

chamberlin plc

Report and Accounts

for the year ended 31 March 2010

2010

# Welcome to Chamberlin plc



Chamberlin is a respected engineering group which provides specialised castings and safety/security products to a wide variety of industries across the world.

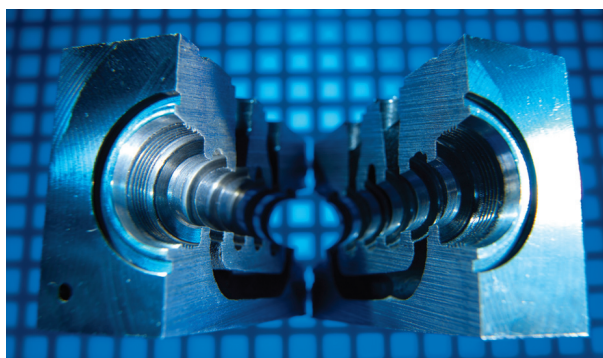
## Our Strategy

The Board believes that success in the engineering sector is achieved by businesses that operate in the most demanding area of their technology and provide an outstanding service to their customers. Our existing activities meet these criteria and we will continue to invest in them and to seek acquisition opportunities that fit this model.

# difficult things done well<sup>®</sup>

## Contents

Key Points	
<b>Our Business</b>	
Information on the Group	
Chairman's Statement	
Business Review	
Board of Directors	
Report of the Directors	
<b>Our Governance</b>	
Corporate Governance	
Directors' Remuneration Report	
Independent Auditors' Report	
<b>1 Our Financials</b>	
Consolidated Income Statement	<b>23</b>
Consolidated Statement of Comprehensive Income	<b>24</b>
Parent Company Statement of Comprehensive Income	<b>24</b>
Consolidated Balance Sheet	<b>25</b>
Parent Company Balance Sheet	<b>26</b>
Consolidated Cash Flow Statement	<b>27</b>
Parent Company Cash Flow Statement	<b>28</b>
Statement of Changes in Equity	<b>29</b>
Notes to the Accounts	<b>30</b>
Directors and Advisers	<b>57</b>
Notice of Annual General Meeting	<b>58</b>



“The improvement in the Group’s second half performance reflects the upturn in demand across all our businesses as the global economic backdrop has improved. More specifically, the Group has secured new business in the turbocharger market, requiring specialist technical manufacturing capability, and this should help to underpin Chamberlin’s continuing recovery.”

**Tom Brown** Chairman

## Key Points

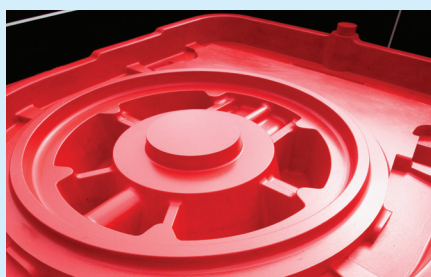
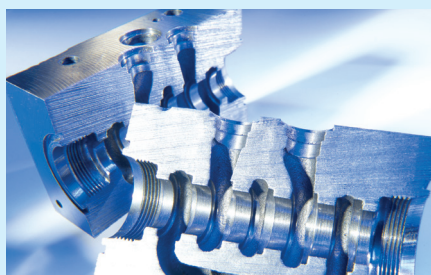
- ▶ Challenging year – but recovery firmly on track
  - upturn in demand evident in Q4 2009 and continued in 2010
- ▶ Revenues of £28.453m (2009: £39.940m)
  - some 40% below pre-recession levels
- ▶ Underlying\* operating loss of £0.923m (2009: profit of £0.460m) – but significant turnaround in H2
  - H2 loss of £0.288m versus H1 loss of £0.635m, a 55% improvement
  - Statutory operating loss of £1.05m (2009: loss of £0.297m)
- ▶ Exceptional reorganisation costs of £0.556m (2009: £0.446m)
  - cost base realigned but full technical and production capabilities maintained
- ▶ Cash generated from operations of £0.502m (2009: £0.693m)
- ▶ Underlying\* pre-tax loss of £1.056m (2009: pre-tax profit of £0.298m)
  - Statutory pre-tax loss of £1.421m (2009: loss of £0.498m)
- ▶ Underlying\* loss per share of 13.1p (2009: earnings of 2.2p)
  - Statutory loss per share of 16.4p (2009: loss of 11.4p)
- ▶ Net assets of £7.9m at 31 March 2010 (2009: £9.5m)
- ▶ Significant new win for turbocharger castings now in production
  - full benefits in new financial year and beyond
- ▶ Board positive on prospects for return to profitability in new financial year

\* Non-underlying items represent business reorganisation costs, the movement in unrealised mark to market foreign currency gains and losses on monetary assets and liabilities and forward foreign currency contracts, net of realised losses on surplus foreign exchange contracts, and net financing costs on pension obligations.

## Information on the Group

### Foundries

**79%** of Group turnover



The Foundries Division currently comprises Chamberlin & Hill Castings Ltd and Russell Ductile Castings Ltd.

#### Chamberlin & Hill Castings

Our Light Castings Division, located at Walsall, specialises in smaller castings up to approximately 30kg, often with complex internal shapes and fine tolerances requiring highly skilled manufacturing methods. These castings and components are predominantly supplied into the automotive and hydraulics sectors. The strong growth in the use of turbochargers in European vehicle manufacture in particular has given us the opportunity to demonstrate our industry leading capabilities in this area.

The Medium Castings Division, based in Leicester, specialises in castings, typically in the range of 30kg to 100kg. Its core expertise is in complex geometry and metallurgy at low to medium volumes. This division supplies a wide range of industrial customers operating in diverse markets including construction equipment, hydraulics, transport and defence.

#### Russell Ductile Castings

The Heavy Castings Division, which is located in Scunthorpe, produces low volume specialised castings in a variety of iron types, ranging from 100kg to 6,000kg, mainly for use in industrial applications such as power generation, steel production, railways and construction equipment throughout the World.

### Engineering

**21%** of Group turnover



The Engineering Division currently comprises Petrel Ltd and Fred Duncombe Ltd.

#### Petrel

Petrel Ltd, based near the National Exhibition Centre to the East of Birmingham, concentrates on the development and production of certified lighting and control equipment for use in hazardous and explosive environments. This is a highly regulated market servicing a variety of sectors including the petrochemical and distilling industries.

#### Fred Duncombe

Fred Duncombe, based in Cannock, Staffordshire, is a long established and leading supplier of high quality emergency exit fittings, architectural ironmongery and builders' hardware products. Its EXIDOR emergency exit product range is a leader in the exit and security door equipment market with an expanding range of equipment to satisfy a variety of access applications.

## Chairman's Statement

Tom Brown



In my Statement at the half year stage I reported that the full impact of the economic downturn was evident in the Group's trading figures for the first half but that we expected to achieve an improvement in the second half of the financial year to 30 March 2010. I am therefore very pleased to announce that we have seen a marked upturn in business in this period and results for the second half show a significant turnaround on the first half, with underlying H2 pre-tax losses contracting to £288,000 from losses of £635,000 in H1. This outcome also represents an improvement on the same six month period last year, when underlying pre-tax losses were £445,000.

The turnaround has been driven by recovery in demand across many of our markets. However the Group also benefited from the fundamental improvements we made to the business prior to the downturn in 2008 and the operational and organisational changes we have implemented since then. The result is that, with demand returning, we have benefited from lower costs and also secured new customers. Looking ahead, we continue to be well-placed to benefit from recovering demand and we anticipate the positive trading trend to be maintained in the new financial year.

### Results

Reflecting the severe downturn, the Group's revenues for the year ended 31 March 2010 showed a year on year decrease of 28% to £28.5m (2009: £39.9m). This principally reflected the contraction in revenues at our foundries which contributed £22.4m to the overall result, a year on year decline of 33%. By contrast, our engineering businesses saw only a 10% contraction in revenues and contributed £6.0m to the Group's total.

Excluding business reorganisation costs of £556,000, the underlying operating loss for the year was £923,000 against an underlying operating profit of £460,000 last year. After finance costs of £133,000, the underlying pre-tax loss was £1,056,000 (2009: underlying pre-tax profit before tax of £298,000), with the first half pre-tax loss at £692,000 and the second half pre-tax loss at £364,000. The underlying loss per share was 13.1p (2009: underlying earnings per share of 2.2p).

The statutory pre-tax loss for the year was £1.421m (2009: loss of £0.498m) and the statutory loss per share was 16.4p (2009: loss per share of 11.4p).

The capital expenditure over the year totalled £0.610m (2009: £2.074m).

Our close focus on cash control and inventory reduction meant that the Group generated £502,000 in positive cash flow from operating activities (2009: £693,000). I am pleased to note that the Group has

continued to generate cash from operations throughout the recession. Our balance sheet remains robust. Gearing is at 44% and net assets are at £7.86m. The Group's borrowings at the year end stood at £3.45m (2009: £3.26m) and we have recently renewed our overdraft facility on existing terms and increased the limit to £5.0m (2009: £4.5m) to provide enhanced flexibility as demand recovers.

Chamberlin's defined benefit pension scheme was closed to further accrual in 2007 but movements in financial markets have increased the deficit to £2.4m (2009: £1.8m).

### Growth strategy

The management team appointed in 2006 to modernise and revitalise Chamberlin, developed a strategy to expand the business by acquisition after the turnaround had been largely completed in 2008, but this had to be deferred due to the downturn. We are now refocusing on acquisitions and are actively considering those prospects which meet our acquisition criteria based on 'difficult things done well'.

### Outlook

The improvement in the Group's second half performance reflects the upturn in demand across all our businesses as the global economic backdrop has improved. More specifically, the Group has secured new business in the turbocharger market, requiring our specialist technical manufacturing capability, and this should help to underpin Chamberlin's continuing recovery.

With recovery now widely established across Chamberlin businesses, production capacity fully intact and the cost base of the Group at a lower level, we anticipate a significantly better year than the last and remain positive on prospects for the Group's return to profitability in the new financial year. The Board remains committed to a policy of progressive dividends and we look forward to returning to payments as market conditions improve.

### Tom Brown

Chairman  
10 June 2010

**“With recovery now widely established . . . we anticipate a significantly better year than the last and are positive on prospects for the Group's return to profitability in the new financial year.”**

## Business Review

Tim Hair and Mark Bache

### INTRODUCTION

After the extreme downturn in November 2008, trading conditions over the course of 2009 were challenging, with the impact of the economic and financial downturn varied, both in timing and severity, across the different markets we serve.

Management acted promptly to minimise the impact of recession, significantly reducing costs while maintaining Chamberlin's technical and production capability. These actions have stood us in good stead as demand has returned. A slow overall recovery in demand started during the latter part of 2009 and has continued into 2010. The Group's financial performance reflects this, with second half results showing a significant improvement on the first half.

We are especially pleased to report that, by the financial year end in March 2010, all areas of the Group's operations were demonstrating recovery and we also secured some important new orders. The Group therefore begins the current financial year in a much improved position and we expect to see the positive trading trend to be maintained over the new financial year.

### FINANCIAL RESULTS

Revenues of £28.5m for the year to 31 March 2010 were some 40% below pre-recessionary levels and equated to a loss of added value of approximately £6m. The significant cost reductions we made have helped to offset some of the negative impact and the Group delivered an underlying operating loss of £923,000 against an underlying operating profit of £460,000 last year. Importantly, the results for the second half of the year show a significant improvement over the first half, with the second half operating loss reducing to £288,000 from £635,000 in the first half.

£502,000 of cash was generated from operations, despite the losses, as a consequence of strong working capital control. This action, combined with restrictions in capital expenditure, contained the increase in our borrowings which ended the year at £3,449,000 (2009: £3,258,000) giving significant headroom against the overdraft facility which is now £5,000,000.

Net assets were £7.9m at 31 March 2010 (2009: £9.5m), reduced as a consequence of the loss after tax for the year of £1.220m and an increase in the pension deficit of £412,000 (net of deferred tax). The



latter is a combination of strong investment returns offset by a reduction in the discount rate as a consequence of a fall in bond yields during the year. The increase in gearing to 44% (2009: 34%) was predominantly related to a reduction in net assets rather than an increase in borrowings.

### OPERATIONS

In a difficult year, we continued to focus tightly on costs and efficiencies, taking steps to implement saving and business improvements in order to minimise the impact of the adverse trading environment while preserving the Group's commercial and financial strengths. An important aspect was to use short-time working extensively to avoid the loss of skilled staff who are now needed as volumes recover.

Following our actions, Chamberlin now has a lower cost base while technically and operationally remaining efficient and effective.

