309           | 297           | 11                            | 11                            |
| R S Goodwin                                 | 273           | 36                  | 309           | 297           | 11                            | 11                            |
| F A Gaffney                                 | 178           | 2                   | 180           | 190           | -                             | -                             |
| J Connolly                                  | 154           | 21                  | 175           | 154           | -                             | -                             |
| M S Goodwin                                 | 132           | 2                   | 134           | 126           | -                             | -                             |
| A J Baylay (appointed 10th December, 2010)  | 39            | 6                   | 45            | -             | -                             | -                             |
| S R Goodwin (appointed 10th December, 2010) | 42            | 2                   | 44            | -             | -                             | -                             |
| <b>Total 2011</b>                           | <b>1,091</b>  | <b>105</b>          | <b>1,196</b>  | <b>1,064</b>  | <b>22</b>                     | <b>22</b>                     |
| Total 2010                                  | 975           | 89                  | 1,064         |               |                               |                               |

Pension contributions comprise contributions to money purchase pension schemes

Benefits-in-kind consist of the provision of a fully-expensed motor vehicle, cash alternative scheme, healthcare insurance or other services

There are no share option schemes or other long term incentive schemes

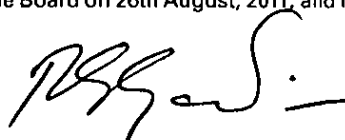
### Approval of report

An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting

The Directors' Remuneration Report was approved by the Board on 26th August, 2011, and is signed on its behalf by



J W GOODWIN  
Director



R S GOODWIN  
Director

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS**

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period

In preparing each of the Group and parent Company financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business

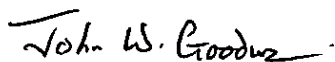
The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations

### **Responsibility statement of the Directors in respect of the annual financial report**

We confirm that to our best knowledge

- a) the financial statements prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole, and
- b) the Directors' Report includes a fair review of the development and performance of the business and position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face



J W GOODWIN  
Director



R S GOODWIN  
Director

26th August, 2011

## **INDEPENDENT AUDITOR'S REPORT**

to the Members of

### **GOODWIN PLC**

We have audited the financial statements of Goodwin PLC for the year ended 30th April, 2011 set out on pages 14 to 46. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

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

#### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30th April, 2011 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 9, in relation to going concern, and
- the part of the Corporate Governance Statement on pages 7 to 9 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors' remuneration.



T Widdas (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

One Snowhill, Snow Hill Queensway, Birmingham, B4 6GH

26th August, 2011

# GOODWIN PLC

## CONSOLIDATED INCOME STATEMENT

For the year ended 30th April, 2011

|  | Notes | 2011<br>£'000 | Restated*<br>2010<br>£'000 |
|--|-------|---------------|----------------------------|
| <b>CONTINUING OPERATIONS</b>                         |       |               |                            |
| Revenue  | 1, 2  | 92,908        | 92,996*                    |
| Cost of sales  | 1     | (67,480)      | (65,169)*                  |
| <b>GROSS PROFIT</b>                                  |       | <b>25,428</b> | 27,827                     |
| Distribution expenses                                | 1     | (3,243)       | (2,551)*                   |
| Administrative expenses                              |       | (13,268)      | (11,232)                   |
| <b>OPERATING PROFIT</b>                              |       | <b>8,917</b>  | 14,044                     |
| Financial expenses                                   | 5     | (1,054)       | (959)                      |
| Share of profit of associate companies               |       | 342           | 226                        |
| <b>PROFIT BEFORE TAXATION</b>                        | 3     | <b>8,205</b>  | 13,311                     |
| Tax on profit  | 6     | (3,997)       | (3,980)                    |
| <b>PROFIT AFTER TAXATION</b>                         |       | <b>4,208</b>  | 9,331                      |
| <b>ATTRIBUTABLE TO:</b>                              |       |               |                            |
| Equity holders of the parent                         | 18    | 3,628         | 8,507                      |
| Minority interest                                    |       | 580           | 824                        |
| <b>PROFIT FOR THE YEAR</b>                           |       | <b>4,208</b>  | 9,331                      |
| <b>BASIC AND DILUTED EARNINGS PER ORDINARY SHARE</b> | 7     | <b>50 39p</b> | 118 15p                    |

\*Following a review by the Directors, certain items of expenditure have been reclassified in the consolidated income statement and the prior year comparative restated accordingly. See note 1 for further details. The reported profit before taxation for the year ended 30th April, 2010 is unaffected by this reclassification.

# GOODWIN PLC

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30th April, 2011

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| <b>PROFIT FOR THE YEAR</b>  | <b>4,208</b>  | 9,331         |
| <b>OTHER COMPREHENSIVE INCOME</b>   |               |               |
| Foreign exchange translation differences  | (245)         | 382           |
| Effective portion of changes in fair value of cash flow hedges                        | (352)         | 328           |
| Change in fair value of cash flow hedges transferred to profit or loss                | 3,726         | 6,858         |
| Tax charge recognised on unrealised income and expenses recognised directly in equity | (878)         | (2,012)       |
| <b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX</b>                     | <b>2,251</b>  | 5,556         |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>  | <b>6,459</b>  | 14,887        |
| <b>ATTRIBUTABLE TO</b>  |               |               |
| Equity holders of the parent  | 5,953         | 13,922        |
| Minority interest   | 506           | 965           |
|   | <b>6,459</b>  | 14,887        |



# GOODWIN PLC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30th April, 2011

|  | Share<br>capital<br>£'000 | Trans-<br>lation<br>reserve<br>£'000 | Cash flow<br>hedging<br>reserve<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>£'000 | Minority<br>interest<br>£'000 | Total<br>equity<br>£'000 |
|--|---------------------------|--------------------------------------|--|-------------------------------|----------------|-------------------------------|--------------------------|
| <b>Year ended 30th April, 2011</b>         |                           |                                      |  |                               |                |                               |                          |
| Balance at 1st May, 2010                   | 720                       | 1,199                                | (74)                                     | 35,082                        | 36,927         | 3,242                         | 40,169                   |
| Total comprehensive income<br>for the year | –                         | (171)                                | 2,496                                    | 3,628                         | 5,953          | 506                           | 6,459                    |
| Dividends paid                             | –                         | –                                    | –  | (2,000)                       | (2,000)        | (311)                         | (2,311)                  |
| Balance at 30th April, 2011                | <u>720</u>                | <u>1,028</u>                         | <u>2,422</u>                             | <u>36,710</u>                 | <u>40,880</u>  | <u>3,437</u>                  | <u>44,317</u>            |
| <b>Year ended 30th April, 2010</b>         |                           |                                      |  |                               |                |                               |                          |
| Balance at 1st May, 2009                   | 720                       | 957                                  | (5,247)                                  | 30,575                        | 27,005         | 2,482                         | 29,487                   |
| Total comprehensive income<br>for the year | –                         | 242                                  | 5,173                                    | 8,507                         | 13,922         | 965                           | 14,887                   |
| Dividends paid                             | –                         | –                                    | –  | (4,000)                       | (4,000)        | (205)                         | (4,205)                  |
| Balance at 30th April, 2010                | <u>720</u>                | <u>1,199</u>                         | <u>(74)</u>                              | <u>35,082</u>                 | <u>36,927</u>  | <u>3,242</u>                  | <u>40,169</u>            |

# GOODWIN PLC

## CONSOLIDATED BALANCE SHEET

At 30th April, 2011

|  | Notes | 2011<br>£'000 | 2010<br>£'000 |
|--|-------|---------------|---------------|
| <b>NON-CURRENT ASSETS</b>  |       |               |               |
| Property, plant and equipment                                    | 9     | 25,431        | 23,260        |
| Investment in associates   | 11    | 1,137         | 919           |
| Intangible assets  | 10    | 10,035        | 10,671        |
|  |       | <b>36,603</b> | <b>34,850</b> |
| <b>CURRENT ASSETS</b>  |       |               |               |
| Inventories  | 13    | 25,096        | 18,085        |
| Trade and other receivables                                      | 14    | 25,664        | 21,815        |
| Derivative financial assets                                      | 19    | 4,349         | 635           |
| Cash and cash equivalents  | 15    | 4,049         | 10,710        |
|  |       | <b>59,158</b> | <b>51,245</b> |
| <b>TOTAL ASSETS</b>  |       | <b>95,761</b> | <b>86,095</b> |
| <b>CURRENT LIABILITIES</b>                                       |       |               |               |
| Bank overdraft   | 15    | 834           | 887           |
| Other interest-bearing loans and borrowings                      | 16    | 226           | 139           |
| Trade and other payables   | 17    | 26,185        | 23,629        |
| Deferred consideration   | 17    | 2,774         | -             |
| Derivative financial liabilities                                 | 19    | 1,246         | 1,306         |
| Liabilities for current tax                                      |       | 1,713         | 2,150         |
|  |       | <b>32,978</b> | <b>28,111</b> |
| <b>NON-CURRENT LIABILITIES</b>                                   |       |               |               |
| Other interest-bearing loans and borrowings                      | 16    | 12,326        | 10,358        |
| Deferred consideration   | 17    | 2,677         | 5,911         |
| Deferred tax liabilities   | 12    | 3,463         | 1,546         |
|  |       | <b>18,466</b> | <b>17,815</b> |
| <b>TOTAL LIABILITIES</b>   |       | <b>51,444</b> | <b>45,926</b> |
| <b>NET ASSETS</b>  |       | <b>44,317</b> | <b>40,169</b> |
| <b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>       |       |               |               |
| Share capital  | 18    | 720           | 720           |
| Translation reserve  | 18    | 1,028         | 1,199         |
| Cash flow hedge reserve  | 18    | 2,422         | (74)          |
| Retained earnings  | 18    | 36,710        | 35,082        |
| <b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b> |       | <b>40,880</b> | <b>36,927</b> |
| <b>MINORITY INTEREST</b>   | 18    | <b>3,437</b>  | <b>3,242</b>  |
| <b>TOTAL EQUITY</b>  |       | <b>44,317</b> | <b>40,169</b> |

These financial statements were approved by the Board of Directors on 26th August, 2011 and signed on its behalf by

J W GOODWIN  
Director

R S GOODWIN  
Director

Registered Company Number 305907

*John W. Goodwin*

*17*  
*[Signature]*

# GOODWIN PLC

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th April, 2011

|  | Notes | 2011<br>£'000 | 2011<br>£'000  | 2010<br>£'000 | 2010<br>£'000  |
|--|-------|---------------|----------------|---------------|----------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>   |       |               |                |               |                |
| Profit from continuing operations after tax  |       |               | 4,208          |               | 9,331          |
| Adjustments for  |       |               |                |               |                |
| Depreciation   |       |               | 2,817          |               | 2,832          |
| Amortisation of intangible assets  |       |               | 478            |               | 456            |
| Financial expense  |       |               | 1,054          |               | 959            |
| Loss on sale of property, plant and equipment                                      |       |               | 10             |               | 86             |
| Share of profit of associate companies   |       |               | (342)          |               | (226)          |
| Tax expense  |       |               | 3,997          |               | 3,980          |
| <b>OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL AND PROVISIONS</b>           |       |               | <b>12,222</b>  |               | <b>17,418</b>  |
| (Increase)/decrease in trade and other receivables                                 |       |               | (3,916)        |               | 203            |
| Increase in inventories  |       |               | (7,006)        |               | (1,595)        |
| Increase/(decrease) in trade and other payables<br>(excluding payments on account) |       |               | 1,653          |               | (1,581)        |
| Increase/(decrease) in payments on account   |       |               | 737            |               | (1,825)        |
| <b>CASH GENERATED FROM OPERATIONS</b>  |       |               | <b>3,690</b>   |               | <b>12,620</b>  |
| Interest paid  |       |               | (647)          |               | (564)          |
| Corporation tax paid   |       |               | (2,517)        |               | (4,240)        |
| Interest element of finance lease obligations                                      |       |               | (35)           |               | (15)           |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>  |       |               | <b>491</b>     |               | <b>7,801</b>   |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>   |       |               |                |               |                |
| Proceeds from sale of property, plant and equipment                                |       | 96            |                | 17            |                |
| Acquisition of property, plant and equipment                                       |       | (6,274)       |                | (4,235)       |                |
| Acquisition of intangible assets   |       | (674)         |                | -             |                |
| Acquisition of subsidiary net of cash acquired                                     |       | -             |                | (290)         |                |
| Acquisition of associated undertaking  |       | (237)         |                | (40)          |                |
| Payment of deferred purchase creditor  |       | -             |                | (500)         |                |
| Dividends received from associate company  |       | 247           |                | 119           |                |
| <b>NET CASH FROM INVESTING ACTIVITIES</b>  |       |               | <b>(6,842)</b> |               | <b>(4,929)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |       |               |                |               |                |
| Payment of capital element of finance lease obligations                            |       | (304)         |                | (275)         |                |
| Dividends paid   |       | (2,000)       |                | (4,000)       |                |
| Dividends paid to minority interests   |       | (311)         |                | -             |                |
| Proceeds from loans  |       | 2,359         |                | 2,007         |                |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>  |       |               | <b>(256)</b>   |               | <b>(2,268)</b> |
| <b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>                        |       |               | <b>(6,607)</b> |               | <b>604</b>     |
| Cash and cash equivalents at beginning of year                                     |       |               | 9,823          |               | 9,180          |
| Effect of exchange rate fluctuations on cash held                                  |       |               | (1)            |               | 39             |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                    | 15    |               | <b>3,215</b>   |               | <b>9,823</b>   |

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Accounting policies

Goodwin PLC (the "Company") is incorporated in the UK

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates. The parent Company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent Company financial statements in accordance with UK GAAP, these are presented on pages 42 to 46.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

The current global economic conditions will to some degree have an impact on the Group, its customers and suppliers but it is too early to be precise about the scale and duration of these effects. The Directors have reviewed the Group's forecasts along with reasonable possible changes in trading performance from these uncertainties. The Group, however, has considerable access to financial resources together with a diverse range of products and customers across wide geographic areas and industries. As a consequence, after making enquiries the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and have continued to adopt the going concern basis in the preparing the financial statements.

### New IFRS standards and interpretations adopted during 2011

In the current financial year, the Group has adopted the following new standards and interpretations:

- Revised IFRS 3 'Business Combinations'
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement: Eligible Hedged Items'
- Amendments to IAS 39 'Reclassification of Financial Assets: Effective Date and Transition'
- Amendments to IAS 32 'Financial Instruments: Presentation – Classification of rights issue'
- Improvements to IFRSs (issued 16 April 2009)
- Amendments to IAS 27 'Consolidated and Separate Financial Statements'
- IFRIC 17 'Distribution of Non-cash Assets to Owners'
- IFRIC 18 'Transfer of Assets from Customers'
- Amendments to IFRS 2 'Group Cash-Settled Share-based payments transactions'

These changes have had no material impact on the accounts for the year to 30th April, 2011.

### Measurement convention

The financial statements are rounded to the nearest thousand pounds.

The financial statements are based on the historical cost basis except where the measurement of balances at fair value is required as below.

### Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total recognised income and expense and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

As highlighted on page 14, reclassifications have been made to the April 2010 revenue, and to the April 2010 cost of sales and distribution cost headings. These changes deal with the realignment of commission costs and warranty costs to ensure consistency in treatment between the two reported years. It should be emphasised that this is a reclassification exercise and does not affect the reported profit before taxation for the year ended 30th April, 2010. The restated 2010 figures are Revenue £92,996,000 (*was* £93,928,000), Cost of sales £65,169,000 (*was* £64,057,000), Gross profit £27,827,000 (*was* £29,871,000) and Distribution expenses £2,551,000 (*was* £4,595,000).

### Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement within operating profit.

## **NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

### **Foreign currency** *(continued)*

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are taken directly to the translation reserve. They are released into the income statement upon disposal of the foreign operation.

The Group has taken advantage of relief available in IFRS 1 to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS (1st May, 2006).

### **Financial instruments**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand including cash deposits with an original maturity of three months or less.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

#### **Trade receivables**

Trade receivables do not carry interest and are initially recognised at fair value and are subsequently measured at their amortised cost using the effective interest method where material as reduced by allowances for impairment when there is objective evidence of impairment. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an impairment account and any impairment loss is recognised in the income statement.

#### **Recognition and valuation of equity instruments**

Equity instruments are stated at par value. For ordinary share capital, the par value is recognised in share capital and the premium in the share premium reserve.

#### **Recognition and valuation of financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

#### **Bank borrowings**

Interest bearing bank loans and overdrafts are initially recorded at their fair value less attributable transaction costs. They are subsequently carried at their amortised cost and finance charges are recognised in the income statement over the term of the instrument using an effective rate of interest. Bank overdrafts that form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

#### **Trade and other payables**

Trade and other payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method where material.

#### **Derivative financial instruments and hedging**

##### *Derivative financial instruments*

Derivative financial instruments are recognised at fair value. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is equal to the present value of the difference between the contractual forward price and the current forward price for the residual maturity of the contract. For derivatives that do not form part of a designated hedge relationship, the gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

##### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Derivative financial instruments and hedging (continued)

#### Cash flow hedges (continued)

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial cost or other carrying amount of the non-financial asset or liability.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement over the estimated useful lives of each part of an item of property, plant and equipment on the following bases:

|                       |  |
|-----------------------|--|
| Freehold Land         | Nil                                    |
| Freehold buildings    | 2% on cost                             |
| Leasehold property    | over period of lease                   |
| Plant and machinery   | 10% to 25% on reducing balance or cost |
| Motor vehicles        | 15% or 25% on reducing balance         |
| Tooling               | over estimated production life         |
| Fixtures and fittings | 15% to 25% on reducing balance         |

Assets under the course of construction are not depreciated.

In previous years the freehold buildings were depreciated at 4% on cost or reducing balance, resulting in a reduction in the depreciation charge of £253,000 in the current year.

### Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of businesses. In respect of business acquisitions that have occurred since 1 May, 2006, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and contingent liabilities acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

In respect of acquisitions prior to 1 May, 2006, goodwill is included at transition date on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised. On transition, amortisation of goodwill has ceased as required by IFRS 1.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Capitalised development costs 5 years
- Manufacturing rights 6-15 years
- Brand names 8-15 years
- Valve order book 1 year
- Distribution rights 25 years

## **NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Results attributable to the stage completion of a long term contract are recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus the attributable result, less amounts recognised in previous periods. Provision is made for any losses as soon as they are foreseen.

### **Put option in respect of a minority interest in a subsidiary**

Where the Group has, through a put option, an obligation to purchase shares in a subsidiary from a minority interest, a financial liability is recognised for the present value of the estimated consideration payable under the put option and the minority interest is not recognised.

At each reporting date, changes in the carrying amount of the liability arising from variations in the estimated fair value of the purchase consideration (excluding the effect of the unwinding of the discount, which is accounted for as a financial expense) are recognised by adjusting the carrying amount of the goodwill recognised on initial recognition of the business combination.

### **Impairment**

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Recoverable amount is the greater of an asset's or cash generating unit's fair value less costs to sell or value in use.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use were tested for impairment as at 1 May, 2006, the date of transition to Adopted IFRSs, even though no indication of impairment existed.

### **Reversals of impairment**

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### **Revenue**

Revenue represents the amounts (excluding value added taxes and other sales taxes) derived from the provision of goods and services (including long term contracts) to external customers. Revenue is recognised at the time the principal risks and rewards transfer to the customer typically being either shipment or customer acceptance.

Revenue on long term contracts is stated at the cost appropriate to the stage of completion plus the attributable result, less amounts recognised in previous years. Provision is made for losses as soon as they are foreseen. Stages of completion are judged by reference to milestones set out within the contract and the judgement of senior management. Of the total revenue for the year, around £6.1 million was from contract revenue (2010 £4.7 million).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Expenses

#### *Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

#### *Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### *Financial expenses*

Financial expenses comprise interest payable and interest on finance leases.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

### Pension costs

The Group contributes to a number of defined contribution pension schemes for certain senior employees. The assets of these schemes are held in independently administered funds. Group pension costs are charged to income statement in the year for which contributions are paid.

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

### Taxation

Tax on the profit or loss for the year comprises current and deferred tax. 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 substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

### Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements:

- Amendments to IAS 32 'Classification of Rights issues' – requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' – deals with how entities should measure equity instruments issued in a debt for equity swap. It addresses the accounting for such a transaction by the debtor only.
- Amendment to IFRIC 14 'Prepayments of a Minimum Funding Requirement'.
- IAS 24 'Related parties' – effective for periods commencing on or after 1st January, 2011 – provides an exemption to all government-related entities which is not applicable to the group, however the revised standard also amends the definition of a related party, which will be applicable.

In addition to the above, amendments to a number of standards and interpretations under the 2010 annual improvement project will become mandatory for the year ending 30th April, 2012.

The Group has considered the impact of these new standards and interpretations in future periods on profit, earnings per share and net assets. None of the above standards or interpretations are expected to have a material impact.



## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 2. Segmental information

#### Products and services from which reportable segments derive their revenues

In accordance with the requirements of IFRS 8 the Group's reportable segments, based on information reported to the Group's Board of Directors for the purposes of resource allocation and assessment of segment performance are as follows

- Engineering – casting, machining and general engineering design
- Refractories Engineering – powder manufacture and mineral processing

Information regarding the Group's operating segments is reported below

| Year ended 30th April                       | Engineering   |               | Refractories Engineering |               | Sub Total       |               |
|---|---------------|---------------|--------------------------|---------------|-----------------|---------------|
|   | 2011<br>£'000 | Restated*     | 2011<br>£'000            | Restated*     | 2011<br>£'000   | Restated*     |
|   |               | 2010<br>£'000 |                          | 2010<br>£'000 |                 | 2010<br>£'000 |
| <b>Revenue</b>                              |               |               |                          |               |                 |               |
| External sales                              | <b>65,139</b> | 70,050*       | <b>27,769</b>            | 22,981        | <b>92,908</b>   | 93,031*       |
| Inter-segment sales                         | <b>18,014</b> | 15,028        | <b>4,046</b>             | 3,104         | <b>22,060</b>   | 18,132        |
| Total revenue                               | <b>83,153</b> | 85,078*       | <b>31,815</b>            | 26,085        | <b>114,968</b>  | 111,163*      |
| Reconciliation to consolidated revenue      |               |               |                          |               |                 |               |
| Inter-segment sales                         |               |               |                          |               | <b>(22,060)</b> | (18,132)      |
| Net consolidation adjustments               |               |               |                          |               | <b>-</b>        | (35)          |
| Consolidated revenue for the year           |               |               |                          |               | <b>92,908</b>   | 92,996*       |
| <b>Profits</b>                              |               |               |                          |               |                 |               |
| Segment result including associates         | <b>6,303</b>  | 11,765*       | <b>4,275</b>             | 3,447*        | <b>10,578</b>   | 15,212*       |
| Group administration costs                  |               |               |                          |               | <b>(1,319)</b>  | (942)*        |
| Group finance and treasury costs            |               |               |                          |               | <b>(1,054)</b>  | (959)*        |
| Consolidated profit before tax for the year |               |               |                          |               | <b>8,205</b>    | 13,311        |
| Tax   |               |               |                          |               | <b>(3,997)</b>  | (3,980)       |
| Consolidated profit after tax for the year  |               |               |                          |               | <b>4,208</b>    | 9,331         |

\*Following a review by the Directors, certain items of expenditure have been reclassified in the prior year consolidated income statement, see note 1 for further details, and certain administration, finance and treasury costs for the prior year have been reclassified in the above segmental analysis to ensure consistency in treatment between the subsidiaries in the Group and comparability with the current year's segmental figures