### Foundries

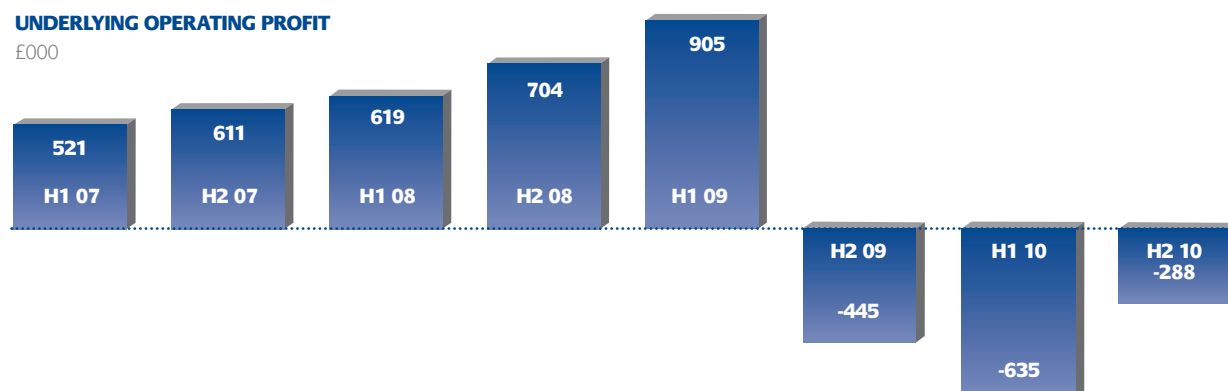
The activities at our three foundries, at Walsall, Scunthorpe and Leicester, accounted for 79% of the Group's revenue and during the year we reviewed their operational organisation and undertook some reorganisation.

The result was to establish the Scunthorpe foundry, which manufactures very heavy, low volume castings, under its own dedicated management. This foundry is one of only two in the UK with the capability to cast to six tonnes in high-grade iron. At the same time, we brought the Leicester foundry under the control of our subsidiary, Chamberlin & Hill Castings, which also manages our Walsall foundry. The Leicester foundry specialises in medium weight, lower volume castings in specialist iron metallurgies while the Walsall foundry produces castings with complex internal passages. The



**UNDERLYING OPERATING PROFIT**

£000



benefits of this reorganisation, completed in October 2009, are now visible and the amalgamation of the Leicester and Walsall foundries has delivered synergies in a number of areas.

During the recession, we have seen a number of customers review and change their policy on sourcing from low-cost economies. Many have complained of inflexibility, which in some cases has resulted in extraordinary levels of inventory and returned to dual-sourcing or full UK supply, transferring work into our foundries and bolstering demand.

**Chamberlin & Hill Castings**

As explained, the management team at our Chamberlin & Hill Castings subsidiary took over control of our Leicester foundry (previously managed by Russell Ductile Castings, together with the Scunthorpe foundry) in the first half of the year. The subsidiary now runs this business together with our Walsall foundry. The two foundries have some common processes and following the implementation of a new Enterprise Resource Planning system in both plants, they now run efficiently under a single management and financial structure, allowing substantial overhead reductions.

Castings production at Walsall is driven by demand for automotive turbochargers, hydraulics and heavy diesel engines. The business has seen a gradual recovery in volume in the second half and is currently operating at approximately 70% of the pre-recession peak,

with further recovery expected in the coming months. In 2008, the Walsall foundry became an approved supplier to a second major turbocharger manufacturer and, after an 18 month product development cycle, has recently begun supplying production volumes. These sophisticated castings, with complex internal passages, require a high degree of technical competence in their manufacture and we have further products in the development process. These will enter production during the next two years and should increase revenues significantly in addition to the recovery in the baseline business.

The Walsall foundry continues to make good progress in the hydraulics market and we expect to see new supply contracts as well as a recovery in volumes from existing customers in the coming year. While the Leicester foundry's largest single market is construction equipment, we see scope to use the foundry's position as a specialist in low volume high-strength castings to expand into other sectors. The prolonged period of reduced output from UK construction manufacturers has kept volumes low but we are seeing some signs of demand improving from this and other sectors.

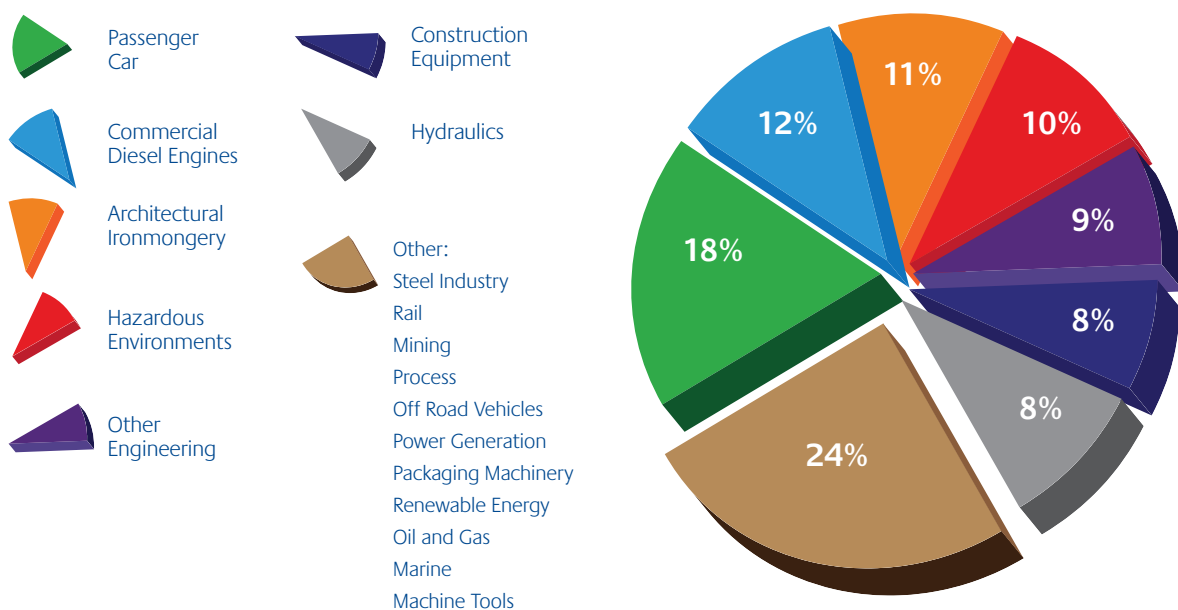
**Russell Ductile Castings**

Following reorganisation, our Scunthorpe foundry now operates on a stand-alone basis, manufacturing complex castings of between 100kg and 6,000kg for a wide range of industries. The foundry saw

**“Management acted promptly to reduce the impact of the recession . . . all operations are recovering and we expect the positive trend to be maintained.”**

## Business Review continued

### GROUP MARKETS



a clear upturn in demand in the final quarter and as orders for its castings are generally placed on long lead-times, the upturn in the final quarter should support increased sales in the new financial year.

With reorganisation, we appointed a new Managing Director at Russell Ductile Castings, who brings sales and commercial experience across a broad range of engineering sectors. This will help to support our objective to expand the business into new industry sectors and initial indications are encouraging. The combination of new leadership and the move to become a stand-alone business has accelerated the cultural change in the operation, and increased employee involvement has delivered operational improvements. We believe that Russell Ductile can make a significant contribution to our results in coming years.

### Engineering

Our two engineering businesses, Fred Duncombe and Petrel, accounted for 21% of the Group's revenues, with turnover down by only 10% year on year and by 16% on pre-recession levels.

#### Fred Duncombe

Fred Duncombe is the second largest provider in the UK of emergency exit hardware, which it supplies under the Exidor brand name and through own-branded products. Emergency exit hardware makes up 80% of its business, with the remainder being in related architectural hardware.

Market demand over the past year has, predictably, been weak but we have built a highly effective sales organisation and believe that we

**“The upturn in demand is encouraging and we see opportunities to win new business . . . we remain positive about improved performance in the current year and beyond.”**



are taking market share. Duncombe is well respected in its industry, tightly managed and well placed to take advantage as the sector returns to growth.

#### **Petrel**

Petrel, a niche supplier of lighting and electrical controls for hazardous environments, has been least affected by the recession, and the high level of regulation in the market it serves has helped to protect volumes in the industry as a whole.

Petrel has undergone a programme of change in the past two years, with many new initiatives to improve customer service levels and reduce our cost base. The most recent change, to the Sales & Marketing function, is aimed at expanding our customer base and driving both UK and export sales. All lighting applications are likely to see a move to LED technology over a period of years, including the markets Petrel serves; Petrel is actively developing LED-based technology and has recently launched its first products in this area.

#### **HEALTH, SAFETY & ENVIRONMENTAL**

We have carried out a comprehensive programme of risk assessment, process change, equipment upgrade and training over the year and Chamberlin's health, safety and environmental standards now equal the best in our industry. We made particular progress in reducing our environmental impact, through programmes covering waste

reduction, recycling and emissions control. We are pleased to report that our Walsall site has recently achieved accreditation to ISO14001, the internationally recognised environmental management standard.

#### **OUTLOOK**

The upturn in demand in the second half of the year and into the start of the new financial year is encouraging and we are also seeing opportunities to win new business outside the existing customer base.

Over the past 18 months, we have reduced the cost base without losing the characteristics which mark us out from our competitors. We have maintained our technical capabilities and production capacity. As demand improves, we are therefore well placed to see revenues grow and remain positive about an improved performance in the current financial year and beyond.

#### **Tim Hair**

Chief Executive  
10 June 2010

#### **Mark Bache**

Finance Director  
10 June 2010

## Board of Directors



### **1 Tom Brown**

Chairman

Aged 61, Tom joined the Board in 2003 and was appointed independent Non-Executive Chairman in March 2004. He is also a Non-Executive Director of Northgate plc and a Director of a number of private companies. He was previously Group Chief Executive of United Industries plc and before that Group Managing Director of Fenner plc.

### **2 Tim Hair**

Chief Executive

Aged 50, Tim joined the Company in June 2006 and was appointed as Chief Executive in July 2006. Tim was previously Managing Director of Sterling Hydraulics Limited and his career includes senior positions in a range of advanced engineering businesses.

### **3 Mark Bache**

Finance Director

Aged 46, Mark joined the Company in November 2006 and was appointed Finance Director in December 2006. He was previously Finance Director of Pel Group Ltd and has held senior financial positions in a number of manufacturing groups since qualifying as a Chartered Accountant with PWC in 1988.

### **4 Keith Jackson**

Non-Executive Director

Aged 61, Keith joined the Board in 2005. He was previously Finance Director of Tarmac Group Ltd, and was Finance Director of Cape plc between 1989 and 1996. He is Chairman of the Russian Timber Group Ltd and a Director of EuroChem, as well as being Chairman of a number of pension funds. Keith is Senior Independent Director and Chairman of the Audit Committee.

### **5 Alan Howarth**

Non-Executive Director

Aged 64, Alan was appointed as a Director in January 2007. Alan was previously a partner in Ernst & Young. He is Chairman of Cerillion Technologies Ltd, CRF Inc, and has further non-executive interests in a range of private companies. Alan is Chairman of the Remuneration Committee.

## Report of the Directors

The Directors present their Annual Report and Accounts for the year ended 31 March 2010.

### Principal activities

The principal activities of the Group are the production and sale of iron castings in a wide variety of sizes and metal grades, and the manufacture and sale of light engineering products, predominantly into safety and security markets.

### Review of the business

A comprehensive analysis of the development and performance of the Company during the year, including its future prospects, is included in the Chairman's Statement on page 3 and Business Review on pages 4 to 7.

### (a) Key Performance Indicators

Key Performance Indicators ("KPIs") used by the Group in monitoring its performance and that of its underlying businesses are set out below:

		Year to 31 March 2010	Year to 31 March 2009
Return on sales	Foundries	(2.2)%	2.2%
	Engineering	3.0%	3.9%
	Group	(3.2)%	1.2%
Return on net assets	Foundries	(5.5)%	6.9%
	Engineering	6.3%	7.5%
	Group	(11.8)%	4.8%
Sales per employee (£000)	Foundries	76.0	89.1
	Engineering	81.4	81.0
	Group	75.5	86.1

Calculations are based on numbers disclosed in the segmental analysis in note 3 to the accounts and are shown before exceptional items. The Group percentages are different as they incorporate shared costs.

The above KPIs are defined as follows:

Return on sales	The ratio of the segment's trading profit to the segment's sales. The trading profit is defined in the segmental analysis in note 3.
Return on net assets	The ratio of the segment's trading profit to the segment's net assets (as analysed in note 3).
Sales per employee	The ratio of the segment's sales to the segment's average number of employees.

### (b) Employees

Staff numbers and associated costs are shown in note 5 to the accounts. The segmental split of the average number of employees is as follows:

	Year to 31 March 2010	Year to 31 March 2009
Foundries	295	373
Engineering	74	83
Head office*	8	8
Group	377	464

\* Includes three non-executive Directors

The Group's employment policy includes a commitment to the principles of equal opportunity for all, and specifically prohibits discrimination of every type. Our policy is always to ensure that all persons are treated fairly irrespective of their colour, race, sex, sexual orientation, age or youth, religion, political beliefs, trade union membership or non-membership, marital and physical or mental status or any other factors including pregnancy and maternity.

## Report of the Directors continued

In particular, the Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a disabled person. We endeavour to provide those who have physical or mental disabilities with specific assistance, and arrangements are made to enable them to work for us wherever and whenever this is reasonably practical. We expect all employees to comply in every respect with the Group's employment policies at all times.