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 2 Segmental information *(continued)*

| Year ended 30th April                            | Segmental total assets |               | Segmental total liabilities |               | Segmental net assets |               |
|--|------------------------|---------------|-----------------------------|---------------|----------------------|---------------|
|  | 2011<br>£'000          | 2010<br>£'000 | 2011<br>£'000               | 2010<br>£'000 | 2011<br>£'000        | 2010<br>£'000 |
| <b>Segmental net assets</b>                      |                        |               |                             |               |                      |               |
| Engineering                                      | 54,891                 | 44,010        | 42,998                      | 32,003        | 11,893               | 12,007        |
| Refractories Engineering                         | 20,461                 | 22,668        | 9,548                       | 12,338        | 10,913               | 10,330        |
| Sub total reportable segment                     | 75,352                 | 66,678        | 52,546                      | 44,341        | 22,806               | 22,337        |
| PLC net assets                                   |                        |               |                             |               | 27,996               | 25,072        |
| Investments elimination/<br>Goodwill adjustments |                        |               |                             |               | (7,374)              | (6,611)       |
| Other consolidation adjustments                  |                        |               |                             |               | (1,499)              | (1,426)       |
| Foreign exchange/IAS 39                          |                        |               |                             |               | 2,388                | 797           |
| Consolidated total net assets                    |                        |               |                             |               | 44,317               | 40,169        |

For the purposes of monitoring segment performance and allocating resources between segments, the Group's Board of Directors monitors the tangible and financial assets attributable to each segment. All assets are allocated to reportable segments with the exception of those held by the parent Company ('PLC')

### Geographical Segments

The Group operates in the following principal locations

In presenting the information on geographical segments, revenue is based on the location of its customers and assets on the location of the assets

|                | Year ended 30th April, 2011 |                                 |                             |                                  | Year ended 30th April, 2010 |                                 |                             |                                  |
|----------------|-----------------------------|---------------------------------|-----------------------------|----------------------------------|-----------------------------|---------------------------------|-----------------------------|----------------------------------|
|                | Revenue<br>£'000            | Operational net assets<br>£'000 | Non current assets<br>£'000 | PPE Capital expenditure<br>£'000 | Revenue<br>£'000            | Operational net assets<br>£'000 | Non current assets<br>£'000 | PPE Capital expenditure<br>£'000 |
| UK             | 17,148                      | 33,148                          | 31,028                      | 2,712                            | 18,286                      | 29,459                          | 30,764                      | 3,741                            |
| Rest of Europe | 24,540                      | 3,920                           | 684                         | 320                              | 21,829                      | 3,872                           | 723                         | 798                              |
| USA            | 11,441                      | -                               | -                           | -                                | 9,275                       | -                               | -                           | -                                |
| Pacific Basin  | 23,471                      | 4,137                           | 71                          | 1,630                            | 23,901                      | 3,697                           | 128                         | 50                               |
| Rest of world  | 16,308                      | 3,112                           | 4,820                       | 492                              | 19,705                      | 3,141                           | 3,235                       | 518                              |
| Total          | 92,908                      | 44,317                          | 36,603                      | 5,154                            | 92,996                      | 40,169                          | 34,850                      | 5,107                            |

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 3 Expenses and auditors' remuneration

|  |                             |               |
|--|-----------------------------|---------------|
| Included in profit before taxation are the following               | <b>2011</b><br><b>£'000</b> | 2010<br>£'000 |
| Depreciation   |                             |               |
| Owned assets   | <b>2,625</b>                | 2,754         |
| Assets held under finance lease                                    | <b>192</b>                  | 78            |
| Amortisation of intangible assets                                  | <b>478</b>                  | 456           |
| Loss on sale of property, plant and equipment                      | <b>10</b>                   | 86            |
| Operating lease rentals  |                             |               |
| Rental of premises   | <b>298</b>                  | 254           |
| Short term plant hire  | <b>153</b>                  | 199           |
| Research and development expensed as incurred                      | <b>960</b>                  | 34            |
| Impairment of trade receivables                                    | <b>52</b>                   | 304           |
| Foreign exchange (gains)/losses                                    | <b>(48)</b>                 | 98            |
| Ineffective portion of fair value changes of cash flow hedges      | <b>-</b>                    | 55            |
| Gains on derivatives at fair value through profit and loss         | <b>(717)</b>                | (933)         |
| Fees receivable by the auditors and their associates in respect of |                             |               |
| Audit of these financial statements                                | <b>42</b>                   | 40            |
| Audit of the financial statements of subsidiaries                  | <b>74</b>                   | 60            |
| Other services relating to grants                                  | <b>-</b>                    | 3             |

### 4. Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows

|                      | <b>Number of employees</b><br><b>2011</b> | 2010 |
|----------------------|---|------|
| Works personnel      | <b>836</b>                                | 792  |
| Administration staff | <b>45</b>                                 | 35   |
|                      | <b>881</b>                                | 827  |

The aggregate payroll costs of these persons were as follows

|                       | <b>2011</b><br><b>£'000</b> | 2010<br>£'000 |
|-----------------------|-----------------------------|---------------|
| Wages and salaries    | <b>24,939</b>               | 21,551        |
| Social security costs | <b>2,612</b>                | 2,224         |
| Other pension costs   | <b>25</b>                   | 25            |
|                       | <b>27,576</b>               | 23,800        |

### 5. Financial expenses

|   | <b>2011</b><br><b>£'000</b> | 2010<br>£'000 |
|---|-----------------------------|---------------|
| Interest expense on finance leases              | <b>35</b>                   | 15            |
| Unwinding of discount on deferred consideration | <b>372</b>                  | 380           |
| Interest expense on bank loans and overdrafts   | <b>647</b>                  | 564           |
| Financial expenses                              | <b>1,054</b>                | 959           |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 6. Taxation

|  |              |              |
|--|--------------|--------------|
| <b>Recognised in the income statement</b>                        | <b>2011</b>  | <b>2010</b>  |
|  | <b>£'000</b> | <b>£'000</b> |
| Current tax expense  |              |              |
| Current year   | <b>2,575</b> | 3,705        |
| Adjustments for prior years                                      | <b>367</b>   | (9)          |
|  | <b>2,942</b> | 3,696        |
| Deferred tax expense   |              |              |
| Origination and reversal of temporary differences – current year | <b>28</b>    | 138          |
| Origination and reversal of temporary differences – prior years* | <b>1,011</b> | 78           |
|  | <b>3,981</b> | 3,912        |
| Share of tax of associate companies                              | <b>16</b>    | 68           |
| Total tax expense  | <b>3,997</b> | 3,980        |
| <b>Reconciliation of effective tax rate</b>                      | <b>2011</b>  | <b>2010</b>  |
|  | <b>£'000</b> | <b>£'000</b> |
| Profit before tax  | <b>8,205</b> | 13,311       |
| Tax using the UK corporation tax rate of 27.81% (2010 28%)       | <b>2,281</b> | 3,727        |
| Non-deductible expenses  | <b>134</b>   | 237          |
| Under provided in prior years                                    | <b>56</b>    | 69           |
| Additional R&D tax credit benefit                                | <b>-</b>     | (3)          |
| Tax offset against brought forward losses                        | <b>-</b>     | (148)        |
| Losses not utilised  | <b>78</b>    | 61           |
| Withholding tax unrelieved                                       | <b>63</b>    | 37           |
| Differences in overseas tax rates                                | <b>63</b>    | -            |
| Charge due to change in UK tax legislation*                      | <b>1,322</b> | -            |
| Total tax in income statement                                    | <b>3,997</b> | 3,980        |

\*Due to the change in UK tax legislation where past, present and future expenditure on industrial buildings no longer qualify for tax relief, the Group has had to write off in the current year £1,322,000 of taxation that is no longer recoverable

The Group's total amount of taxes payable in respect of the year ending April 2011 comprising Corporation Tax, PAYE and National Insurance was £11 million

### Deferred tax recognised directly in equity

The following amounts are included in the consolidated statement of recognised income and expense

|                                     |              |              |
|-------------------------------------|--------------|--------------|
|                                     | <b>2011</b>  | <b>2010</b>  |
|                                     | <b>£'000</b> | <b>£'000</b> |
| Cash flow hedge deferred tax charge | <b>878</b>   | 2,012        |

### 7. Earnings per share

The earnings per ordinary share has been calculated on profit for the year attributable to ordinary shareholders of £3,628,000 (2010 £8,507,000) and by reference to the 7,200,000 ordinary shares in issue throughout both years

The Company has no share options or other diluting interests and accordingly, there is no difference in the calculation of diluted earnings per share

# **NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

|   |              |              |
|---|--------------|--------------|
| <b>8. Dividends</b>   | <b>2011</b>  | <b>2010</b>  |
|   | <b>£'000</b> | <b>£'000</b> |
| Paid ordinary dividends during the year in respect of prior years<br>27777p (2010 27777p) per qualifying ordinary share | <b>2,000</b> | 2,000        |
| Paid extraordinary dividend during the year in respect of prior years<br>(2010 27777p) per qualifying ordinary share    | –            | 2,000        |
|   | <b>2,000</b> | <b>4,000</b> |

After the balance sheet date an ordinary dividend of 29 166p per qualifying ordinary share was proposed by the Directors (2010 ordinary dividend of 27777p)

The current year proposed ordinary dividend of £2,100,000 has not been provided for within these financial statements (2010 proposed ordinary dividend of £2,000,000 was not provided for within the comparative figures)

## **9. Property, plant and equipment**

|                                       | <b>Land and<br/>buildings<br/>£'000</b> | <b>Plant and<br/>equipment<br/>£'000</b> | <b>Fixtures<br/>and<br/>fittings<br/>£'000</b> | <b>Assets in<br/>course of<br/>construc-<br/>tion<br/>£'000</b> | <b>Total<br/>£'000</b> |
|---------------------------------------|---|--|--|---|------------------------|
| <b>Cost</b>                           |   |  |  |   |                        |
| At 1st May, 2009                      | 9,440                                   | 25,767                                   | 2,448  | –   | 37,655                 |
| Additions                             | 1,241                                   | 3,465                                    | 401  | –   | 5,107                  |
| Disposals                             | –                                       | (1,094)                                  | (165)  | –   | (1,259)                |
| Exchange adjustment                   | 267                                     | 148                                      | 1  | –   | 416                    |
| At 30th April, 2010                   | <b>10,948</b>                           | <b>28,286</b>                            | <b>2,685</b>                                   | <b>–</b>  | <b>41,919</b>          |
| At 1st May, 2010                      | 10,948                                  | 28,286                                   | 2,685  | –   | 41,919                 |
| Additions                             | 30                                      | 3,117                                    | 324  | 1,683   | 5,154                  |
| Reclassification                      | 123                                     | 972                                      | (1,095)  | –   | –                      |
| Disposals                             | –                                       | (256)                                    | (16)   | –   | (272)                  |
| Exchange adjustment                   | (70)                                    | (2)                                      | (4)  | –   | (76)                   |
| At 30th April, 2011                   | <b>11,031</b>                           | <b>32,117</b>                            | <b>1,894</b>                                   | <b>1,683</b>  | <b>46,725</b>          |
| <b>Depreciation</b>                   |   |  |  |   |                        |
| At 1st May, 2009                      | 1,235                                   | 14,093                                   | 1,638  | –   | 16,966                 |
| Charged in year                       | 360                                     | 2,232                                    | 240  | –   | 2,832                  |
| Disposals                             | –                                       | (996)                                    | (159)  | –   | (1,155)                |
| Exchange adjustment                   | 8                                       | 3  | 5  | –   | 16                     |
| At 30th April, 2010                   | <b>1,603</b>                            | <b>15,332</b>                            | <b>1,724</b>                                   | <b>–</b>  | <b>18,659</b>          |
| At 1st May, 2010                      | 1,603                                   | 15,332                                   | 1,724  | –   | 18,659                 |
| Charged in year                       | 107                                     | 2,545                                    | 165  | –   | 2,817                  |
| Reclassification                      | 26                                      | 621                                      | (647)  | –   | –                      |
| Disposals                             | –                                       | (153)                                    | (14)   | –   | (167)                  |
| Exchange adjustment                   | (7)                                     | (4)                                      | (4)  | –   | (15)                   |
| At 30th April, 2011                   | <b>1,729</b>                            | <b>18,341</b>                            | <b>1,224</b>                                   | <b>–</b>  | <b>21,294</b>          |
| <b>Net book value</b>                 |   |  |  |   |                        |
| At 1st May, 2009                      | 8,205                                   | 11,674                                   | 810  | –   | 20,689                 |
| At 30th April, 2010 and 1st May, 2010 | 9,345                                   | 12,954                                   | 961  | –   | 23,260                 |
| <b>At 30th April, 2011</b>            | <b>9,302</b>                            | <b>13,776</b>                            | <b>670</b>                                     | <b>1,683</b>  | <b>25,431</b>          |

During the year ended 30th April, 2011, the freehold buildings have been depreciated at 2%. In the previous year they were depreciated at 4%, resulting in a reduction in the depreciation charge of £253,000 in the current year

## **Leased plant and machinery**

At 30th April, 2011 the net carrying amount of leased plant and machinery was £1,076,000 (2010 £668,000). The leased equipment secures lease obligations (see note 16)

**NOTES TO THE FINANCIAL STATEMENTS** (continued)

**10. Intangible assets**

|                             | <b>Goodwill<br/>£'000</b> | <b>Brand<br/>names<br/>£'000</b> | <b>Valve<br/>order<br/>book<br/>£'000</b> | <b>Distri-<br/>bution<br/>rights<br/>£'000</b> | <b>Manu-<br/>facturing<br/>rights<br/>£'000</b> | <b>Develop-<br/>ment<br/>costs<br/>£'000</b> | <b>Total<br/>£'000</b> |
|-----------------------------|---------------------------|----------------------------------|---|--|---|--|------------------------|
| <b>Cost</b>                 |                           |                                  |   |  |   |  |                        |
| Balance at 1st May, 2009    | 6,756                     | 4,000                            | 127                                       | -  | 961   | 201  | 12,045                 |
| Additions                   | 290                       | -                                | -   | -  | -   | -  | 290                    |
| Balance at 30th April, 2010 | 7,046                     | 4,000                            | 127                                       | -  | 961   | 201  | 12,335                 |
| Additions                   | 25                        | -                                | -   | 632  | 17  | -  | 674                    |
| Reduction                   | (832)                     | -                                | -   | -  | -   | -  | (832)                  |
| Balance at 30th April, 2011 | 6,239                     | 4,000                            | 127                                       | 632  | 978   | 201  | 12,177                 |
| <b>Amortisation</b>         |                           |                                  |   |  |   |  |                        |
| Balance at 1st May, 2009    | -                         | 636                              | 127                                       | -  | 244   | 201  | 1,208                  |
| Amortisation for the year   | -                         | 318                              | -   | -  | 138   | -  | 456                    |
| Balance at 30th April, 2010 | -                         | 954                              | 127                                       | -  | 382   | 201  | 1,664                  |
| Amortisation for the year   | -                         | 340                              | -   | 25   | 113   | -  | 478                    |
| Balance at 30th April, 2011 | -                         | 1,294                            | 127                                       | 25   | 495   | 201  | 2,142                  |
| <b>Net book value</b>       |                           |                                  |   |  |   |  |                        |
| At 1st May, 2009            | 6,756                     | 3,364                            | -   | -  | 717   | -  | 10,837                 |
| At 30th April, 2010         | 7,046                     | 3,046                            | -   | -  | 579   | -  | 10,671                 |
| <b>At 30th April, 2011</b>  | <b>6,239</b>              | <b>2,706</b>                     | <b>-</b>                                  | <b>607</b>                                     | <b>483</b>                                      | <b>-</b>                                     | <b>10,035</b>          |

The £674,000 of additions in the current year includes £632,000 for the right to distribute and sell vermiculite, £17,000 for a patent for a new manufacturing process for large super nickel castings, and goodwill of £25,000. The additional goodwill of £25,000 added during the current year relates to an increased interest in Noreva GmbH by virtue of a minority dividend paid (2010 £170,000). The remaining additional goodwill of £120,000 in the previous year relates to an increased holding by the Group in Easat Antennas Limited.

The reduction in goodwill of £832,000 (2010 £Nil) relates to a revision in the amount assessed as payable with respect to the Group's deferred purchase liabilities.

**Amortisation charge**

The amortisation charge is recognised in the following line items in the income statement

|               | <b>2011<br/>£'000</b> | <b>2010<br/>£'000</b> |
|---------------|-----------------------|-----------------------|
| Cost of sales | <b>478</b>            | <b>456</b>            |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 10. Intangible assets (continued)

#### Impairment testing for cash generating units containing goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. For the purpose of impairment testing, goodwill is allocated to the relevant subsidiary which is the lowest level within the Group at which the goodwill is monitored for internal management purposes. The aggregate carrying amounts of goodwill allocated to each unit are

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Easat Antennas Limited                   | 324           | 324           |
| Goodwin India Private Limited            | 108           | 108           |
| Noreva GmbH                              | 2,557         | 3,364         |
| Goodwin Refractory Services Holdings Ltd | 3,250         | 3,250         |
|  | <b>6,239</b>  | <b>7,046</b>  |

An impairment test is a comparison of the carrying value of the assets of a cash generating unit ("CGU") to their recoverable amount, based on a value-in-use calculation. Recoverable amount is the greater of value-in-use and market value. Where the recoverable amount is less than the carrying value an impairment results. During the year each CGU containing goodwill was separately assessed and tested for impairment. No impairment of the carrying value of goodwill was indicated by this review.

As part of testing goodwill for impairment detailed forecasts of operating cash flows for the next five years are used, which are based on approved budgets and plans by the Board. The forecasts represent the best estimate of future performance of the CGU based on past performance and expectations for the market development of the CGU.

A number of key assumptions are used as part of impairment testing. These key assumptions are made by management reflecting past experience combined with their knowledge of forecast future performance and relevant external sources of information.

The forecast projections use growth rate forecasts extrapolated over the minimum expected life span of the unit and discounted at appropriate rates considering the perceived levels of risk, ranging from 12-15% (2010 12-15%).

The estimates and assumptions made in connection with the impairment testing could differ from future actual results of operations and cash flows. A reasonably likely variation in the assumptions would not give rise to an impairment. However, future events could cause the Group to conclude that impairment indicators exist and that the asset values associated with a given operation have become impaired.

### 11 Investments in subsidiaries and associate

The Group has the following principal subsidiaries and associates

|   | Country of<br>incorporation | Class of<br>shares held | % held |
|---|-----------------------------|-------------------------|--------|
| <b>Subsidiaries</b>   |                             |                         |        |
| Goodwin International Limited                               | Great Britain               | Ordinary                | 100    |
|   |                             | Preference              | 100    |
| Goodwin Steel Castings Limited                              | Great Britain               | Ordinary                | 100    |
| Dupre Minerals Limited                                      | Great Britain               | Ordinary                | 100    |
|   |                             | Preference              | 100    |
| Easat Antennas Limited                                      | Great Britain               | Ordinary                | 94     |
| Internet Central Limited                                    | Great Britain               | Ordinary                | 82.5   |
| Goodwin Refractory Services Limited                         | Great Britain               | Ordinary                | 100    |
| Hoben International Limited                                 | Great Britain               | Ordinary                | 100    |
| Noreva GmbH   | Germany                     | Ordinary                | 75*    |
| Gold Star Powders India Private Limited                     | India                       | Ordinary                | 80     |
| Goodwin India Private Limited                               | India                       | Ordinary                | 80     |
| Ultratec Jewelry Supplies Limited                           | China                       | Ordinary                | 51     |
| SRS Guangzhou Limited                                       | China                       | Ordinary                | 51     |
| Goodwin Shanghai Co. Limited                                | China                       | Ordinary                | 100    |
| Goodwin (Shanxi) Pump Company Limited                       | China                       | Ordinary                | 100    |
| Siam Casting Powders Limited                                | Thailand                    | Ordinary                | 51     |
| Goodwin Korea Co. Limited                                   | South Korea                 | Ordinary                | 95     |
| Gold Star Brazil Limited                                    | Brazil                      | Ordinary                | 51     |
| Goodwin Valve and Pump Company Limited                      | Brazil                      | Ordinary                | 100    |
| <b>Associates</b>   |                             |                         |        |
| Jewelry Plaster Limited                                     | Thailand                    | Ordinary                | 49     |
| Asian Industrial Investment Casting Powders Private Limited | India                       | Ordinary                | 40     |
| Goodwin Tet Property Company Limited                        | Thailand                    | Ordinary                | 49     |

\*Whilst Noreva is a 75% owned subsidiary the company has been treated as a 100% subsidiary by virtue of there being both put and call options in place for the remaining 25% of the share capital.

All of the companies are involved in mechanical and refractory engineering except Internet Central which, although an internet service provider, is key to supplying the mechanical and refractory engineering companies with communication facilities.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 11 Investments in subsidiaries and associate (continued)

The Group's share of profit after tax in its associate companies for the year ended 30th April, 2011 was £326,000 (2010 £158,000)

Summary financial information of Group share of associates was

|   | 2011            |                      |                   | Share of Profit after Tax |
|---|-----------------|----------------------|-------------------|---------------------------|
|   | Assets<br>£'000 | Liabilities<br>£'000 | Revenues<br>£'000 | £'000                     |
| Jewelry Plaster Limited                                     | 1,186           | 322                  | 1,144             | 330                       |
| Goodwin Tet Property Company Limited                        | 237             | -                    | -                 | -                         |
| Asian Industrial Investment Casting Powders Private Limited | 36              | -                    | -                 | (4)                       |
|   | <u>1,459</u>    | <u>322</u>           | <u>1,144</u>      | <u>326</u>                |
|   | 2010            |                      |                   | Share of Profit after Tax |
|   | Assets<br>£'000 | Liabilities<br>£'000 | Revenues<br>£'000 | £'000                     |
| Jewelry Plaster Limited                                     | 1,112           | 233                  | 935               | 158                       |
| Asian Industrial Investment Casting Powders Private Limited | 40              | -                    | -                 | -                         |
|   | <u>1,152</u>    | <u>233</u>           | <u>935</u>        | <u>158</u>                |

During 2011 the Group invested in a new associate, Goodwin Tet Property Company Limited - a company formed to own the new freehold property for our subsidiary Siam Casting Powders Limited. During 2010 the Group invested in an associate, Asian Industrial Investment Casting Powders Private Limited.

### 12 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

|   | Assets                 |                               | Liabilities                   |                           |
|---|------------------------|-------------------------------|-------------------------------|---------------------------|
|   | 2011<br>£'000          | 2010<br>£'000                 | 2011<br>£'000                 | 2010<br>£'000             |
| Property, plant and equipment                         | -                      | -                             | 2,656                         | 1,734                     |
| Derivative financial instruments                      | -                      | 188                           | 807                           | -                         |
|   | <u>-</u>               | <u>188</u>                    | <u>3,463</u>                  | <u>1,734</u>              |
| <b>Movement in deferred tax during the year</b>       |                        |                               |                               |                           |
|   | 1st May, 2010<br>£'000 | Recognised in income<br>£'000 | Recognised in equity<br>£'000 | 30th April, 2011<br>£'000 |
| Property, plant and equipment                         | 1,734                  | 922                           | -                             | 2,656                     |
| Derivative financial instruments                      | (188)                  | 117                           | 878                           | 807                       |
| Net deferred tax liability                            | <u>1,546</u>           | <u>1,039</u>                  | <u>878</u>                    | <u>3,463</u>              |
| <b>Movement in deferred tax during the prior year</b> |                        |                               |                               |                           |
|   | 1st May, 2009<br>£'000 | Recognised in income<br>£'000 | Recognised in equity<br>£'000 | 30th April, 2010<br>£'000 |
| Property, plant and equipment                         | 1,435                  | 299                           | -                             | 1,734                     |
| Derivative financial instruments                      | (2,041)                | (159)                         | 2,012                         | (188)                     |
| Net deferred tax liability/(asset)                    | <u>(606)</u>           | <u>140</u>                    | <u>2,012</u>                  | <u>1,546</u>              |

The Group has not recognised a deferred tax asset of £205,000 (2010 £127,000) in respect of subsidiaries' losses. Whilst the Group believes there is a reasonable chance of recovering the tax losses, it is felt prudent to recognise them as and when the profits arise.