The Group has arrangements in place for the involvement of all employees in the activities of the business, including management/employee briefings, dialogue with trade union representatives and health and safety meetings. A Safety Policy is in place throughout the Group and all employees are required to be aware of their responsibilities under the Health and Safety at Work Act. A copy of the policy and all relevant Codes of Practice are available at the workplace. It is the policy of the Group to recognise that the training of employees is important to the efficiency of the business and each employee's welfare and safety. Promotion is encouraged within the organisation and it is Group policy to promote from within wherever this is appropriate.

### (c) Environment

The Board recognises that our operations have an effect on the local, regional and global environment, and as a consequence of this, the Board is committed to continuous improvements in environmental performance and the prevention of pollution.

Specifically the Group has and will:

- comply with the requirements of all relevant environmental legislation, meeting any set emission limits and standards laid down, and use best available techniques in order to control impacts on the environment;
- maintain and develop environmental management policies and practices to continually monitor and progress the minimisation of the effects of the business on the environment. Environmental management is considered to be a key part of the business strategy at all levels within the Group;
- actively encourage the minimisation of waste from all aspects of the business and promote the benefits of recycling and re-use;
- as part of the Target 2010 climate change levy agreement, aim to meet the requirements to reduce energy use and emissions of carbon dioxide by increasing energy efficiency through all parts of the Group and to seek new opportunities of improving energy efficiency as part of the overall improvement of the business;
- consider environmental factors in respect of the growth of the business, seeking as far as is practical to reduce harmful environmental impacts and to integrate new developments into the local environment; and
- actively encourage the consideration of the environmental impact of all raw materials and services purchased by the business, and where practical to use the options with the least impact and to reduce the consumption of raw materials.

### (d) Research and development

The Group's research and development activities in the year, as in previous years, consist primarily of devising methods for achieving the casting of complex shaped and/or multi-cored products in the foundry businesses and the design and development of new products in our engineering businesses, principally hazardous area lighting and emergency exit hardware products. The Board views such activities as key to the future prosperity of the business. Expenditure expensed through the income statement is shown in note 7 and expenditure capitalised in note 14 to the accounts.

### Principal risks and uncertainties

Management throughout the Group uses a common model to identify and assess the impact of risks to their businesses. The Group's risk management process is described further in the corporate governance report on pages 14 to 16. The more significant risks and uncertainties faced by the Group are set out below:

- Approximately 20% of the Group's income is derived in Euros. In order to reduce the Group's exposure to currency fluctuations the Group sells Euros forward, as described in note 25.
- The price of many raw materials is dependent upon movements in commodity prices, especially iron. In order to reduce its exposure to movements in raw material prices the Group negotiates, where appropriate, price surcharge arrangements into its customer contracts.
- In common with other industrial businesses the Group is subject to risks associated with the environment. The Group manages these risks by continual review of its processes to identify opportunities for improvement, whilst ensuring that the conditions of its site operating licences are met or exceeded at all times.
- The world has been through a significant recession during the period and the Group has been exposed to additional risks associated with significant and rapid changes in demand. In order to mitigate this risk the Group regularly monitors its forward order load and where practical takes action to adjust its cost base inline with demand.
- The Group's approach to managing other financial risks is set out in note 25 to the financial statements.

## Dividends

The Directors do not recommend the payment of a final dividend. No interim dividend has been paid during the year (2009: total dividend 1.2p).

## Directors

Details of the Directors of the Company during the year and their interests in the shares of the Company are shown below. The interests of the Directors in share options are shown in the Directors' Remuneration Report on pages 17 to 21.

### Executive Directors

#### Tim Hair

Aged 50, Tim joined the company in June 2006 and was appointed as Chief Executive in July 2006. Tim was previously Managing Director of Sterling Hydraulics Limited and his career includes senior positions in a range of advanced engineering businesses.

#### Mark Bache

Aged 46, Mark joined the Company in November 2006 and was appointed Finance Director in December 2006. He was previously Finance Director of Pel Group Ltd and has held senior financial positions in a number of manufacturing groups since qualifying as a Chartered Accountant with PWC in 1988.

#### Adam Vicary

Aged 42, Adam joined the Company in 1988 and was appointed to the Board in September 2001. He is managing director of Chamberlin & Hill Castings Ltd. He resigned from the board on 17 May 2010 to pursue other opportunities.

### Non-Executive Directors

#### Tom Brown

Aged 61, Tom joined the Board in 2003 and was appointed independent Non-Executive Chairman in March 2004. He is also a Non-Executive Director of Northgate plc and a director of a number of private companies. He was previously Group Chief Executive of United Industries plc and before that Group Managing Director of Fenner plc.

#### Keith Jackson

Aged 61, Keith joined the board in 2005. He was previously Finance Director of Tarmac Group Ltd, and was Finance Director of Cape plc between 1989 and 1996. He is Chairman of the Russian Timber Group Ltd and a director of EuroChem, as well as being Chairman of a number of pension funds. Keith is Senior Independent Director and Chairman of the Audit Committee.

#### Alan Howarth

Aged 64, Alan was appointed as a director in January 2007. Alan was previously a partner in Ernst & Young. He is Chairman of Cerillion Technologies Ltd, CRF Inc, and has further non-executive interests in a range of private companies. Alan is Chairman of the Remuneration Committee.

All Directors held office throughout the year.

At the Annual General Meeting ("AGM") to be held on 29 July 2010 (see the Notice of Annual General Meeting on pages 58 to 60), Tom Brown retires by rotation under Article 94 and being eligible offers himself for re-election

No Director had a material interest during the year in any significant contract with the Company or with any subsidiary undertaking. The Group provides indemnities to the Directors in respect of liabilities or claims arising in the performance of their duties

### Directors' shareholdings

Beneficial interests of the Directors in the shares of the Company, including those of their immediate families were:-

	At 31 March 2010 Number of shares	At 31 March 2009 Number of shares
Tom Brown	20,000	20,000
Tim Hair	33,000	3,000
Mark Bache	5,000	5,000
Adam Vicary (resigned 17 May 2010)	15,000	15,000
Keith Jackson	7,525	7,525
Alan Howarth	5,300	5,300

There have been no changes in the interests of the Directors set out above between 1 April 2010 and 10 June 2010.

## Report of the Directors continued

### Special Business at the Annual General Meeting

#### Directors' authority to allot shares

As in previous years, approval will be sought for a special resolution to renew the authority given to the Directors to allot shares in the Company. Authority will be sought to allot shares in the Company up to an aggregate nominal amount of £619,805 (which represents approximately 33% of the issued share capital of the Company as at 10 June 2010). This limit is in line with the guidelines issued by the Association of British Insurers.

Authority will also be sought from shareholders to allow the Directors to issue new shares for cash to persons other than to existing members up to a maximum nominal amount of £92,971. This sum represents 371,883 ordinary shares of 25 pence each, being equivalent to 5% of the issued share capital of the Company at 10 June 2010.

#### Authority to purchase own shares

At the Annual General Meeting in 2009, the Board was given authority to purchase and cancel up to 743,700 of its own shares representing just under 10% of the Company's then existing issued share capital, through market purchases on The London Stock Exchange. The maximum price to be paid on any exercise of the authority was restricted to 105% of the average of the middle market quotation for the shares for the five dealing days immediately preceding the day of a purchase. The minimum price which may be paid for each share is 25 pence. No purchases have been made.

The current authority to make market purchases expires at the forthcoming Annual General Meeting. The Directors have resolved, if the right circumstances exist, to exercise the current authority which remains valid until the Annual General Meeting, and will continue to consider circumstances in which they may exercise this authority. They are now seeking the approval of shareholders for the renewal of this authority upon the same terms, to allow the Company to purchase and cancel up to 743,700 of its own shares, again representing just under 10% of its issued share capital at 10 June 2010.

The authority is sought by way of a special resolution, details of which are also included at item 9 in the notice of meeting. This authority will only be exercised if the Directors, in the light of market conditions prevailing at the time, expect it to result in an increase in earnings per share, and if it is in the best interests of the shareholders generally. Account will also be taken of the effect on gearing and the overall position of the Company.

Both authorities are to be for the period commencing on the date of passing of the resolution until the next Annual General Meeting. The proposed resolutions are set out as items 7 to 9 in the notice of meeting on page 58 and 59.

### Substantial shareholders

At 10 June 2010 the Company was aware of the following interests of 3% or more of the Company's share capital, other than those of Directors:

	Number of shares	% of Issued Share Capital
Rights and Issues Investment Trust PLC	1,000,000	13.45
Henderson Global Investors	570,000	7.66
Discretionary Unit Fund	500,000	6.72
Schroder Institutional UK Smaller Companies Fund	477,178	6.42
Brewin Dolphin Securities	463,330	6.23
Gartmore Investment Management	461,994	6.21
AXA Framlington Monthly Income Unit Trust	459,000	6.17
Perfecta Assets Ltd	275,000	3.70
Citi Quilter	223,800	3.01

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company and Group for that period. In preparing the Company and Group financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies Changes in Accounting Estimates and Errors, and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state that the Company and Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- Make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the Company and Group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Going concern

After making appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future. In forming this view the Directors have reviewed budgets and other financial information as set out in note 2 to the Financial Statements. For this reason, they continue to adopt the going concern basis in preparing the accounts.

### Directors' statement as to disclosure of information to Auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 11. Having made enquiries of fellow Directors and of the Company's Auditors, each of these Directors confirms that:

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

### Charitable and political donations

Donations to UK charitable organisations amount to £750 (2009: £nil). There were no political donations in the year (2009: £nil).

### Policy on payments to creditors

The Group has a variety of payment terms with its suppliers. These are either negotiated along with other contract terms or conform to standard terms applied either by the relevant Group company or by the supplier. In respect of all its suppliers it is the Group's policy to settle the terms of payment when entering a business relationship with a supplier, to ensure suppliers are aware of the terms of payment, and to abide by the terms of payment.

The Group's average creditor payment period at 31 March 2010 was 63 days (2009: 68 days) and that of the Company was 55 days (2009: 57 days).

### Auditors

A resolution will be proposed to reappoint Ernst & Young LLP as Auditors and to authorise the Directors to determine their remuneration.

By order of the Board

### Mark Bache

Secretary  
10 June 2010

## Corporate Governance

### Principles of good governance

When the Company transferred to AIM in November 2006 the Directors committed to maintain levels of corporate governance in line with those previously adopted by the Group. Therefore, although The Financial Services Authority's Listing Rules which incorporate the Combined Code of Corporate Governance ("the Code") are not mandatory for AIM listed companies, the Group remains committed to high standards of corporate governance and has applied the principles set out in Section 1 of the Code as described below and in the Directors' Remuneration Report, in a manner appropriate to the size and nature of the Group.

The Group complied with the provisions set out in Section 1 of the Code, as stated at November 2006, throughout the year and up to the date of approval of the Annual Report and Accounts.

### The Board and its committees:

#### (a) The Board

The Board normally comprises a non-executive Chairman, two other non-executive Directors and at least two executive Directors. The Directors (including non-executive Directors) have a range of experience and are of sufficient calibre to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct, which is vital to the success of the Group. The Board meets at least ten times a year and additionally when necessary. At each scheduled meeting of the Board, the Chief Executive reports on the Group's operations and the Finance Director reports on the financial position of the Group. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed by the Company Secretary to all Directors in advance of board meetings. In addition the Board has adopted standard procedures and practices whereby significant issues affecting the Group are reviewed on a regular basis.

All non-executive Directors are considered to be independent by the Board. Tom Brown is the independent non-executive Chairman and Keith Jackson is the senior independent non-executive Director. There is a schedule of matters which are reserved for decision by the Board and matters which are delegated to the various board committees or to the executive Directors, along with monetary levels of authority for capital expenditure and other financial commitments.

Following the appointment of new Directors, an appropriately tailored induction programme is arranged and the training needs of Directors are regularly considered. If appropriate, all Directors have the authority to take independent legal advice and have direct access to the Company Secretary.

Evaluation of the performance of the Board and evaluation of the performance of individual Directors is conducted regularly on an annual cycle.

#### (b) Chairman and Chief Executive

The Chairman of the Company is a non-executive Director who is responsible for the running of the Board. The Board is responsible to shareholders for the overall direction and control of the Company, and the Chief Executive is responsible to the Board for management of the Company within the parameters set by the Board. There is a clear division of responsibilities between the two roles.

#### (c) Service contracts

See page 18 in the Directors' Remuneration Report.

#### (d) Supply of information

The Board is satisfied that it is provided with information in an appropriate form and quality to enable it to discharge its duties.

**(e) Appointments to the Board**

The Nominations Committee makes recommendations to the Board on the composition of the Board generally and on the balance between executive and non-executive Directors. It also makes recommendations on the appointment of new Directors and subsequent reappointments on retirement by rotation. It comprises the non-executive Directors and the Chief Executive. The Chairman of the Committee is Tom Brown.