The 2011 Budget on 23rd March, 2011 announced that the UK corporation tax rate will reduce to 23% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1st April, 2011) was substantively enacted on 20th July, 2010, and further reductions to 26% (effective from 1st April, 2011) and 25% (effective from 1st April, 2012) were substantively enacted on 29th March, 2011 and 5th July, 2011 respectively. This will reduce the Group's future current tax charge accordingly and further reduce the deferred tax liability at 30th April, 2011 (which has been calculated based on the rate of 26% substantively enacted at the balance sheet date) by £124,000. It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Group's future current tax charge and reduce the Group's deferred tax liability accordingly. This reduction is offset by the loss of capital allowances on land and buildings that has cost the Group in excess of £1.3 million.



# NOTES TO THE FINANCIAL STATEMENTS (continued)

|   |                               |                               |
|---|-------------------------------|-------------------------------|
| <b>13 Inventories</b>   | <b>2011</b>                   | <b>2010</b>                   |
|   | <b>£'000</b>                  | <b>£'000</b>                  |
| Raw materials and consumables   | 10,172                        | 9,150                         |
| Work in progress  | 13,734                        | 7,837                         |
| Finished goods  | 1,190                         | 1,098                         |
|   | <b>25,096</b>                 | <b>18,085</b>                 |
| <b>14 Trade and other receivables</b>   | <b>2011</b>                   | <b>2010</b>                   |
|   | <b>£'000</b>                  | <b>£'000</b>                  |
| Trade receivables   | 23,533                        | 20,563                        |
| Other receivables   | 1,329                         | 700                           |
| Prepayments   | 802                           | 552                           |
|   | <b>25,664</b>                 | <b>21,815</b>                 |
| <b>15 Cash and cash equivalents</b>   | <b>2011</b>                   | <b>2010</b>                   |
|   | <b>£'000</b>                  | <b>£'000</b>                  |
| Cash and cash equivalents per balance sheet   | 4,049                         | 10,710                        |
| Bank overdrafts   | (834)                         | (887)                         |
|   | <b>3,215</b>                  | <b>9,823</b>                  |
| <b>16 Other interest-bearing loans and borrowings</b>   |                               |                               |
| This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 19. |                               |                               |
| <b>Non-current liabilities</b>  | <b>2011</b>                   | <b>2010</b>                   |
|   | <b>£'000</b>                  | <b>£'000</b>                  |
| Finance lease liabilities   | 663                           | 8                             |
| Bank loans  | 11,663                        | 10,350                        |
|   | <b>12,326</b>                 | <b>10,358</b>                 |
| <b>Current liabilities</b>  |                               |                               |
| Finance lease liabilities   | 226                           | 139                           |
| <b>Finance lease liabilities</b>  |                               |                               |
| Finance lease liabilities are payable as follows  |                               |                               |
|   | <b>2011</b>                   | <b>2010</b>                   |
|   | <b>Minimum lease payments</b> | <b>Minimum lease payments</b> |
|   | <b>£'000</b>                  | <b>£'000</b>                  |
|   | <b>Interest</b>               | <b>Interest</b>               |
|   | <b>£'000</b>                  | <b>£'000</b>                  |
|   | <b>Principal</b>              | <b>Principal</b>              |
|   | <b>£'000</b>                  | <b>£'000</b>                  |
| Less than one year  | 244                           | 145                           |
| Between one and five years  | 688                           | 8                             |
|   | <b>932</b>                    | <b>153</b>                    |
|   | <b>43</b>                     | <b>6</b>                      |
|   | <b>889</b>                    | <b>147</b>                    |
| <b>17 Trade and other payables</b>  | <b>2011</b>                   | <b>2010</b>                   |
|   | <b>£'000</b>                  | <b>£'000</b>                  |
| <b>Current liabilities</b>  |                               |                               |
| Trade payables  | 13,642                        | 11,372                        |
| Non-trade payables and accrued expenses   | 6,169                         | 6,904                         |
| Other taxation and social security costs  | 1,715                         | 1,431                         |
| Payments received on account  | 4,659                         | 3,922                         |
|   | <b>26,185</b>                 | <b>23,629</b>                 |
| Deferred and contingent considerations on acquisitions  | 2,774                         | -                             |
| <b>Non-current liabilities</b>  |                               |                               |
| Deferred and contingent consideration on acquisitions   | 2,677                         | 5,911                         |

The deferred consideration relates to the remaining payments to be made in relation to the acquisitions of Noreva GmbH and Goodwin Refractory Services Holdings Limited (formerly SRS Holdings Limited). The liabilities have been calculated on the basis of payments being made at the earliest opportunity under the legal agreements as discounted to present values using an assumed cost of capital of 6.5%.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 18. Capital and reserves

#### Reconciliation of movement in capital and reserves

|                                    | Share capital<br>£'000 | Translation reserve<br>£'000 | Cash flow hedging reserve<br>£'000 | Retained earnings<br>£'000 | Total<br>£'000 | Minority interest<br>£'000 | Total equity<br>£'000 |
|------------------------------------|------------------------|------------------------------|------------------------------------|----------------------------|----------------|----------------------------|-----------------------|
| Balance at 30th April, 2009        | 720                    | 957                          | (5,247)                            | 30,575                     | 27,005         | 2,482                      | 29,487                |
| Total comprehensive income         | -                      | 242                          | 5,173                              | 8,507                      | 13,922         | 965                        | 14,887                |
| Dividends paid                     | -                      | -                            | -                                  | (4,000)                    | (4,000)        | (205)                      | (4,205)               |
| Balance at 30th April, 2010        | 720                    | 1,199                        | (74)                               | 35,082                     | 36,927         | 3,242                      | 40,169                |
| Total comprehensive income         | -                      | (171)                        | 2,496                              | 3,628                      | 5,953          | 506                        | 6,459                 |
| Dividends paid                     | -                      | -                            | -                                  | (2,000)                    | (2,000)        | (311)                      | (2,311)               |
| <b>Balance at 30th April, 2011</b> | <b>720</b>             | <b>1,028</b>                 | <b>2,422</b>                       | <b>36,710</b>              | <b>40,880</b>  | <b>3,437</b>               | <b>44,317</b>         |

#### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations

#### Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge instruments related to hedged transactions that have not yet occurred

The aggregate deferred tax relating to items that are recognised in equity is a liability of £851,000 (2010 asset of £29,000)

#### Share capital

##### Authorised, allotted, called up and fully paid:

7,200,000 ordinary shares of 10p each

| 2011<br>£'000 | 2010<br>£'000 |
|---------------|---------------|
| <b>720</b>    | <b>720</b>    |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company

### 19 Financial risk management

The Group's operations expose it to a variety of financial risks that include the effects of changes in market prices (interest rates, foreign exchange rates and commodity prices), credit risks, and liquidity. The Group has in place risk management policies that seek to limit the adverse effects on the financial performance of the Group by using various instruments and techniques

Risk management policies have been set by the Board and applied by the Group

#### a) Credit risk

The Group's financial assets are cash and cash equivalents and trade and other receivables, the carrying amounts of which represent the Group's maximum exposure to credit risk in relation to financial assets

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

The Group's credit risk is primarily attributable to its trade receivables, and is managed through the following processes

- i) The majority of orders accepted by Group companies are taken with credit insurance coverage
- ii) Some orders are accepted with no credit insurance but with letters of credit
- iii) Some orders are accepted with no credit insurance and no letter of credit but with internal analysis of the customer's size, credit worthiness, historic profitability and payment record
- iv) A few orders (less than 10%) are taken at risk following review by more than two Board members
- v) Major orders are normally accompanied by stage payments which go towards mitigating our credit risk

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 19 Financial risk management (continued)

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was

|                                   | Notes | Carrying amount<br>2011<br>£'000 | 2010<br>£'000 |
|-----------------------------------|-------|----------------------------------|---------------|
| Trade and other receivables       | 14    | 24,862                           | 21,263        |
| Cash at bank and cash equivalents | 15    | 4,049                            | 10,710        |
| Derivative financial assets       | 19(e) | 4,349                            | 635           |
|                                   |       | <b>33,260</b>                    | <b>32,608</b> |

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was

|                | Carrying amount<br>2011<br>£'000 | 2010<br>£'000 |
|----------------|----------------------------------|---------------|
| UK             | 3,849                            | 3,873         |
| Rest of Europe | 5,959                            | 4,633         |
| USA            | 2,679                            | 3,321         |
| Pacific Basin  | 5,193                            | 4,605         |
| Rest of World  | 5,853                            | 4,131         |
|                | <b>23,533</b>                    | <b>20,563</b> |

The ageing of trade receivables that were past due but not impaired at the reporting date were

|                            | Net<br>2011<br>£'000 | Gross<br>2011<br>£'000 | Impairment<br>2011<br>£'000 | Net<br>2010<br>£'000 | Gross<br>2010<br>£'000 | Impairment<br>2010<br>£'000 |
|----------------------------|----------------------|------------------------|-----------------------------|----------------------|------------------------|-----------------------------|
| Not past due               | 14,772               | 14,772                 | -                           | 13,747               | 13,747                 | -                           |
| Past due 1-30 days         | 3,063                | 3,063                  | -                           | 2,519                | 2,572                  | (53)                        |
| Past due 31-90 days        | 2,465                | 2,465                  | -                           | 2,393                | 2,393                  | -                           |
| Past due more than 90 days | 3,233                | 3,614                  | (381)                       | 1,904                | 2,210                  | (306)                       |
|                            | <b>23,533</b>        | <b>23,914</b>          | <b>(381)</b>                | <b>20,563</b>        | <b>20,922</b>          | <b>(359)</b>                |

There are no significant credit risks arising from the above assets and management believes the credit quality of customers is good based on a review of past payment history and the current financial status of the customers. Of the past due more than 90 days at 30th April, 2011 of £3,233,000, £1.1 million was due from one customer which has been received since the year end. The Group has not renegotiated the terms of any trade receivables and has not pledged any trade receivables as security.

The Directors estimate that the fair value of the Group's trade and other receivables is approximate to their carrying values.

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| An analysis of the provision for impairment of receivables is as follows |               |               |
| At beginning of year   | 359           | 557           |
| Charge for the year  | 52            | 304           |
| Utilised during the year   | (30)          | (502)         |
| At end of year   | <b>381</b>    | <b>359</b>    |

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 19 Financial risk management *(continued)*

#### b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation

At the year end the Group had the following un-drawn facilities in respect of which all conditions precedent had been met

|                               | Uncommitted   |        | Committed    |       | Total         |        |
|-------------------------------|---------------|--------|--------------|-------|---------------|--------|
|                               | 2011          | 2010   | 2011         | 2010  | 2011          | 2010   |
|                               | £'000         | £'000  | £'000        | £'000 | £'000         | £'000  |
| Un-drawn borrowing facilities | <b>12,632</b> | 15,096 | <b>3,000</b> | 1,650 | <b>15,632</b> | 16,746 |

The Group's principal borrowing facilities are provided by 3 banks in the form of borrowings and short term overdraft facilities. The quantum of borrowing facilities available to the Group is reviewed regularly in light of current working capital requirements and the need for capital investment for the long term future for the Group

#### Maturity analysis

The table below analyses the Group's financial liabilities into maturity groupings based on the period outstanding at the balance sheet date up to the contractual maturity date. All figures are contracted gross cashflows that have not been discounted

|   | 2011<br>Contractual cash flows |                    |                | Carrying<br>value<br>2011<br>Total<br>£'000 |
|---|--------------------------------|--------------------|----------------|---|
|   | Within<br>1 year<br>£'000      | 1-5 years<br>£'000 | Total<br>£'000 |   |
| <b>Non-derivative financial liabilities</b> |                                |                    |                |   |
| Overdrafts                                  | 834                            | -                  | 834            | 834   |
| Bank loans                                  | -                              | 11,794             | 11,794         | 11,663                                      |
| Finance leases                              | 244                            | 688                | 932            | 889   |
| Trade and other payables                    | 26,185                         | -                  | 26,185         | 26,185                                      |
| Deferred considerations on acquisitions     | 2,800                          | 2,850              | 5,650          | 5,451                                       |
| <b>Total</b>                                | <b>30,063</b>                  | <b>15,332</b>      | <b>45,395</b>  | <b>45,022</b>                               |

|   | 2010<br>Contractual cash flows |                    |                | Carrying<br>value<br>2010<br>Total<br>£'000 |
|---|--------------------------------|--------------------|----------------|---|
|   | Within<br>1 year<br>£'000      | 1-5 years<br>£'000 | Total<br>£'000 |   |
| <b>Non-derivative financial liabilities</b> |                                |                    |                |   |
| Overdrafts                                  | 887                            | -                  | 887            | 887   |
| Bank loans                                  | -                              | 10,550             | 10,550         | 10,350                                      |
| Finance leases                              | 145                            | 8                  | 153            | 147   |
| Trade and other payables                    | 23,629                         | -                  | 23,629         | 23,629                                      |
| Deferred consideration on acquisition       | -                              | 6,537              | 6,537          | 5,911                                       |
| <b>Total</b>                                | <b>24,661</b>                  | <b>17,095</b>      | <b>41,756</b>  | <b>40,924</b>                               |

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 19 Financial risk management *(continued)*

#### c) Market risk

##### Foreign exchange risk

The Group is subject to fluctuations in exchange rates on its net investments overseas and transactional monetary assets and liabilities not denominated in the operating (or “functional”) currency of the operating unit involved

The Group is exposed to fluctuations in several currencies which give rise to the net currency gains and losses recognised in the income statement

The Group at its discretion is empowered to hedge its estimated annual foreign currency exposure in respect of forecast sales and purchases if the Board deems it appropriate after having taken into account the expected movement in the foreign exchange rates. The Group uses forward exchange contracts to hedge its foreign currency risk. Most of the foreign exchange contracts have maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

In respect of other monetary assets and liabilities held in currencies, the Group ensures that the net exposure is eliminated through the use of forward exchange contracts or spot transactions at the time the contractual commitment is in place.

##### Currency profile of financial assets and liabilities

|                             | <b>2011<br/>US<br/>Dollar<br/>£'000</b> | <b>2010<br/>US<br/>Dollar<br/>£'000</b> | <b>2011<br/>Euro<br/>£'000</b> | <b>2010<br/>Euro<br/>£'000</b> | <b>2011<br/>Other<br/>£'000</b> | <b>2010<br/>Other<br/>£'000</b> | <b>2011<br/>Total<br/>£'000</b> | <b>2010<br/>Total<br/>£'000</b> |
|-----------------------------|---|---|--------------------------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Trade and other receivables | <b>7,069</b>                            | 7,743                                   | <b>2,801</b>                   | 2,813                          | <b>535</b>                      | 472                             | <b>10,405</b>                   | 11,028                          |
| Cash and cash equivalents   | <b>2,428</b>                            | –                                       | –                              | –                              | –                               | –                               | <b>2,428</b>                    | –                               |
| Bank overdrafts             | –                                       | –                                       | <b>(3,117)</b>                 | –                              | –                               | –                               | <b>(3,117)</b>                  | –                               |
| Bank loans                  | –                                       | –                                       | –                              | –                              | –                               | –                               | –                               | –                               |
| Finance lease liabilities   | –                                       | –                                       | –                              | –                              | –                               | –                               | –                               | –                               |
| Trade and other payables    | <b>(449)</b>                            | (342)                                   | <b>(1,679)</b>                 | (370)                          | <b>(12)</b>                     | (4)                             | <b>(2,140)</b>                  | (716)                           |
|                             | <b>9,048</b>                            | 7,401                                   | <b>(1,995)</b>                 | 2,443                          | <b>523</b>                      | 468                             | <b>7,576</b>                    | 10,312                          |

The following significant exchange rates applied during the year

|           | <b>Average<br/>Exchange rate</b> |             | <b>Reporting date<br/>spot rate</b> |             |
|-----------|----------------------------------|-------------|-------------------------------------|-------------|
|           | <b>2011</b>                      | <b>2010</b> | <b>2011</b>                         | <b>2010</b> |
| US Dollar | <b>1.564</b>                     | 1.6020      | <b>1.6627</b>                       | 1.5268      |
| Euro      | <b>1.169</b>                     | 1.1319      | <b>1.1216</b>                       | 1.1479      |

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 19 Financial risk management *(continued)*

#### c) Market risk *(continued)*

##### Interest rate risk

The Group is subject to fluctuations in interest rates on its borrowings and surplus cash. The Group is aware of the financial products available to ensure against adverse movements in interest rates. Formal reviews are undertaken to determine whether such instruments are appropriate for the Group. During the year, no new interest rate swaps were entered into.

The Group has taken out in previous years £10 million of interest rate protection in the form of swaps and caps. For the year ended 30th April, 2011 these products ensure that the Group's worse case borrowing rate (including the banks margins) is capped.

The table below shows the Group's financial assets and liabilities split by those bearing fixed and floating rates and those that are non-interest bearing.

|                              | Fixed rate |       | Floating rate |                  | Non-interest bearing |                  | Total    |                  |
|------------------------------|------------|-------|---------------|------------------|----------------------|------------------|----------|------------------|
|                              | 2011       | 2010  | 2011          | Restated<br>2010 | 2011                 | Restated<br>2010 | 2011     | Restated<br>2010 |
|                              | £'000      | £'000 | £'000         | £'000            | £'000                | £'000            | £'000    | £'000            |
| Cash and cash equivalents    | -          | -     | 4,049         | 10,710           | -                    | -                | 4,049    | 10,710           |
| Trade and other receivables* | -          | -     | -             | -                | 30,013               | 22,450           | 30,013   | 22,450           |
| Trade and other payables*    | -          | -     | (5,451)       | (5,911)          | (32,607)             | (28,631)         | (38,058) | (34,542)         |
| Bank overdrafts              | -          | -     | (834)         | (887)            | -                    | -                | (834)    | (887)            |
| Bank loans                   | -          | -     | (11,663)      | (10,350)         | -                    | -                | (11,663) | (10,350)         |
| Finance lease liabilities    | -          | (22)  | (889)         | (125)            | -                    | -                | (889)    | (147)            |
|                              | -          | (22)  | (14,788)      | (6,563)          | (2,594)              | (6,181)          | (17,382) | (12,766)         |

\*including derivatives

#### d) Capital management

The Group's main objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders. The Group aims to maintain a strong credit rating and headroom whilst optimising return to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it with regard to the risks inherent in the business and in light of changes to economic conditions.

Capital is managed by maximising retained profits. Working capital is managed in order to generate maximum conversion of these profits into cash and cash equivalents and dividends are paid from current year profits, thereby maintaining capital.

The policy for debt is to ensure a smooth debt maturity profile with the objective of ensuring continuity of funding.

Capital includes share capital, translation reserve, cash flow hedge reserve, net debt and retained earnings reserve. Net debt includes short and long term borrowings (including overdrafts and lease obligations) net of cash and cash equivalents.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 19 Financial risk management (continued)

#### d) Capital management (continued)

##### Currency derivatives

The Group utilises currency derivatives to hedge future transactions and cash flows. The Group is party to a variety of foreign currency forward contracts in the management of its exchange rate exposures.

##### Forecast transactions

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The nominal value of forward exchange contracts used as hedges of forecast transactions at 30th April, 2011 was US\$52.79 million (2010 US\$14.02 million), the fair value of these at 30th April, 2011 was an asset of £3.90 million (2010 liability of £0.26 million). The Group also has a number of forward contracts not designated as cash flow hedges, and therefore recorded at fair value through profit or loss. The nominal value of these contracts at 30th April, 2011 was US\$10.37 million and €26.32 million (2010 US\$22.03 million and €1.6 million), the fair value of these at 30th April, 2011 was a liability of £0.16 million (2010 liability of £0.37 million).

##### Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of administrative expenses.

##### Interest rate swaps/caps

The Group uses interest rate swaps and caps contracts to manage its exposure to interest rate movements on its bank borrowings. The nominal value of these contracts at the year end was £10 million (2010 £10 million).

The fair value of swaps/caps entered into at 30th April, 2011 was estimated at £635,000 liability (2010 £614,000 liability). Of these swaps/caps, the fair value of those designated as cash flow hedges at 30th April, 2011 was £630,000 liability (2010 £592,000 liability).

##### Derivative financial instruments

For cash flow hedges the following table sets out the periods when the cash flows are expected to occur and when they are expected to affect profit or loss.

|                                   | 2011  |                                |                           |                                      |                          |
|-----------------------------------|---|--------------------------------|---------------------------|--------------------------------------|--------------------------|
|                                   | Periods in which cash flows and profits are expected to occur |                                |                           |                                      |                          |
|                                   | Carrying<br>amount<br>£'000                                   | Expected<br>cash flow<br>£'000 | Within<br>1 year<br>£'000 | Between<br>1 and<br>5 years<br>£'000 | Over<br>5 years<br>£'000 |
| <b>Forward exchange contracts</b> |   |                                |                           |                                      |                          |
| Assets                            | 3,960   | 3,960                          | 3,794                     | 166                                  | -                        |
| Liabilities                       | (57)  | (57)                           | (57)                      | -                                    | -                        |
| <b>Interest rate swaps</b>        |   |                                |                           |                                      |                          |
| Liabilities                       | (630)   | (630)                          | (110)                     | (520)                                | -                        |
|                                   | <u>3,273</u>  | <u>3,273</u>                   | <u>3,627</u>              | <u>(354)</u>                         | <u>-</u>                 |
|                                   | 2010  |                                |                           |                                      |                          |
|                                   | Periods in which cash flows and profits are expected to occur |                                |                           |                                      |                          |
|                                   | Carrying<br>amount<br>£'000                                   | Expected<br>cash flow<br>£'000 | Within<br>1 year<br>£'000 | Between<br>1 and<br>5 years<br>£'000 | Over<br>5 years<br>£'000 |
| <b>Forward exchange contracts</b> |   |                                |                           |                                      |                          |
| Assets                            | 635   | 635                            | 635                       | -                                    | -                        |
| Liabilities                       | (310)   | (310)                          | (310)                     | -                                    | -                        |
| <b>Interest rate swaps</b>        |   |                                |                           |                                      |                          |
| Liabilities                       | (592)   | (592)                          | (80)                      | (512)                                | -                        |
|                                   | <u>(267)</u>  | <u>(267)</u>                   | <u>245</u>                | <u>(512)</u>                         | <u>-</u>                 |

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 19. Financial risk management *(continued)*

#### d) Capital management *(continued)*

##### Derivative financial instruments *(continued)*

##### Sensitivity analysis

The Group has calculated the following sensitivities based on available data from forward contract markets for the principal foreign currencies in which the Group operates. Given recent fluctuations in rates, it is deemed sensible to provide the quantum for a 1% change in rates to aid understanding. These figures can be extrapolated proportionately to obtain an estimate of the impact of large movements.