**(f) Re-election of Directors**

All Directors submit themselves for re-election at least once every three years in accordance with the Articles of Association of the Company.

**(g) Directors' remuneration**

The statement of the Company's policy on executive Directors' remuneration and details of Directors' emoluments are contained in the Directors' Remuneration Report on pages 17 to 21.

**(h) Relations with shareholders**

Members of the Board hold meetings from time to time with major shareholders to discuss the Company's strategy and financial performance. These are usually held after the public announcement of results each six months and usually involve the Company's brokers, through whom feedback from institutional investors is obtained as necessary.

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

**(i) Audit Committee**

The Audit Committee, which consists of the three non-executive Directors, Keith Jackson (Chairman), Tom Brown and Alan Howarth, meets at least twice per year with the external auditors in attendance when required. It has formal terms of reference and it assists the Board in ensuring that appropriate accounting policies, financial systems, internal controls and compliance procedures are in place. It also reviews the relationship between the Group and the external auditors in terms of the provision of non-audit services and ensuring that Auditor independence and objectivity is maintained. The Auditors have direct access to the Chairman of the Audit Committee. A formal "whistle-blowing" policy is in operation, providing direct access to the Chairman of the Audit Committee, in relation to any concerns staff may have concerning the propriety of Group operations and activities. No issues or incidents have come to light as a result of this policy.

All proposals for the provision of non-audit services by the external Auditor are pre-approved by the Audit Committee or its delegated member, the overriding consideration being to ensure that the provision of non-audit services does not impact the external Auditor's independence and objectivity.

**(j) Remuneration Committee**

The Remuneration Committee comprises the three non-executive Directors. Further details are shown in the Directors' Remuneration Report.

**(k) Annual General Meeting**

All Directors expect to attend the Annual General Meeting and to be available to answer questions put to them by shareholders.

## Corporate Governance continued

### (I) Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness in accordance with the guidance set out in "Internal Control: Guidance for Directors on the Combined Code", as stated at November 2006. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Code has a requirement that the Directors review the effectiveness of the Group's system of internal controls. This includes internal financial controls and controls over financial, operational, compliance and risk management. The Directors of each business are required to complete an annual internal control questionnaire, which when combined with regular reviews gives the Board confidence that internal controls are effective.

The Group also operates a risk management process whereby each business identifies its key risks, the probability of those risks occurring, their potential impact, and action needed to manage them. This is carried out as a specific exercise as part of the annual budgeting process, but is also part of the day to day management process of each business. The Group has established procedures for planning and budgeting and monitoring the operational and financial performance of all businesses in the Group, as well as their compliance with applicable laws and regulations. These procedures include:

- Clear responsibilities on the part of line and financial management for good financial controls in the production of accurate and timely financial management information.
- The control of key financial risks through clearly laid down authorisation levels and proper segregation of accounting duties.
- Detailed monthly budgeting and reporting of trading results, balance sheets and cash flows with regular reviews of variances from budgets by management and the Board.
- Reporting on compliance with internal financial controls and procedures by each individual business unit under the supervision of the Group Finance Director and at the year end by external Auditors. Interim and Annual Reports are reviewed by the Audit Committee prior to issue.

The Board has undertaken an assessment of the need for a Group internal audit function. The Board considers that the control systems and procedures currently undertaken by the Group are adequately performed by the management and that the Group has not yet reached a size where a separate internal audit function would be an appropriate or cost effective method of ensuring compliance with Group policies. It therefore does not currently propose to introduce a Group internal audit function. This area will be kept under review as part of the Board's assessment of the Group's systems of internal control.

### Summary of attendance at meetings

	Board meetings	Nominations Committee	Remuneration Committee	Audit Committee
Number of meetings in the year	10	1	9	2
Tom Brown	10	1	9	2
Keith Jackson	10	1	9	2
Alan Howarth	9	1	9	2
Tim Hair	10	1	n/a	n/a
Mark Bache	10	n/a	n/a	n/a
Adam Vicary	10	n/a	n/a	n/a

n/a – Indicates that a Director was not a member of a particular committee.

By order of the Board

### Mark Bache

Secretary  
10 June 2010

# Directors' Remuneration Report

## Information not subject to audit

### Remuneration Committee

The Remuneration Committee comprises the three non-executive Directors: Alan Howarth (Chairman), Tom Brown and Keith Jackson. The committee meets when necessary, usually at least twice per year, and is responsible for determining the remuneration packages of the executive Directors and of the Chairman.

### Policy on remuneration of Executive Directors and Senior Executives

The committee aims to ensure that remuneration packages offered are designed to attract, maintain and motivate high calibre Directors and senior executives, without paying more than necessary for the purpose. The remuneration policy attempts to match the interests of the executives with those of shareholders by providing:

#### (a) Basic salary and benefits

Executive Directors' basic salaries are reviewed each year, taking into account the performance of the individual and rates of salary for similar jobs in companies of comparable size. The main benefits provided are company cars and health insurance.

The Company operates a number of defined contribution pension schemes for the majority of its employees, including executive Directors. No performance related bonuses nor benefits in kind are included in pensionable salary.

#### (b) Annual performance related bonus scheme

In order to link executive remuneration to Group performance, executive Directors participate in bonus schemes appropriate to their objectives. For the year ended 31 March 2010 the bonus in respect of Tim Hair and Mark Bache was linked to the profitability and cash flow performance of the Group and the achievement of personal objectives. The maximum amount of bonus payable is 100% of their basic salary.

Adam Vicary's annual bonus for the year to 31 March 2010 was dependent on the profit and cash flow of Chamberlin & Hill Castings Ltd. The maximum amount payable is 50% of his basic salary.

#### (c) Share options

An incentive to achieve longer-term improvements in shareholder value is afforded through share options. Two schemes have been in place since 1997 and two further schemes were established in 2007. Under the rules of one of the schemes set up in 2007, option awards were to have been made in three tranches over a three year period. As a mathematical consequence of the fall in the Group's share price since the onset of recession in late 2008, a disproportionately large number of options would have been awarded in the final tranche. In order to avoid this, and in consultation with the Group's Nomad and larger shareholders, no final award was made and all options previously awarded under this scheme and the 1997 schemes were surrendered. The rules and performance conditions were amended, taking account of shareholder feedback, and a single new award was made as set out in paragraph (iv) below.

The key features of the schemes in operation during the year are summarised as follows:

- (i) Inland Revenue approved scheme and an unapproved scheme. Options granted under these schemes are exercisable only upon the achievement of performance targets to be determined by the Committee at the time that options are granted. Currently, performance targets are that growth in the normalised earnings per share over a period of three consecutive financial years of the Company (commencing no earlier than the financial year in which the option is granted) shall exceed the growth in the Retail Prices Index for the same period by at least 6%. The Remuneration Committee considered that this performance condition was appropriate at the time the relevant options were granted, and that the use of options aligns the rewards of Directors with the long-term interests of shareholders. The option price is based on the average mid-market price for the five trading days prior to grant. All options granted under this scheme were surrendered during the period as noted on page 20.
- (ii) A Performance Share Plan which grants nil cost options under an Enterprise Management Scheme ("EMI Options"). The EMI Options will normally become exercisable in three equal tranches on each of the third, fourth and fifth anniversaries of the date of grant subject to the satisfaction of a performance condition set by the Remuneration Committee of the Company. The proportion of awards that become exercisable under each tranche of the EMI Option varies on a straight-line basis, from 25% to 100%, for average growth in underlying fully diluted EPS of between 5% p.a. and 10% p.a. above RPI over the period between grant and exercise dates. No options are exercisable if growth is below this range.

## Directors' Remuneration Report continued

(iii) Non-EMI qualifying options are also granted under the Performance Share Plan. Non-EMI options become exercisable on the third anniversary of the date of grant subject to the satisfaction of a performance condition set by the Remuneration Committee of the Company. The proportion of Non-EMI awards that become exercisable varies on a straight-line basis from 25% to 100% based on the Company's TSR ranking against a comparator group between the median and upper quartile ranking. No options are exercisable if growth is below this range.

(iv) A Share Option Plan ("SOP") which issues options at the average quoted market price of the Company's shares over a period of up to 90 trading days prior to grant. The options will normally become exercisable on or after the third anniversary of the date of grant subject to the satisfaction of performance conditions set by the Remuneration Committee of the Company. The proportion of awards that become exercisable varies on a straight-line basis, from 25% to 100%, for average growth in Total Shareholder Return of between 23.8% and 50.7% per annum over the period between the grant and vesting dates. This is equivalent to achieving a share price in the range of 100p to 180p. No options are exercisable if growth is below this range.

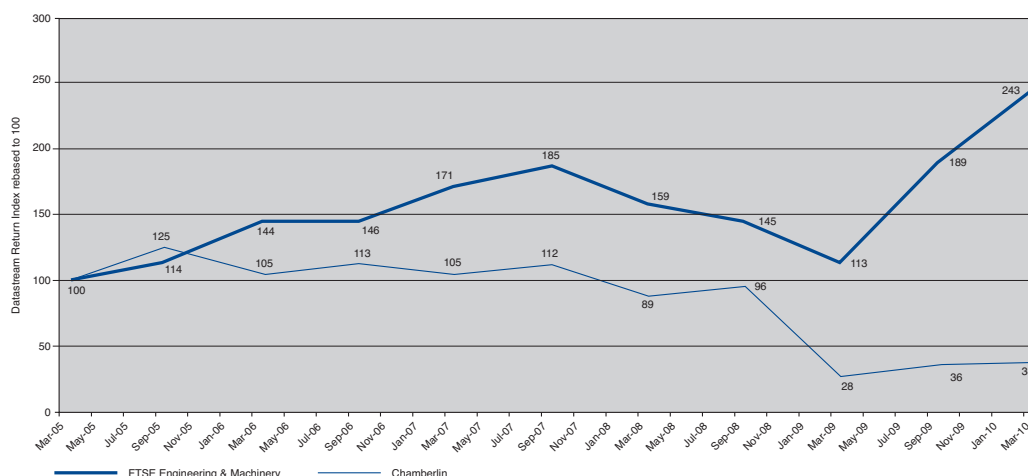
Certain options were granted under this scheme (as detailed on page 20) in parallel to the options outstanding under schemes (ii) and (iii) above. These parallel options are only tested against the above vesting conditions, and hence are potentially eligible to vest, in the event that the options that they are granted in parallel to fail to vest.

### Performance graph

The following graph shows the Company's performance compared to the performance of the FTSE Engineering and Machinery index over a five year period, measured by total shareholder return. This index has been selected as an appropriate benchmark because it represents the market sector in which the Company operates.

Total shareholder return is calculated to show the theoretical growth in the value of a shareholding over a specified period, assuming that dividends are re-invested to purchase additional shares.

### Performance graph – Total Shareholder Return



### Service contracts

All executive Directors who served during the year have rolling service contracts terminable on no more than one year's notice.

### Non-executive Directors

Remuneration of the non-executive Directors, apart from the Chairman, is approved each year by the Chairman and the executive Directors. The Chairman's remuneration is approved by the Remuneration Committee.

Tom Brown has entered into a letter of engagement with the Company, and Tom Brown & Company Limited has entered into a service agreement with the Company both originally dated 12 September 2003 and updated on 27 January 2005. The letter states that the term of his appointment by the Company will be three years from the date of the letter unless terminated by either party giving to the other three months notice, or one year in the event of a change in control of the Company. At the Board Meeting held on 24 April 2008 it was resolved to extend this for a further three year term. The other non-executive Directors have comprehensive letters of appointment but do not have formal contracts.

**Information subject to audit****Directors' emoluments**

	Basic salary £000	Fees £000	Benefits £000	Annual bonus £000	Total emoluments excluding pensions	
					2010 £000	2009 £000
<b>Executive</b>						
Tim Hair	165	–	19	69	253	185
Mark Bache	120	–	16	50	186	135
Adam Vicary	97	–	15	23	135	110
<b>Non-Executive</b>						
Tom Brown*	14	43	–	–	57	57
Keith Jackson	23	–	–	–	23	23
Alan Howarth	23	–	–	–	23	23
<b>Total</b>	442	43	50	142	677	533
Total 2009	442	43	48	–	533	

\* Includes consultancy fees in respect of services provided to the Company.

Benefits include all assessable tax benefits arising from employment by the Company, and relate mainly to the provision of company cars and private medical insurance. The figures above represent emoluments earned as Directors during the relevant financial year. Such emoluments are paid in the same financial year with the exception of bonuses which are paid in the year following that in which they are earned. The emoluments of other key management personnel are disclosed in note 26.

**Directors' pensions**

No retirement benefits accrued during the year to Directors under the Chamberlin & Hill Staff Pension and Life Assurance Scheme (2009: nil) which is a closed defined benefit scheme.

**Contributions into personal pension plans**

	Percentage of basic salary	Contribution paid 2010 £000	Contribution paid 2009 £000
Tim Hair	10%	17	17
Mark Bache	8%	10	10
Adam Vicary	8%	7	7

No other pension contributions were paid in respect of Directors other than as disclosed above.