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| <b>Impact on equity</b>                                 |               |               |
| 1% increase in US Dollar fx rate against pound sterling | (308)         | (88)          |
| 1% increase in Euro fx rate against pound sterling      | –             | (81)          |
| 1% decrease in US Dollar fx rate against pound sterling | 308           | 88            |
| 1% decrease in Euro fx rate against pound sterling      | –             | 81            |
|   | <hr/>         | <hr/>         |
| <b>Impact on profit or loss</b>                         |               |               |
| 1% increase in US Dollar fx rate against pound sterling | (71)          | (145)         |
| 1% increase in Euro fx rate against pound sterling      | (226)         | (67)          |
| 1% decrease in US Dollar fx rate against pound sterling | 71            | 145           |
| 1% decrease in Euro fx rate against pound sterling      | 226           | 67            |
|   | <hr/>         | <hr/>         |

The Group has calculated the following sensitivities based on available data from forward markets for fixed and floating interest rates. Management believe that these reflect the most probable rate movements.

|                                      | 2011<br>£'000 | 2010<br>£'000 |
|--------------------------------------|---------------|---------------|
| <b>Impact on equity</b>              |               |               |
| 1% increase in base rate of interest | 288           | 269           |
|                                      | <hr/>         | <hr/>         |
| <b>Impact on profit or loss</b>      |               |               |
| 1% increase in base rate of interest | –             | 25            |
|                                      | <hr/>         | <hr/>         |

#### e) Total financial assets and liabilities

The table below sets out the Group's accounting classification of each class of financial assets and liabilities, and their fair values at 30th April, 2011 and 30th April, 2010.

|  | 30th April, 2011            |                     | 30th April, 2010            |                     |
|--|-----------------------------|---------------------|-----------------------------|---------------------|
|  | Carrying<br>amount<br>£'000 | Fair value<br>£'000 | Carrying<br>amount<br>£'000 | Fair value<br>£'000 |
| <b>Financial assets</b>  |                             |                     |                             |                     |
| Cash and cash equivalents  | 4,049                       | 4,049               | 10,710                      | 10,710              |
| <b>Loans and receivables</b>   |                             |                     |                             |                     |
| Trade receivables  | 23,533                      | 23,533              | 20,563                      | 20,563              |
| Other receivables  | 2,131                       | 2,131               | 1,252                       | 1,252               |
| <b>At fair value through profit or loss</b>  |                             |                     |                             |                     |
| Derivative financial assets not designated in<br>a cash flow hedge relationship          | 389                         | 389                 | –                           | –                   |
| <b>Designated cash flow hedge relationships</b>  |                             |                     |                             |                     |
| Derivative financial assets designated and<br>effective as cash flow hedging instruments | 3,960                       | 3,960               | 635                         | 635                 |
| <b>Total financial assets</b>  | <hr/> 34,062                | <hr/> 34,062        | <hr/> 33,160                | <hr/> 33,160        |



## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 19. Financial risk management (continued)

#### e) Total financial assets and liabilities (continued)

##### Financial liabilities

##### Financial liabilities at amortised cost

|  | 30th April, 2011         |                     | 30th April, 2010         |                     |
|--|--------------------------|---------------------|--------------------------|---------------------|
|  | Carrying amount<br>£'000 | Fair value<br>£'000 | Carrying amount<br>£'000 | Fair value<br>£'000 |
| Bank overdraft   | 834                      | 834                 | 887                      | 887                 |
| Trade payables   | 13,642                   | 13,642              | 11,372                   | 11,372              |
| Other payables (current)   | 12,543                   | 12,543              | 12,257                   | 12,257              |
| Deferred consideration (current)   | 2,774                    | 2,774               | –                        | –                   |
| Deferred consideration (non-current)   | 2,677                    | 2,677               | 5,911                    | 5,911               |
| Finance lease liabilities  | 889                      | 889                 | 147                      | 147                 |
| Bank loans   | 11,663                   | 11,663              | 10,350                   | 10,350              |
| <b>At fair value through profit or loss</b>  |                          |                     |                          |                     |
| Derivative financial liabilities not designated in a cash flow hedge relationship          | 559                      | 559                 | 404                      | 404                 |
| <b>Designated cash flow hedge relationships</b>  |                          |                     |                          |                     |
| Derivative financial liabilities designated and effective as cash flow hedging instruments | 687                      | 687                 | 902                      | 902                 |
| <b>Total financial liabilities</b>   | <b>46,268</b>            | <b>46,268</b>       | <b>42,230</b>            | <b>42,230</b>       |

Under IAS 39, all derivative financial instruments not in a hedge relationship are classified as derivatives at fair value through profit or loss. The Group does not use derivatives for speculative purposes. All transactions in derivative financial instruments are underpinned by firm orders from customers or to suppliers or where there is a high degree of certainty that orders will be received.

For short term cash and cash equivalents trade and other receivables trade and other payables and floating rate borrowings, the fair values are the same as carrying value. For fixed rate borrowings, forward currency contracts and interest rate instruments fair values have been calculated by discounting the cash flows at prevailing appropriate market rates. Other assets reflect management's estimate of value on an appropriate basis.

### 20 Operating leases

Non-cancellable operating lease rentals are payable as follows

|                            | Land and buildings<br>£'000 | Other<br>£'000 | Total<br>2011<br>£'000 | Total<br>2010<br>£'000 |
|----------------------------|-----------------------------|----------------|------------------------|------------------------|
| Less than one year         | 203                         | 1              | 204                    | 333                    |
| Between one and five years | 570                         | –              | 570                    | 775                    |
|                            | <b>773</b>                  | <b>1</b>       | <b>774</b>             | <b>1,108</b>           |

Prior year comparatives have been restated following a detailed review of the operating lease contracts held

### 21 Capital commitments

Contracted capital commitments at 30th April, 2011 for which no provision has been made in these financial statements were £808,000 (2010: £Nil)

### 22 Guarantees and contingencies

|                                       | Total<br>£'000 | Number of<br>contracts |
|---------------------------------------|----------------|------------------------|
| Year ended<br><b>30th April, 2011</b> | <b>8,462</b>   | <b>223</b>             |
| 30th April, 2010                      | 10,533         | 246                    |

The Group has issued bank backed guarantee and bond commitments principally in order to secure its contracts

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 23. Subsequent events

After the balance sheet date an ordinary dividend of 29 166p per qualifying ordinary share was proposed by the Directors (2010 ordinary dividend of 27 777p)

The current year proposed ordinary dividend of £2,100,000 has not been provided for within these financial statements (2010 proposed ordinary dividend of £2,000,000 was not provided for within the comparative figures)

### 24 Accounting estimates and judgements

#### (a) Recoverability of assets / impairment calculations

The Group's Directors review the appropriateness of the carrying values of its non-current and current assets. With regards to the non-current assets, the Directors are of the opinion that the goodwill at the year end remains unimpaired as the underlying performance of the subsidiaries giving rise to this goodwill is sufficiently profitable to merit no impairment.

With regard to property, plant and equipment, the Directors continue to make reference in the Directors' Report that, in their opinion, the value of the Group's freehold land and buildings is in excess of the values disclosed in the balance sheet. With regard to plant and equipment, the Directors consider that the depreciation rates applied are sufficient, taking into account both the expected lifespan of the plant and equipment and also the demand in the marketplace for the goods that the plant produces.

With regard to current assets, the Directors look at the carrying values as stated in the balance sheet and make full provision for any assets on which there is a high degree of probability that full conversion of such assets into cash is unlikely.

#### (b) Derivatives

As stated in note 1, under derivative financial instruments and hedging, the Group has applied the provisions of IAS 39 with respect to hedge accounting for its effective cash flow hedging on foreign exchange transactions. For the most part, the hedges are underpinned by firm orders and the balance relating to forecast activities are relatively small given the Group's normal order inputs in these currencies. In addition to the foreign exchange hedging the Group has also cash flow hedged an element of its interest rate swap derivative.

#### (c) Acquisitions

During earlier years, the Group acquired 100% of the share capital of SRS Holdings Limited (subsequently renamed as Goodwin Refractory Services Holdings Limited), 75% of the ordinary shares in Noreva GmbH, intellectual property rights and other intangible assets as part of its Brazilian investment, and the brand name, the customer list and certain plant of a vermiculite supplier. The purchases gave rise to goodwill and other intangible assets as set out in note 10 to the financial statements. In determining the fair value of assets acquired under business combinations, including the valuation of other intangibles, a number of estimates are made. These estimates include the expected life spans of the products underpinning the purchases together with the returns expected and the risk attaching to those returns.

Further to the SRS Holdings Limited and Noreva GmbH acquisitions, there are elements of deferred consideration amounting to £2.8 million for SRS Holdings Limited payable on the 30th June, 2011, and £2.85 million for Noreva GmbH. The £2.8 million and £2.85 million are consolidated in these accounts less an appropriate discount for the deferred payment period.

#### (d) Deferred taxation

Deferred taxation has been estimated using the best information available, including seeking the opinions of independent experts when applicable.

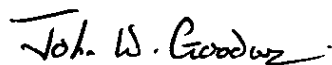
# GOODWIN PLC

## COMPANY BALANCE SHEET

At 30th April, 2011

|   | Note | 2011<br>£'000   | 2010<br>£'000   |
|---|------|-----------------|-----------------|
| <b>FIXED ASSETS</b>   |      |                 |                 |
| Intangible assets   | C4   | 1,308           | 1,572           |
| Tangible assets   | C5   | 13,315          | 13,705          |
| Investments   | C6   | 14,828          | 15,310          |
|   |      | <u>29,451</u>   | <u>30,587</u>   |
| <b>CURRENT ASSETS</b>   |      |                 |                 |
| Debtors   | C7   | 25,659          | 15,551          |
| Cash at bank and in hand                                      |      | 305             | 5,733           |
|   |      | <u>25,964</u>   | <u>21,284</u>   |
| <b>CREDITORS: amounts falling due within one year</b>         | C8   | <u>(10,789)</u> | <u>(9,947)</u>  |
| <b>NET CURRENT ASSETS</b>                                     |      | <u>15,175</u>   | <u>11,337</u>   |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                  |      | <u>44,626</u>   | <u>41,924</u>   |
| <b>CREDITORS amounts falling due after more than one year</b> | C9   | <u>(14,209)</u> | <u>(16,261)</u> |
| <b>PROVISIONS FOR LIABILITIES</b>                             | C10  | <u>(2,421)</u>  | <u>(591)</u>    |
| <b>NET ASSETS</b>   |      | <u>27,996</u>   | <u>25,072</u>   |
| <b>CAPITAL AND RESERVES</b>                                   |      |                 |                 |
| Called up share capital                                       | C11  | 720             | 720             |
| Hedge reserve   | C12  | (466)           | (426)           |
| Profit and loss account                                       | C12  | 27,742          | 24,778          |
| <b>TOTAL SHAREHOLDERS' FUNDS</b>                              |      | <u>27,996</u>   | <u>25,072</u>   |

These financial statements were approved by the board of Directors on 26th August, 2011 and signed on its behalf by



J W GOODWIN  
Director



R S GOODWIN  
Director

Registered Company Number 305907

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### C1 UK GAAP accounting policies

#### Principal accounting policies

The Company has elected to prepare its financial statements under UK GAAP

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to these financial statements

#### Basis of accounting

The financial statements have been prepared under the historical cost accounting rules, except for derivatives which are valued at fair value, and in accordance with applicable Accounting Standards

The Company is exempt under S408(3) Companies Act 2006 from the requirement to present its own profit and loss account

In accordance with FRS 1, the Company is exempt from preparing its own cash flow statement. In accordance with FRS 8 "Related parties", the Company is exempt from disclosing transactions with its subsidiaries

The Company has adopted the requirements of FRS 29 and has taken the exemption under that standard from disclosure on the grounds that the Group financial statements contain disclosures in compliance with IFRS 7

#### Investment in subsidiary undertakings

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off for impairment

#### Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account

#### Intangible fixed assets and amortisation

Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be measured reliably

Manufacturing rights, brand names and customer lists purchased by the Company are amortised to nil by equal annual instalments over their useful economic lives, generally their respective unexpired periods, of between 6 and 15 years