## Directors' Remuneration Report continued

### Directors' options

	31 March 2009	Granted in year	Exercised in year	Lapsed or surrendered in year	31 March 2010	Option exercise price	Exercisable between	Note
Tim Hair	56,100	–	–	56,100	–	215.5p	22.06.2009 – 21.06.2013	
	67,427	–	–	67,427	–	192.8p	02.07.2010 – 27.03.2017	
	67,427	–	–	67,427	–	192.8p	02.07.2011 – 27.03.2017	
	67,427	–	–	67,427	–	192.8p	02.07.2012 – 27.03.2017	
	16,665	–	–	–	<b>16,665</b>	nil	27.03.2010 – 27.03.2017	
	16,665	–	–	–	<b>16,665</b>	nil	27.03.2011 – 27.03.2017	
	16,665	–	–	–	<b>16,665</b>	nil	27.03.2012 – 27.03.2017	
	11,940	–	–	–	<b>11,940</b>	nil	02.07.2011 – 02.07.2018	
	14,925	–	–	14,925	–	nil	02.07.2011 – 02.07.2018	
	101,227	–	–	101,227	–	163.0p	02.07.2012 – 02.07.2018	
	101,227	–	–	101,227	–	163.0p	02.07.2013 – 02.07.2018	
	101,226	–	–	101,226	–	163.0p	02.07.2014 – 02.07.2018	
	132,000	–	–	–	<b>132,000</b>	nil	19.12.2011 – 19.12.2012	
	–	193,935	–	–	<b>193,935</b>	52.8p	23.02.2013 – 23.02.2020	#
	–	698,584	–	–	<b>698,584</b>	52.8p	23.02.2013 – 23.02.2020	
Mark Bache	34,578	–	–	34,578	–	192.8p	02.07.2010 – 27.03.2017	
	34,578	–	–	34,578	–	192.8p	02.07.2011 – 27.03.2017	
	34,578	–	–	34,578	–	192.8p	02.07.2012 – 27.03.2017	
	12,819	–	–	–	<b>12,819</b>	nil	27.03.2010 – 27.03.2017	
	12,819	–	–	–	<b>12,819</b>	nil	27.03.2011 – 27.03.2017	
	12,819	–	–	–	<b>12,819</b>	nil	27.03.2012 – 27.03.2017	
	17,910	–	–	–	<b>17,910</b>	nil	02.07.2011 – 02.07.2018	
	49,079	–	–	49,079	–	163.0p	02.07.2012 – 02.07.2018	
	49,079	–	–	49,079	–	163.0p	02.07.2013 – 02.07.2018	
	49,079	–	–	49,079	–	163.0p	02.07.2014 – 02.07.2018	
	96,000	–	–	–	<b>96,000</b>	nil	19.12.2011 – 19.12.2012	
	–	152,367	–	–	<b>152,367</b>	52.8p	23.02.2013 – 23.02.2020	#
	–	293,892	–	–	<b>293,892</b>	52.8p	23.02.2013 – 23.02.2020	
Adam Vicary	16,000	–	–	16,000	–	185p	16.11.2003 – 15.11.2010	
	10,000	–	–	10,000	–	155.5p	04.06.2008 – 03.06.2011	
	25,000	–	–	25,000	–	231.5p	13.07.2008 – 12.07.2012	
	11,281	–	–	–	<b>11,281</b>	nil	27.03.2010 – 27.03.2017	
	11,281	–	–	–	<b>11,281</b>	nil	27.03.2011 – 27.03.2017	
	11,281	–	–	–	<b>11,281</b>	nil	27.03.2012 – 27.03.2017	
	13,432	–	–	–	<b>13,432</b>	nil	02.07.2011 – 02.07.2018	
	51,947	–	–	–	<b>51,947</b>	nil	19.12.2011 – 19.12.2012	
	–	99,222	–	–	<b>99,222</b>	52.8p	23.02.2013 – 23.02.2020	#
	–	49,531	–	–	<b>49,531</b>	52.8p	23.02.2013 – 23.02.2020	
	1,324,481	1,487,531	–	878,958	<b>1,933,054</b>			

Options marked # are granted in parallel to options in existence at 31 March 2009 and not surrendered during the period, as noted above. These options are only tested against the vesting conditions as set out on page 18 (and thus potentially become eligible to vest), in the event that the options that they are granted in parallel to fail to vest. Only the original options or the parallel options can vest, not both.

Option grants are exercisable only upon the achievement of the performance targets explained on pages 17 to 18.

The calculated cost of share-based payments relating to share options granted since November 2002, as shown in note 20 to the accounts, relates to options granted to Tim Hair, Mark Bache and Adam Vicary as follows:

	2010 £000	2009 £000
Tim Hair	14	6
Mark Bache	9	5
Adam Vicary	5	1

No consideration is payable for the grant of an option, which is exercisable at a price to be determined by the Remuneration Committee at the time when the option is granted as detailed above.

No Directors exercised options during the year.

There have been no changes in the interests set out above between 1 April 2010 and 10 June 2010.

The mid-market price of the shares at 31 March 2010 was 64.5p and ranged between 43.5p and 67.5p during the year.

On behalf of the Board

**Alan Howarth**

Chairman, Remuneration Committee

10 June 2010

## Independent Auditors' Report to the members of Chamberlin plc

We have audited the financial statements of Chamberlin plc for the year ended 31 March 2010 which comprise the Consolidated Income Statement, Consolidated and Parent Company Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheet, the Consolidated and Parent Company Cash Flow Statement, the Group and Parent Company Statement of Changes in Equity and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with the provisions of our engagement letter and 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, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. The Directors are also responsible for the preparation of the Directors' Remuneration Report, which they have chosen to prepare.

Our responsibility is to audit 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 Ethical Standards for Auditors. The Company has also instructed us to audit the section of the Directors' Remuneration Report that has been described as audited. We report to you our opinion as to whether the section of the Directors' Remuneration Report that has been described as being audited has been properly prepared in accordance with the basis of preparation described therein.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 March 2010 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Opinion on other matters

In our opinion the part of the Directors' Remuneration Report that has been described as audited has been properly prepared in accordance with the basis of preparation as described therein.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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 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.

**Christopher Voogd** (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor  
Birmingham  
10 June 2010

# Consolidated Income Statement

for the year ended 31 March 2010

	Notes	Year ended 31 March 2010			Year ended 31 March 2009		
		Underlying £000	Non- underlying* £000	Total £000	Underlying £000	Non- underlying* £000	Total £000
<b>Revenue</b>	3	<b>28,453</b>	<b>–</b>	<b>28,453</b>	39,940	–	39,940
Cost of sales		(23,992)	–	(23,992)	(33,783)	–	(33,783)
Foreign currency gain/(loss)		–	430	430	–	(311)	(311)
<b>Gross profit</b>		<b>4,461</b>	<b>430</b>	<b>4,891</b>	6,157	(311)	5,846
Other operating expense	4	(5,384)	–	(5,384)	(5,697)	–	(5,697)
<b>Trading (loss)/profit</b>		<b>(923)</b>	<b>430</b>	<b>(493)</b>	460	(311)	149
Business reorganisation costs		–	(556)	(556)	–	(446)	(446)
<b>Operating (loss)/profit</b>		<b>(923)</b>	<b>(126)</b>	<b>(1,049)</b>	460	(757)	(297)
Finance costs	6	(133)	(239)	(372)	(162)	(39)	(201)
<b>(Loss)/profit before tax</b>	7	<b>(1,056)</b>	<b>(365)</b>	<b>(1,421)</b>	298	(796)	(498)
Tax credit/(expense)	8	85	116	201	(92)	(259)	(351)
<b>(Loss)/profit for the year from continuing operations attributable to equity holders of the Parent Company</b>		<b>(971)</b>	<b>(249)</b>	<b>(1,220)</b>	206	(1,055)	(849)
<b>(Loss)/earnings per share:</b>							
basic	11			<b>(16.4)p</b>			(11.4)p
underlying	11	<b>(13.1)p</b>			2.2p		
diluted	11			<b>(16.4)p</b>			(11.4)p
diluted underlying	11	<b>(13.1)p</b>			2.1p		

\* Non-underlying items represent business reorganisation costs, the movement in unrealised mark to market foreign currency gains and losses on monetary assets and liabilities and forward foreign currency contracts, net of realised losses on surplus foreign exchange contracts and net financing cost on pension obligations.

## Consolidated Statement of Comprehensive Income

for the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Loss for the year		(1,220)	(849)
<b>Other comprehensive income</b>			
Actuarial losses on pension assets and liabilities	22	(572)	(982)
Deferred tax charge on actuarial losses		160	275
Other comprehensive income for the period net of tax		(412)	(707)
<b>Total comprehensive income for the period</b>			
<b>attributable to equity holders of the Parent Company</b>		<b>(1,632)</b>	<b>(1,556)</b>

## Parent Company Statement of Comprehensive Income

for the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Profit for the year		2,593	989
<b>Other comprehensive income</b>			
Actuarial losses on pension assets and liabilities	22	(572)	(982)
Deferred tax charge on actuarial losses		160	275
Other comprehensive income for the period net of tax		(412)	(707)
<b>Total comprehensive income for the period</b>			
<b>attributable to equity holders of the Parent Company</b>		<b>2,181</b>	<b>282</b>

# Consolidated Balance Sheet

at 31 March 2010

	Notes	31 March 2010 £000	31 March 2009 £000
<b>Non-current assets</b>			
Property, plant and equipment	13	8,319	8,968
Intangible assets	14	650	690
Deferred tax asset	18	923	809
		<b>9,892</b>	10,467
<b>Current assets</b>			
Inventories	15	3,294	5,078
Trade and other receivables	16	6,358	6,004
		<b>9,652</b>	11,082
<b>Total assets</b>		<b>19,544</b>	21,549
<b>Current liabilities</b>			
Financial liabilities	17	3,449	3,258
Trade and other payables	17	5,731	6,614
Provisions	17	48	48
		<b>9,228</b>	9,920
<b>Non-current liabilities</b>			
Deferred tax	18	92	340
Defined benefit pension scheme deficit	22	2,366	1,828
		<b>2,458</b>	2,168
<b>Total liabilities</b>		<b>11,686</b>	12,088
<b>Capital and reserves</b>			
Share capital	19	1,859	1,859
Share premium		862	862
Capital redemption reserve		109	109
Retained earnings		5,028	6,631
<b>Total equity</b>		<b>7,858</b>	9,461
<b>Total equity and liabilities</b>		<b>19,544</b>	21,549

**Tim Hair**  
**Mark Bache**

} Directors

The accounts were approved by the Board of Directors on 10 June 2010.

## Parent Company Balance Sheet

at 31 March 2010

	Notes	31 March 2010 £000	31 March 2009 £000
<b>Non-current assets</b>			
Property, plant and equipment	13	1,032	1,079
Intangible assets	14	–	3
Investments	21	8,159	8,159
Deferred tax asset	18	698	579
		<b>9,889</b>	9,820
<b>Current assets</b>			
Trade and other receivables	16	119	140
Income taxes receivable	16	–	334
Amounts due from subsidiary undertakings	16	8,605	3,457
		<b>8,724</b>	3,931
<b>Total assets</b>		<b>18,613</b>	13,751
<b>Current liabilities</b>			
Financial liabilities	17	4,556	1,225
Trade and other payables	17	275	80
Amounts due to subsidiary undertakings	17	1,942	3,350
		<b>6,773</b>	4,655
<b>Non-current liabilities</b>			
Amounts due to subsidiary companies	18	66	66
Deferred tax	18	38	41
Defined benefit pension scheme deficit	22	2,366	1,828
		<b>2,470</b>	1,935
<b>Total liabilities</b>		<b>9,243</b>	6,590
<b>Capital and reserves</b>			
Share capital	19	1,859	1,859
Share premium		862	862
Capital redemption reserve		109	109
Retained earnings		6,540	4,331
<b>Total equity</b>		<b>9,370</b>	7,161
		<b>18,613</b>	13,751

Tim Hair

Mark Bache

} Directors

The accounts were approved by the Board of Directors on 10 June 2010.

# Consolidated Cash Flow Statement

for the year ended 31 March 2010

		Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Operating activities	Notes		
<b>Loss for the year</b>		<b>(1,220)</b>	<b>(849)</b>
Adjustments to reconcile loss for the year to net cash inflow from operating activities:			
Taxation		<b>(201)</b>	351
Net finance costs		<b>372</b>	201
Depreciation of property, plant and equipment	13	<b>1,129</b>	1,058
Amortisation of software	14	<b>44</b>	45
Amortisation of development costs	14	<b>83</b>	52
Profit on disposal of property, plant and equipment	7	<b>(7)</b>	(11)
Share-based payments	20	<b>28</b>	12
Pension element of finance costs	6	<b>(239)</b>	(39)
Difference between pension contributions paid and amounts recognised in the Income Statement		<b>(34)</b>	(231)
Decrease/(increase) in inventories		<b>1,784</b>	(462)
(Increase)/decrease in receivables		<b>(354)</b>	2,715
Decrease in payables		<b>(883)</b>	(1,537)
Movement in provisions		<b>-</b>	(612)
<b>Cash generated from operations</b>		<b>502</b>	693
<b>Net cash flow from operating activities</b>		<b>502</b>	693
<b>Investing activities</b>			
Purchase of property, plant and equipment	13	<b>(523)</b>	(1,725)
Purchase of software	14	<b>(87)</b>	(224)
Development costs	14	<b>-</b>	(184)
Disposal of plant and equipment		<b>50</b>	59
<b>Net cash flow from investing activities</b>		<b>(560)</b>	(2,074)
<b>Financing activities</b>			
Interest paid	6	<b>(133)</b>	(162)
Equity dividends paid	9	<b>-</b>	(684)
<b>Net cash flow from financing activities</b>		<b>(133)</b>	(846)
<b>Net decrease in cash and cash equivalents</b>		<b>(191)</b>	(2,227)
<b>Cash and cash equivalents at the start of the year</b>		<b>(3,258)</b>	(1,031)
<b>Cash and cash equivalents at the end of the year</b>		<b>(3,449)</b>	(3,258)
<b>Cash and cash equivalents comprise:</b>			
Financial liabilities	17	<b>(3,449)</b>	(3,258)
		<b>(3,449)</b>	(3,258)

## Parent Company Cash Flow Statement

for the year ended 31 March 2010

		Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
<b>Operating activities</b>	Notes		
<b>Profit for the year</b>		<b>2,593</b>	989
Adjustments to reconcile profit for the year to net cash inflow from operating activities:			
Taxation		<b>43</b>	(230)
Net finance costs		<b>356</b>	166
Depreciation of property, plant and equipment	13	<b>51</b>	52
Amortisation of software	14	<b>3</b>	3
Pension element of finance costs		<b>(239)</b>	(39)
Share-based payments	20	<b>28</b>	12
Difference between pension contributions paid and amounts recognised in the Income Statement		<b>(34)</b>	(231)
(Increase)/decrease in receivables		<b>(5,127)</b>	535
Decrease/increase in payables		<b>(1,213)</b>	164
<b>Cash generated from operations</b>		<b>(3,539)</b>	1,421
Group relief		<b>330</b>	460
<b>Net cash flow from operating activities</b>		<b>(3,209)</b>	1,881
<b>Investing activities</b>			
Investment in subsidiary		<b>-</b>	(1,000)
Purchase of property, plant and equipment	13	<b>(19)</b>	(31)
Disposal of plant and equipment		<b>15</b>	12
<b>Net cash flow from investing activities</b>		<b>(4)</b>	(1,019)
<b>Financing activities</b>			
Interest paid		<b>(118)</b>	(128)
Equity dividends paid	9	<b>-</b>	(684)
<b>Net cash flow from financing activities</b>		<b>(118)</b>	(812)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(3,331)</b>	50
<b>Cash and cash equivalents at the start of the year</b>		<b>(1,225)</b>	(1,275)
<b>Cash and cash equivalents at the end of the year</b>		<b>(4,556)</b>	(1,225)
<b>Cash and cash equivalents comprise:</b>			
Financial liabilities	17	<b>(4,556)</b>	(1,225)
		<b>(4,556)</b>	(1,225)

## Statement of Changes in Equity

Group	Share capital £000	Capital redemption reserve £000	Share premium account £000	Retained earnings £000	Attributable to equity holders of the Parent £000
Balance at 1 April 2008	1,859	109	862	8,859	11,689
Total comprehensive income for the year to 31 March 2009	–	–	–	(1,556)	(1,556)
Dividends paid (note 9)	–	–	–	(684)	(684)
Share based payments	–	–	–	12	12
Balance at 1 April 2009	1,859	109	862	6,631	9,461
Total comprehensive income for the year to 31 March 2010	–	–	–	(1,632)	(1,632)
Share-based payments	–	–	–	28	28
<b>Balance at 31 March 2010</b>	<b>1,859</b>	<b>109</b>	<b>862</b>	<b>5,028</b>	<b>7,858</b>

Company	£000	£000	£000	£000	£000
Balance at 1 April 2008	1,859	109	862	4,721	7,551
Total comprehensive income for the year to 31 March 2009	–	–	–	282	282
Dividends paid (note 9)	–	–	–	(684)	(684)
Recognition of share based payments	–	–	–	12	12
Balance at 1 April 2009	1,859	109	862	4,331	7,161
Total comprehensive income for the year to 31 March 2010	–	–	–	2,181	2,181
Recognition of share-based payments	–	–	–	28	28
<b>Balance at 31 March 2010</b>	<b>1,859</b>	<b>109</b>	<b>862</b>	<b>6,540</b>	<b>9,370</b>

### Share Premium Account

The share premium account balance includes the proceeds that were above the nominal value from issuance of the Company's equity share capital comprising 25p shares.

### Capital redemption reserve

The capital redemption reserve has arisen on the cancellation of previously issued shares and represents the nominal value of those shares cancelled.

### Retained earnings

Retained earnings include the accumulated profits and losses arising from the Consolidated Income Statement and items from the Consolidated Statement of Comprehensive Income attributable to equity shareholders, less distributions to shareholders and share-based compensation expense.

## Notes to the Accounts

at 31 March 2010

### 1 AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRS

The Group's and Company's financial statements of Chamberlin plc (the 'Company') for the year ended 31 March 2010 were authorised for issue by the Board of the Directors on 10 June 2010 and the balance sheets were signed on the Board's behalf by Tim Hair and Mark Bache. The Company is a public limited company incorporated and domiciled in England & Wales. The Company's ordinary shares are traded on AIM within the London Stock Exchange.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The Company's financial statements have been prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

The principal accounting policies adopted by the Group and by the Company are set out in note 2.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis and are presented in sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated. The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes.

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of Chamberlin plc and its subsidiaries as at 31 March each year. The financial statements of subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

#### Going concern

The Group's activities together with the factors likely to affect its future development, performance and financial position, including its cash flows, liquidity position and borrowing facilities, are described in the Business Review on pages 4 to 7. In addition, Note 25 to the Group Financial Statements includes the Group's objectives and policies for managing capital and financial risks in relation to currency, interest rates, credit and liquidity.

The Group's forecasts and projections, taking account of reasonably possible changes in trading conditions, show that the Group is able to operate within the level of its current bank facilities, the principal element of which is a £5m overdraft facility expiring in June 2011. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current economic uncertainty.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

#### Presentation of the Consolidated Income Statement

The presentation of the Consolidated Income Statement has been changed to allocate income and expense between underlying items which relate to the trading activities of the business and Non-underlying items which are either non-recurring or are valued using market derived data which is outside of managements control. Non-underlying items include business reorganisation costs, the movement in unrealised mark to market foreign currency gains and losses on monetary assets and liabilities and forward foreign currency contracts, net of realised losses on surplus foreign exchange contracts and net financing costs on pension obligations.

Although this has no overall impact on the profit/(loss) for the year, the underlying profit before tax improves by £239,000 due to the transfer of pension related interest charges into non-underlying (2009: £39,000).

The Directors believe that this format sets out the performance of the Group more clearly.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued**New standards adopted**

The accounting policies adopted are consistent with those of the previous financial year except as described below. For each of the new or amended IFRS adopted in the period the impact on the financial statements is described below:

- IFRS 2 Share-based payments – vesting conditions and cancellations

The standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this treatment did not have any impact on the financial position or performance of the Group.

- IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosure about fair value measurement and liquidity risk. The fair value measurement disclosures and liquidity risk disclosures are not significantly impacted by the amendments.

- IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting. Additional disclosures about each of these segments are shown in Note 3, including revised comparative information.

- IAS 1 Revised Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

**New standards and interpretations not applied**

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements. They have not been adopted early by the Group and the Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's reported income or net assets in the period of adoption.

**International Accounting Standards**

	<b>Effective date</b>
IFRS 1 – First Time Adoption of International Reporting Standards	1 July 2009
IFRS 1 – Amendments to IFRS 1 – Additional Exemptions for First Time Adopters	1 January 2010
IFRS 1 – Amendments to IFRS 1 – Limited Exemption from comparative IFRS 7 disclosures	1 July 2010
IFRS 2 – Amendment to IFRS 2 – Group cash settles share-based payment transactions	1 January 2010
IFRS 3 Revised – Business combinations (revised January 2008)	1 July 2009
IFRS 9 Financial Instruments: classification and measurement	1 January 2013
IAS 24 – Related party disclosures (revised)	1 January 2011
IAS 27 Revised – Consolidated and separate financial statements (revised January 2008)	1 July 2009
IAS 32 – Amendment to IAS 32: Classification of Rights Issues	1 February 2010
IAS 39 – Eligible hedged items	1 July 2009
Improvements in IFRS	Various

**International Financial Reporting Interpretive Committee (IFRIC)**

IFRIC 14 – Amendment: Payment of a minimum funding requirement	1 January 2011
IFRIC 17 – Distributions of non-cash assets to owners	1 July 2009
IFRIC 18 – Transfers of assets from customers	1 July 2009
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	1 July 2009

## Notes to the Accounts continued

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

#### Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the cash paid, and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair value at the date of acquisition.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition.

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units acquired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. When there is a partial disposal of a cash-generating unit, goodwill relating to the operation disposed of is taken into account in determining the gain or loss on disposal of that operation. The amount of goodwill allocated to a partial disposal is measured on the basis of the relative values of the operation disposed of and the operation retained.

#### Property, plant and equipment

All classes of property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. The initial cost of an asset comprises its purchase price or construction cost, and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included within property, plant and equipment. For property, where appropriate the deemed cost as at the date of transition to IFRS is the fair value at the date of the last valuation of these assets.

With the exception of freehold land, depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold buildings and long leasehold property	– over expected useful life (not exceeding 50 years)
Short leasehold property	– over the term of the lease
Plant and other equipment	– two to ten years
Motor vehicles	– four years

The estimated useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement in the cost of sales line item or in the other operating expenses line item depending on the asset concerned.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

**Intangible assets**

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Computer software, intellectual property rights and other intangible assets are initially recorded at cost. Where these assets have been acquired through a business combination, this will be the fair value allocated in the acquisition accounting. Where these have been acquired other than through a business combination, the initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Computer software and other intangible assets, such as capitalised development expenditure under IAS 38, are amortised over their useful lives on a straight-line basis. Estimated useful life is the shorter of legal duration and economic useful life, which represents the Directors' best estimate of the period over which the asset may be used to generate significant economic benefits to the Group. Software has an estimated useful life of three to ten years.

Intangible assets are tested for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are measured on a similar basis to property, plant and equipment. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

**Research and development costs**

Research costs are expensed as incurred.

Clearly defined and identifiable development projects in which the technical degree of exploitation, adequacy of resources and potential market or development possibility in the undertaking can be clearly demonstrated, and where it is the intention to produce, market or execute the project, are capitalised when a correlation exists between the costs incurred and future benefits. Costs not meeting such criteria are expensed as incurred. Amortisation is applied as set out for intangible assets above, the useful life being determined for individual development projects. For projects capitalised to date a useful life of five years was considered appropriate.

**The Company's investments in subsidiaries**

Investments in subsidiaries are stated at cost and dividends from subsidiaries are taken to profit or loss when the right to receive payment is established.

**Inventories**

Inventories are valued at the lower of cost and net realisable value, which is arrived at as follows:

- Raw materials; purchase cost on a first-in, first-out basis;
- Finished goods and work-in progress; where detailed individual product costing information is available, actual cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Where considered appropriate, for example in valuing foundry products, cost of finished goods and work in progress is arrived at from selling price less the calculated margin on the products concerned. This method is also utilised within the engineering companies in the absence of detailed individual product costing information.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**Trade and other receivables**

Trade receivables, which generally have 30-60 day terms, are recognised and carried at original invoice amount less any provision for bad debts. A provision for impairment, in respect of trade receivables, is made when there is objective evidence (such as the probable insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amount due under the original terms of the invoice. The carrying amount of the receivable is reduced through a provision and impaired debts are derecognised when they are assessed as uncollectible.

## Notes to the Accounts continued

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

#### Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash in hand and current balances with banks and similar institutions and short-term deposits with an original maturity of three months or less which are subject to insignificant risks of changes in value.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### Leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

#### Foreign currency translation

The functional and presentation currency of Chamberlin plc is sterling (£).

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Any resulting exchange differences are taken to the income statement.

#### Derivative financial instruments and hedging

The Group is exposed to foreign exchange risk on income streams denominated in foreign currencies. In order to reduce the Group's exposure to currency fluctuations the Group sells a proportion of expected Euro revenues on forward contracts. No hedge accounting is presently applied. The movement on unrealised gains and losses on commercial hedges that are measured at fair value are taken to the income statement and presented within non-underlying foreign currency gains/(losses). Realised gains and losses in the normal course of business are included in cost of sales.

#### Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the year in which the associated services are rendered by employees of the Group.

#### Pensions and other post-employment benefits

The Group operates a number of defined contribution schemes, which require contributions to be made to administered funds separate from the Group.