#### Tangible fixed assets and depreciation

Depreciation is calculated so as to write down the cost of fixed assets to their anticipated residual value over their estimated useful lives. The method of calculation and the annual rates applied are as follows

|                       |   |
|-----------------------|---|
| Freehold land         | Nil   |
| Freehold buildings    | 2% on cost                                    |
| Plant and machinery   | 10% to 25% on reducing balance or 25% on cost |
| Motor vehicles        | 15% or 25% on reducing balance                |
| Fixtures and fittings | 25% on reducing balance                       |

Assets under the course of construction are not depreciated

In previous years the freehold buildings were depreciated at 4% on cost or reducing balance, resulting in a reduction in the depreciation charge of £253,000 in the current year

#### Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date

Deferred taxation is not provided on earnings retained in overseas subsidiary undertakings as it is not expected that an actual liability will arise

#### Leasing

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 over its estimated useful life, or the term of the lease, whichever is shorter. 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, and the capital element which reduces the outstanding obligation for future instalments

All other leases are accounted for as "operating leases" and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease

#### Financial Instruments

The Company uses financial instruments to manage financial risks associated with the Group's underlying business activities and the financing of those business activities. The Company does not undertake any trading in financial instruments

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 dependent on whether the derivative is designated as a hedging instrument

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swaps at the balance sheet date, taking into account current interest rates and the current credit worthiness of the swap counterparties

#### Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction. Any gain or loss on translation arising from a movement in exchange rates subsequent to the date of a transaction is included as an exchange gain or loss in the profit and loss account

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### C2 Profit for the financial year

The Company's profit for the financial year was £4,964,000 (2010 £5,333,000)

Included in profit before taxation are the following

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Fees receivable by the auditors and their associates in respect of |               |               |
| Audit of these financial statements                                | <b>16</b>     | 15            |

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis (see note 3 on page 26)

### C3 Staff numbers and costs (including Directors)

Details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 10 and 11

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows

|                | Number of employees<br>2011 | 2010 |
|----------------|-----------------------------|------|
| Administration | <b>45</b>                   | 35   |

The aggregate payroll costs of these persons were as follows

|                       | 2011<br>£'000 | 2010<br>£'000 |
|-----------------------|---------------|---------------|
| Wages and salaries    | <b>2,507</b>  | 1,942         |
| Social security costs | <b>293</b>    | 229           |
| Other pension costs   | <b>22</b>     | 22            |
|                       | <b>2,822</b>  | 2,193         |

### C4 Intangible fixed assets

|                              | Brand Name<br>and customer<br>list<br>£'000 | Manufacturing<br>rights<br>£'000 | Intellectual<br>Property<br>Rights and<br>Non-Compete<br>£'000 | Total<br>£'000 |
|------------------------------|---|----------------------------------|--|----------------|
| <b>Cost</b>                  |   |                                  |  |                |
| At beginning and end of year | 880   | 827                              | 594  | 2,301          |
| <b>Amortisation</b>          |   |                                  |  |                |
| At beginning of year         | 376   | 147                              | 206  | 729            |
| Charged in year              | 110   | 55                               | 99   | 264            |
| At end of year               | 486   | 202                              | 305  | 993            |
| <b>Net book value</b>        |   |                                  |  |                |
| <b>At 30th April, 2011</b>   | <b>394</b>                                  | <b>625</b>                       | <b>289</b>   | <b>1,308</b>   |
| At 30th April, 2010          | 504   | 680                              | 388  | 1,572          |

The brand name and customer list reflects the purchase of an intangible asset to assist an existing manufacturing process at one of the Group's subsidiaries. The manufacturing rights brought forward reflect the payment in a previous period for an irrevocable licence for the Goodwin Group to manufacture the Noreva range of nozzle check valves in the UK. These rights will be amortised over 15 years in line with the expected life of the asset with appropriate royalties being charged to the UK subsidiary carrying on the manufacturing of the valves. The intangible asset, being in effect an inter company transaction, does not feature in the Group accounts as an intangible asset.

**NOTES TO THE FINANCIAL STATEMENTS** (continued)

| <b>C5 Tangible fixed assets</b> | <b>Freehold land and buildings<br/>£'000</b> | <b>Plant and machinery<br/>£'000</b> | <b>Fixtures and fittings<br/>£'000</b> | <b>Total<br/>£'000</b> |
|---------------------------------|--|--------------------------------------|--|------------------------|
| <b>Cost</b>                     |  |                                      |  |                        |
| At beginning of year            | 9,384  | 8,998                                | 1,199                                  | 19,581                 |
| Additions                       | -  | 215                                  | 275                                    | 490                    |
| Disposals                       | -  | (33)                                 | -                                      | (33)                   |
| At end of year                  | 9,384  | 9,180                                | 1,474                                  | 20,038                 |
| <b>Depreciation</b>             |  |                                      |  |                        |
| At beginning of year            | 1,401  | 3,628                                | 847                                    | 5,876                  |
| Charge for year                 | 86   | 671                                  | 109                                    | 866                    |
| Disposals                       | -  | (19)                                 | -                                      | (19)                   |
| At end of year                  | 1,487  | 4,280                                | 956                                    | 6,723                  |
| <b>Net book value</b>           |  |                                      |  |                        |
| <b>At 30th April, 2011</b>      | <b>7,897</b>                                 | <b>4,900</b>                         | <b>518</b>                             | <b>13,315</b>          |
| At 30th April, 2010             | 7,983  | 5,370                                | 352                                    | 13,705                 |

| <b>C6 Fixed asset investments</b> | <b>Shares in associated undertakings<br/>£'000</b> | <b>Shares in Group undertakings<br/>£'000</b> |
|-----------------------------------|--|---|
| <b>Cost and net book value</b>    |  |   |
| At beginning of year              | 40   | 15,270  |
| Additions                         | 237  | 157   |
| Disposal                          | -  | (44)  |
| Recalculation                     | -  | (832)   |
| <b>At end of year</b>             | <b>277</b>   | <b>14,551</b>                                 |

The additions to associated undertakings during the year represented a new investment in Goodwin Tet Property Company Limited. The additions to Group undertakings during the year represented an additional investment in Goodwin (Shanxi) Pump Company Limited. A list of principal subsidiaries is given in note 11 of the Group accounts.

The disposal relates to a rationalisation of the Group structure during the year. This does not impact on the Group assets or results for the year ended 30th April, 2011.

The recalculation of the value of shares in Group undertakings of £832,000 (2010: £Nil) relates to a revision in the amount assessed as payable with respect to the Group's deferred purchase liabilities for shares in Group undertakings.

| <b>C7 Debtors</b>                  | <b>2011<br/>£'000</b> | <b>2010<br/>£'000</b> |
|------------------------------------|-----------------------|-----------------------|
| Trade debtors                      | -                     | 19                    |
| Amounts owed by Group undertakings | 22,965                | 13,298                |
| Other debtors                      | 352                   | 68                    |
| Corporation tax                    | 1,020                 | 1,407                 |
| Derivative valuations              | 1,247                 | 630                   |
| Prepayments and accrued income     | 75                    | 129                   |
|                                    | <b>25,659</b>         | <b>15,551</b>         |

| <b>C8 Creditors amounts falling due within one year</b> | <b>2011<br/>£'000</b> | <b>2010<br/>£'000</b> |
|---|-----------------------|-----------------------|
| Bank loans and overdrafts                               | 828                   | 1,378                 |
| Amounts owed to Group undertakings                      | 4,415                 | 5,464                 |
| Finance lease liabilities                               | 209                   | -                     |
| Other taxation and social security                      | 164                   | 116                   |
| Derivative valuations                                   | 635                   | 890                   |
| Intra-Group derivatives                                 | 1,247                 | 499                   |
| Deferred consideration on acquisitions                  | 2,774                 | -                     |
| Accruals and deferred income                            | 517                   | 1,600                 |
|   | <b>10,789</b>         | <b>9,947</b>          |

# **NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

|   |                                |                |
|---|--------------------------------|----------------|
| <b>C9 Creditors: amounts falling due after more than one year</b>   | <b>2011</b>                    | 2010           |
|   | <b>£'000</b>                   | £'000          |
| Bank loans  | <b>10,869</b>                  | 10,350         |
| Deferred and contingent consideration on acquisition of subsidiaries  | <b>2,677</b>                   | 5,911          |
| Finance lease liabilities   | <b>663</b>                     | –              |
|   | <b>14,209</b>                  | 16,261         |
| <b>C10 Provisions for liabilities</b>   |                                | <b>2011</b>    |
| <b>Deferred taxation</b>  |                                | <b>£'000</b>   |
| At beginning of year  |                                | 591            |
| Charge to the profit and loss/hedging reserve for the year  |                                | 1,830          |
| <b>At end of year</b>   |                                | <b>2,421</b>   |
| The elements of deferred taxation are as follows  |                                |                |
|   | <b>2011</b>                    | 2010           |
|   | <b>£'000</b>                   | £'000          |
| Difference between accumulated depreciation and amortisation and capital allowances   | <b>2,246</b>                   | 852            |
| Taxation on derivative financial instruments  | <b>175</b>                     | (261)          |
|   | <b>2,421</b>                   | 591            |
| <b>C11 Called up share capital</b>  | <b>2011</b>                    | 2010           |
|   | <b>£'000</b>                   | £'000          |
| <b>Authorised, allotted, called up and fully paid</b>   |                                |                |
| 7,200,000 ordinary shares of 10p each   | <b>720</b>                     | 720            |
| <b>C12 Share capital and reserves</b>   | <b>2011</b>                    | 2010           |
|   | <b>Share capital</b>           |                |
|   | <b>£'000</b>                   |                |
|   | <b>Hedging reserve</b>         |                |
|   | <b>£'000</b>                   |                |
|   | <b>Profit and loss account</b> |                |
|   | <b>£'000</b>                   |                |
|   | <b>Total</b>                   | <b>Total</b>   |
|   | <b>£'000</b>                   | <b>£'000</b>   |
| At beginning of year  | <b>720</b>                     | (426)          |
|   | <b>24,778</b>                  | <b>25,072</b>  |
| Profit for the year   | <b>–</b>                       | (40)           |
| Dividends   | <b>–</b>                       | –              |
|   | <b>4,964</b>                   | <b>4,924</b>   |
|   | <b>(2,000)</b>                 | <b>(2,000)</b> |
| At end of year  | <b>720</b>                     | (466)          |
|   | <b>27,742</b>                  | <b>27,996</b>  |
|   | <b>27,996</b>                  | <b>25,072</b>  |
| <b>C13 Contingent liabilities</b>   |                                |                |
| The Company is jointly and severally liable for value added tax due by other members of the Group amounting to £Nil (2010 £Nil)                 |                                |                |
| <b>C14 Commitments</b>  |                                |                |
| Contracted capital commitments at 30th April, 2011 for which no provision has been made in these financial statements were £Nil (2010 £Nil)     |                                |                |
| <b>C15 Subsequent events</b>  |                                |                |
| Apart from the dividends declared after the balance sheet date (see note C16), no significant events have occurred after the balance sheet date |                                |                |
| <b>C16 Dividends</b>  | <b>2011</b>                    | 2010           |
|   | <b>£'000</b>                   | £'000          |
| Final dividends paid during the year in respect of prior years  |                                |                |
| 27777p (2010 27777p) per qualifying ordinary share  | <b>2,000</b>                   | 2,000          |
| Extraordinary dividends paid during the year in respect of prior years  |                                |                |
| Nilp (2010 27777p)  | <b>–</b>                       | 2,000          |
|   | <b>2,000</b>                   | 4,000          |

After the balance sheet date an ordinary dividend of 29 166p per qualifying ordinary share was proposed by the Directors (2010 ordinary dividend of 27777p)

The current year proposed ordinary dividend of £2,100,000 has not been provided for within these financial statements (2010 proposed ordinary dividend of £2,000,000)