The Group also has a defined benefit pension scheme which is closed to future accrual. The scheme assets are measured at fair value and plan liabilities are measured on an actuarial basis, using the projected unit method. As the scheme is closed to future accrual, no service cost of providing pension to employees is charged to the income statement. The cost of making improvements to pension and other post-retirement benefits is recognised in the income statement on a straight-line basis over the period during which the increase in benefits vests. To the extent that any improvement in benefits vests immediately, the cost is recognised immediately. These costs are recognised as an expense.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the income statement as finance revenue or cost.

Actuarial gains and losses may result from: differences between the expected return and the actual return on plan assets; differences between the actuarial assumptions underlying the plan liabilities and actual experience during the year; or changes in the actuarial assumptions used in the valuation of the plan liabilities. Actuarial gains and losses, and taxation thereon, are recognised in full in the period in which they occur, in the statement of other comprehensive income.

For defined contribution plans, contributions payable for the year are charged to the income statement as an operating expense.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued**Income taxes**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

**Revenue**

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, customs duties and sales taxes.

**Dividends**

Dividend payments are recognised in the period in which they become a binding obligation on the Company, which for interim dividends is when they are paid and for final dividends is when they are approved at the AGM.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset, that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed as interest payable in the income statement in the period in which they are incurred. Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds.

**Share-based payments**

The Group grants equity-settled share-based payments to certain Directors and employees in the form of share options. Equity-settled share-based payments are measured at fair value at the date of grant using the Black-Scholes pricing model. The fair value is then charged to the income statement over the vesting period of the options. In valuing equity-settled payments, no account is taken of vesting conditions other than conditions linked to the price of the shares of the Company (market conditions). No expense is recognised for awards that do not ultimately vest.

At each balance sheet date before vesting, the cumulative expense is calculated taking into account the extent to which the vesting period has expired and the Directors' best estimate of the achievement or otherwise of relevant conditions and the number of shares expected to ultimately vest. The movement since the previous balance sheet date is recognised in the income statement.

The values for the expected life of the options and the expected volatility of the share price used in the calculation model are based on the Directors' best estimates, taking into account conditions for exercise, historic data and behavioural considerations.

## Notes to the Accounts continued

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

#### Operating profit

Operating profit as referred to in the income statement is defined as being profit generated from underlying trading activities before finance costs and revenues and before taxation.

#### Non-underlying items

The Group presents as non-underlying items on the face of the income statement, those items of income and expenditure which, because of the nature or infrequency of the events giving rise to them and their size in relation to the operating results of the Group, merit separate presentation to allow shareholders to better understand the elements of financial performance in the year, so as to facilitate comparison with prior periods and to allow assessment of trends in financial performance. Non-underlying items include business reorganisation costs, unrealised foreign exchange gains/losses and net financing costs of pension obligations.

#### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amount of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates and judgements. Where appropriate, details of estimates and assumptions used are set out in the relevant notes to the accounts.

The key figures in the accounts that are most sensitive to such estimates and assumptions are:

- Impairment of Goodwill and Development Costs – the Group determines whether goodwill and development costs are impaired on an annual basis or more frequently if there are indicators of impairment. Impairment testing requires an estimate of future cash flows and the choice of a suitable discount rate.
- Defined benefit scheme pension liabilities – the cost of the closed defined benefit pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases.
- Valuation of Financial Instruments – the fair value of outstanding foreign currency contracts is dependent upon estimates of future market prices.
- Dilapidations – the Group makes provision for dilapidation costs, in respect of leasehold premises, based on managements best estimate, based on external professional advice, of the costs of making good such dilapidations.

### 3 SEGMENTAL ANALYSIS

For management purposes, the Group is organised into two operating divisions according to the nature of the products and services: Foundries and Engineering.

The Foundries segment is a supplier of iron castings, in raw or machined form, to a variety of industrial customers who incorporate the castings into their own products or carry out further machining or assembly operations on the castings before selling them on to their customers.

The Engineering segment provides manufactured and imported products to distributors and end-users operating in the safety and security markets. The products fall into the categories of door hardware, hazardous area lighting and control gear.

There are no transactions between operating segments.

The Group's geographical segments are determined by the location of the Group's customers.

### 3 SEGMENTAL ANALYSIS

#### (i) By operating segment

Year ended	Segmental revenue		Segmental operating (loss)/profit	
	2010	2009	2010	2009
	£000	£000	£000	£000
Foundries	22,423	33,217	(488)	723
Engineering	6,030	6,723	178	260
<b>Segment results</b>	<b>28,453</b>	<b>39,940</b>	<b>(310)</b>	<b>983</b>
<b>Reconciliation of reported segmental operating loss</b>				
Segment results			(310)	983
Shared cost			(613)	(523)
Reorganisation costs			(556)	(446)
Net finance costs			(372)	(201)
Foreign currency mark to market adjustments			430	(311)
Loss before tax			(1,421)	(498)
<b>Segmental assets</b>				
Foundries			12,188	14,968
Engineering			5,561	5,717
			17,749	20,685
<b>Segmental liabilities</b>				
Foundries			(2,246)	(4,150)
Engineering			(2,702)	(2,537)
			(4,948)	(6,687)
<b>Segmental net assets</b>				
			12,801	13,998
Unallocated net liabilities			(4,943)	(4,537)
<b>Total net assets</b>			<b>7,858</b>	<b>9,461</b>

#### Capital expenditure, depreciation and amortisation

	Foundries		Engineering		Total	
	2010	2009	2010	2009	2010	2009
	£000	£000	£000	£000	£000	£000
<b>Capital additions</b>						
Property, plant and equipment (note 13)	401	1,495	122	230	523	1,725
Software (note 14)	86	135	1	89	87	224
Development costs (note 14)	–	153	–	31	–	184
	Foundries		Engineering		Total	
	2010	2009	2010	2009	2010	2009
	£000	£000	£000	£000	£000	£000
<b>Depreciation and amortisation</b>						
Property, plant and equipment (note 13)	(940)	(870)	(189)	(188)	(1,129)	(1,058)
Software (note 14)	(28)	(29)	(16)	(16)	(44)	(45)
Development costs (note 14)	(57)	(29)	(26)	(23)	(83)	(52)

## Notes to the Accounts continued

### 3 SEGMENTAL ANALYSIS continued (ii) Geographical information

	2010 £000	2009 £000
<b>Revenue by location of customer</b>		
United Kingdom	19,961	30,666
Rest of Europe	6,781	7,428
Other countries	1,711	1,846
	<b>28,453</b>	<b>39,940</b>

The Group's assets and costs are all located within the United Kingdom.

No individual customer represents more than 10% of Group revenue (2009: none).

### 4 OTHER OPERATING EXPENSES

	2010 £000	2009 £000
Distribution costs	781	1,328
Administration and selling expenses	4,603	4,369
Operating expenses before exceptional items	5,384	5,697
Exceptional items (note 12)	556	446
Operating expenses	<b>5,940</b>	<b>6,143</b>

### 5 STAFF NUMBERS AND COSTS

The average number of people employed by the Group during the year was:

	2010 Number	2009 Number
Management and administration	68	87
Production	309	377
Total employees	<b>377</b>	<b>464</b>

The aggregate employment costs of these employees including severance costs in wages and salaries of £237,000 (2009: £253,000) were as follows:

	2010 £000	2009 £000
Wages and salaries	8,947	12,086
Social security costs	892	1,200
Other pension costs	308	366
Share-based payment expense	28	12
	<b>10,175</b>	<b>13,664</b>

#### Directors' emoluments summary

	2010 £000	2009 £000
Directors' emoluments	677	533
Aggregate gains made by Directors on exercise of options	–	–
Share-based payment charge of options granted to Directors (see note 20)	28	12
Number of directors accruing benefits under:	<b>Number</b>	<b>Number</b>
Defined contribution pension schemes	3	3

Directors' emoluments are analysed in detail in the Directors' Remuneration Report on pages 17 to 21.

**6 FINANCE COSTS AND FINANCE REVENUE**

	2010 £000	2009 £000
<b>Finance costs</b>		
Bank overdraft interest payable	(133)	(162)
Finance cost of pensions (see note 22)	(239)	(39)
	<b>(372)</b>	<b>(201)</b>

**7 OPERATING (LOSS)/PROFIT**

	2010 £000	2009 £000
This is stated after charging/(crediting):		
Profit on disposal of fixed assets	(7)	(11)
Depreciation of owned assets	1,129	1,058
Amortisation of software	44	45
Amortisation of development costs	83	52
Cost of inventories recognised as an expense	11,758	14,610
Reorganisation costs (note 12)	397	253
Stock written down	159	57
Auditors' remuneration:		
Group audit fees	25	28
Audit fees in respect of subsidiaries	47	47
Interim review fees	5	5
Taxation advice fees	5	11
Research and development expenditure (excluding capitalised development: note 14)	55	56
Rentals under operating leases:		
Hire of plant and equipment	93	50
Other	370	370

**8 TAX (CREDIT)/EXPENSE REPORTED IN THE CONSOLIDATED INCOME STATEMENT**

	2010 £000	2009 £000
<b>Current tax:</b>		
UK Corporation tax at 28% (2009: 28%) based on taxable profit for the year	–	–
Amounts under provided in prior years	–	5
	–	5
<b>Deferred Taxation:</b>		
Movement in the year (note 18)	(362)	68
Amounts under provided in prior years	1	3
Less element of movement shown in the Statement of Other Comprehensive Income	160	275
	<b>(201)</b>	<b>346</b>
<b>Tax (credit)/expense reported in the Consolidated Income Statement</b>	<b>(201)</b>	<b>351</b>

## Notes to the Accounts continued

### 8 TAX (CREDIT)/EXPENSE REPORTED IN THE CONSOLIDATED INCOME STATEMENT continued

	2010 £000	2009 £000
<b>Reconciliation of total tax charge</b>		
Loss on ordinary activities before tax	(1,421)	(498)
Corporation tax credit at standard rate of 28% (2009: 28%) on loss before tax	(398)	(139)
Adjusted by the effects of:		
Expenses not deductible for tax purposes	22	11
Timing differences		
– unrecognised tax losses	174	–
– abolition of IBAs (see note 18)	–	471
Amounts under provided in prior years		
– corporation tax	–	5
– deferred tax	1	3
Total tax (credit)/expense reported in the income statement	(201)	351

### 9 DIVIDENDS PAID AND PROPOSED

	2010 £000	2009 £000
<b>Paid equity dividends on ordinary shares</b>		
2009 final dividend of 0.00p per share (2008: 8.00p per share)	–	595
2010 interim dividend of 0.0p per share (2009: 1.2p per share)	–	89
	–	684
<b>Proposed final dividend subject to shareholder approval</b>		
2010 final dividend of 0.00p per share (2009: 0.00p per share)	–	–

### 10 PARENT COMPANY TRANSFER TO RESERVES

The profit dealt with in the accounts of the Parent Company was £2,593,000 (2009: £989,000).

After dividends, the profit transferred to reserves was £2,593,000 (2009: £305,000).

Net income in respect of the funding of the closed defined benefit pension scheme of £412,000 was transferred from reserves (2009: £707,000 transferred from reserves).

**11 EARNINGS PER SHARE**

The calculation of earnings per share is based on the profit attributable to shareholders and the weighted average number of ordinary shares in issue. In calculating the diluted earnings per share, adjustment has been made for the dilutive effect of outstanding share options. Underlying earnings per share, which excludes business reorganisation costs, mark to market foreign currency movements and net financing cost of pension obligation less related tax thereon, as analysed below, has also been disclosed as the Directors believe this allows a better assessment of the underlying trading performance of the Group.

Reorganisation and exceptionals are detailed in note 12.

	2010 £000	2009 £000
<b>Loss for basic earnings per share</b>	<b>(1,220)</b>	(849)
Reorganisation and exceptionals	556	446
Taxation effect of operating exceptionals	(156)	(125)
Mark to market foreign currency (gain)/loss	(430)	311
Taxation effect of mark to market foreign currency (gain)/loss	106	(87)
Net financing costs on pension obligations	239	39
Taxation effect of pension obligation	(67)	(11)
Deferred tax effect of the abolition of IBAs included in exceptional items (see note 18)	-	471
<b>(Loss)/earnings for underlying earnings per share</b>	<b>(972)</b>	195
	<b>2010 000</b>	<b>2009 000</b>
<b>Weighted average number of ordinary shares</b>	<b>7,438</b>	7,438
Adjustment to reflect shares under options	327	508
<b>Weighted average number of ordinary shares – fully diluted</b>	<b>7,765</b>	7,946

**12 REORGANISATION AND EXCEPTIONAL COSTS**

	2010 £000	2009 £000
Restructuring and severance costs	(397)	(253)
Legal costs	-	(193)
Inventory write down	(159)	-
	<b>(556)</b>	(446)
Taxation		
– tax effect of operating exceptionals	156	125
– abolition of IBAs (see note 18)	-	(471)
	<b>156</b>	(346)

Severance costs and restructuring costs relate to redundancies and other costs incurred in reorganising the business in response to the recession.

Inventory write down relates to the cost of stock disposal, at a significant discount, on exit from a business stream within the Engineering Division.

Legal costs relates to the final costs of settling the claim for alleged nuisance which has been noted in the last two years' accounts. This together with an amount provided at 31 March 2008, comprises the Group's own legal expenses plus the cost of settlement with the claimants and their lawyers.

## Notes to the Accounts continued

## 13 PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings £000	Plant and machinery £000	Motor vehicles £000	Total £000
<b>Cost</b>				
At 1 April 2008	5,156	23,059	629	28,844
Additions	19	1,572	134	1,725
Disposals	–	(70)	(102)	(172)
At 31 March 2009	5,175	24,561	661	30,397
Additions	59	410	54	523
Disposals	–	–	(137)	(137)
<b>At 31 March 2010</b>	<b>5,234</b>	<b>24,971</b>	<b>578</b>	<b>30,783</b>
<b>Depreciation</b>				
At 1 April 2008	1,312	18,830	353	20,495
Charge for year	122	822	114	1,058
Disposals	–	(55)	(69)	(124)
At 31 March 2009	1,434	19,597	398	21,429
Charge for year	118	907	104	1,129
Disposals	–	–	(94)	(94)
<b>At 31 March 2010</b>	<b>1,552</b>	<b>20,504</b>	<b>408</b>	<b>22,464</b>
<b>Net book value</b>				
<b>At 31 March 2010</b>	<b>3,682</b>	<b>4,467</b>	<b>170</b>	<b>8,319</b>
At 31 March 2009	3,741	4,964	263	8,968
At 31 March 2008	3,844	4,229	276	8,349

Net book value of land and buildings comprises:

	2010 £000	2009 £000
Freehold	3,663	3,728
Short leasehold (leasehold improvements)	19	13
	<b>3,682</b>	3,741

Company	Land and buildings £000	Plant and machinery £000	Motor vehicles £000	Total £000
<b>Cost</b>				
At 1 April 2008	1,670	61	91	1,822
Additions	–	10	21	31
Disposals	–	(25)	(19)	(44)
At 31 March 2009	1,670	46	93	1,809
Additions	–	1	18	19
Disposals	–	–	(40)	(40)
<b>At 31 March 2010</b>	<b>1,670</b>	<b>47</b>	<b>71</b>	<b>1,788</b>

**13 PROPERTY, PLANT AND EQUIPMENT** continued

Company	Land and buildings £000	Plant and machinery £000	Motor vehicles £000	Total £000
<b>Depreciation</b>				
At 1 April 2008	651	32	27	710
Charge for year	28	7	17	52
Disposals	–	(25)	(7)	(32)
At 31 March 2009	679	14	37	730
Charge for year	27	6	18	51
Disposals	–	–	(25)	(25)
<b>At 31 March 2010</b>	<b>706</b>	<b>20</b>	<b>30</b>	<b>756</b>
<b>Net book value</b>				
<b>At 31 March 2010</b>	<b>964</b>	<b>27</b>	<b>41</b>	<b>1,032</b>
At 31 March 2009	991	32	56	1,079
At 31 March 2008	1,019	29	64	1,112
			<b>Group £000</b>	<b>Company £000</b>
Freehold land included above not subject to depreciation amounted to:				
<b>2010</b>			<b>743</b>	<b>743</b>
2009			743	743

**14 INTANGIBLE ASSETS**

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Goodwill	201	201	–	–
Software	251	208	–	3
Development costs	198	281	–	–
	<b>650</b>	<b>690</b>	<b>–</b>	<b>3</b>
<b>Goodwill</b>				<b>£000</b>
<b>Cost</b>				
At 1 April 2008				201
Additions				–
At 31 March 2009				201
Additions				–
<b>At 31 March 2010</b>				<b>201</b>
<b>Impairment</b>				
At 1 April 2008, 31 March 2009 and 31 March 2010				–
<b>Net Book Value</b>				
<b>At 31 March 2010</b>				<b>201</b>
At 31 March 2009				201
At 31 March 2008				201

## Notes to the Accounts continued

### 14 INTANGIBLE ASSETS continued

Goodwill arose initially on the acquisition of the Webb Lloyd business which now forms part of Fred Duncombe Limited, within the Engineering Segment.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. In these calculations, the recoverable amounts from the Webb Lloyd Cash Generating Unit are determined from value in use calculations. The key assumptions are as follow:

- Future cash flows are derived from the Group's annual plan, extrapolated for four years at zero annual growth. The key variables impacting the cash flow in the plan are sales and gross margin. The sales level assumes no further deterioration in the commercial property market and gross margins are assumed to be maintained at the levels achieved in the last year.
- Cash flows are discounted at a rate of 15%, which is considered to be an appropriate benchmark for evaluating future capital proposals.

Following a review of the goodwill figure stated in the accounts, and the estimated level of cash expected to be generated by the Webb Lloyd business, the Directors believe there is no impairment. The Directors believe that no reasonably probable change in the key assumptions would lead to impairment of goodwill. A 40% compound reduction in annual sales would result in a value equal to the carrying value. A 20% reduction in gross margin would result in value equal to the carrying value.

	Group £000	Company £000
<b>Software</b>		
<b>Cost</b>		
At 1 April 2008	336	13
Additions	224	–
At 31 March 2009	560	13
Additions	87	–
<b>At 31 March 2010</b>	<b>647</b>	<b>13</b>
Amortisation/impairment:		
At 1 April 2008	307	7
Charge for the year	45	3
At 31 March 2009	352	10
Charge for year	44	3
<b>At 31 March 2010</b>	<b>396</b>	<b>13</b>
<b>Net Book Value</b>		
<b>At 31 March 2010</b>	<b>251</b>	<b>–</b>
At 31 March 2009	208	3
At 31 March 2008	29	6

**14 INTANGIBLE ASSETS** continued

Software has an estimated useful life of between three and ten years.

	Group £000	Company £000
<b>Development costs capitalised</b>		
<b>Cost</b>		
At 1 April 2008	229	–
Additions	184	–
At 31 March 2009	413	–
Additions	–	–
<b>At 31 March 2010</b>	<b>413</b>	<b>–</b>
Amortisation/impairment:		
At 1 April 2008	80	–
Charge for year	52	–
At 31 March 2009	132	–
Charge for year	83	–
<b>At 31 March 2010</b>	<b>215</b>	<b>–</b>
<b>Net Book Value</b>		
<b>At 31 March 2010</b>	<b>198</b>	<b>–</b>
At 31 March 2009	281	–
At 31 March 2008	149	–

Development costs capitalised relate to specific major projects which result in an asset being created which is then amortised over the primary income generating period of the associated product. These are amortised over a life of five years from the commencement of commercial sales.

**15 INVENTORIES**

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Raw materials	966	1,329	–	–
Work in progress	1,508	2,325	–	–
Finished goods	820	1,424	–	–
	<b>3,294</b>	<b>5,078</b>	<b>–</b>	<b>–</b>

## Notes to the Accounts continued

## 16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Trade receivables	6,013	5,520	–	–
Amounts due from subsidiary undertakings	–	–	8,605	3,457
Other receivables	60	111	31	106
Prepayments	285	373	88	34
	6,358	6,004	8,724	3,597

Trade receivables are denominated in the following currencies:

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Sterling	5,085	4,684	–	–
Euro	928	836	–	–
	6,013	5,520	–	–

Out of the carrying amount of trade receivables of £6,013,000 (2009: £5,000,000), £1,185,000 (2009: £1,328,000) is against five major customers.

Trade receivables are non-interest bearing and are generally on terms of 30 to 60 days and are shown net of a provision for impairment. As at 31 March 2010 trade receivables at a nominal value of £243,000 (2008: £238,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
At 1 April	238	171	–	–
Charge for year	87	130	–	–
Amounts written off	(82)	(63)	–	–
At 31 March	243	238	–	–

As at 31 March 2010, the analysis of trade receivables that were past due but not impaired is as follows:

	Neither past due nor impaired		Past due but not impaired				
	Total		<30 days	30-60 days	60-90 days	90-120 days	> 120 days
	£000	£000	£000	£000	£000	£000	£000
2010	6,013	4,118	1,514	210	69	102	–
2009	5,520	4,565	729	164	62	–	–

The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings, where available, otherwise historical information relating to the counterparty default rates is used.

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Debtors where external credit ratings have been sought	3,808	2,040	–	–
Debtors where internal credit assessments have been made	2,205	3,480	–	–
	6,013	5,520	–	–

**16 TRADE AND OTHER RECEIVABLES** continued

Of the balance in respect of counterparties with internal ratings nil% (2009: nil%) is in respect of new customers, and 100% (2009: 100%) existing customers with no history of defaults.

Amounts due from subsidiary companies are interest free and repayable on demand.

**Income taxes receivable**

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
UK corporation tax	–	–	–	334

**17 CURRENT LIABILITIES**

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
<b>Financial liabilities</b>				
Bank overdraft	3,449	3,258	4,556	1,225

The overdraft is held with HSBC Bank plc as part of the Group facility of £5,000,000, is secured on the assets of the business, is repayable on demand and is renewable in June 2011. Interest is payable at 2.75% (2009: 2.75%) over base rate.

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
<b>Trade and other payables</b>				
Trade creditors	3,942	4,439	–	–
Amounts due to subsidiary undertakings	–	–	1,942	3,350
Other taxation and social security	507	397	19	21
Other creditors	379	846	20	1
Accruals	874	351	236	58
Fair value of derivative forward contracts	29	581	–	–
	5,731	6,614	2,217	3,430

Trade payables are non-interest bearing and are normally on terms of 30 to 60 days. Amounts due to subsidiary companies are interest free and repayable by agreement with the Parent Company.

	Legal costs	Dilapidations	Total
	£000	£000	£000
<b>Provisions</b>			
As at 31 March 2008	660	–	660
New provisions	–	48	48
Utilised	(660)	–	(660)
As at 31 March 2009	–	48	48
New provisions	–	48	48
Utilised	–	(48)	(48)
<b>As at 31 March 2010</b>	<b>–</b>	<b>48</b>	<b>48</b>

**Legal Costs**

Provision utilised against the costs of the nuisance claim noted in the prior years financial statements.

**Dilapidations**

Provision in respect of delapidations on leasehold property expected utilisation by March 2011.

## Notes to the Accounts continued

## 18 NON CURRENT LIABILITIES

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Intra-group balances	–	–	66	66

The amount owed by the Company to non-trading subsidiary undertakings is non-interest bearing.

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
<b>Provisions for liabilities</b>				
Deferred taxation	92	340	38	41

	2010		2009	
	Amount not provided	Amount provided	Amount not provided	Amount provided
	£000	£000	£000	£000
<b>Deferred tax liabilities</b>				
<b>Group liabilities</b>				
Temporary differences re capital allowances	–	–	–	248
Capital gains rolled over	–	92	–	92
	–	92	–	340

	2010		2009	
	Amount not provided	Amount provided	Amount not provided	Amount provided
	£000	£000	£000	£000
<b>Company liabilities</b>				
Temporary differences re capital allowances	–	38	–	41
	–	38	–	41

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
<b>Deferred tax assets</b>				
Temporary differences re capital allowances	76	116	–	–
Temporary differences re pension scheme deficit	662	512	662	512
Other temporary differences	185	181	36	67
	923	809	698	579

Other temporary differences include a deferred tax asset of £139,000 (2009: £85,000), recognised in respect of carried forward trading losses. A deferred tax asset is recognised in respect of tax losses carried forward only to the extent that there is a reasonable expectation that the losses will be recoverable within the foreseeable future. Tax losses not carried forward total £188,000.

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
<b>Deferred taxation</b>				
<b>Movement in net Deferred Taxation during the year</b>				
Net (asset)/liability brought forward	(469)	(541)	(538)	(359)
Re pension provision movement	(151)	(209)	(151)	(209)
Re abolition of IBAs (see below)	–	471	–	43
Movement on other temporary differences	(211)	(190)	29	(13)
	(831)	(469)	(660)	(538)

The abolition of Industrial Buildings Allowances (IBAs) in the Finance Act 2008, has resulted in a current year deferred tax charge of Nil (2009: 471,000). This was included in non-underlying items within the Consolidated Income Statement.

**19 SHARE CAPITAL**

	2010 £000	2009 £000
<b>Authorised</b>		
9,000,000 (2009: 9,000,000) Ordinary shares of 25p	<b>2,250</b>	2,250
<b>Allotted, called up and fully paid</b>		
7,437,658 (2009: 7,437,658) Ordinary shares of 25p	<b>1,859</b>	1,859

During the year no shares (2009: Nil) were issued to satisfy the exercise of options under the executive share option scheme. 48,000 share options lapsed (2009: Nil). 1,487,531 options were granted (2009: 837,071) and 862,958 options were surrendered (2009: Nil).

Options outstanding at 31 March 2010 were:

	No. of options	Exercise Price	Exercisable between
	40,765	0.0p	27.03.2010 – 27.03.2017
	40,765	0.0p	27.03.2011 – 27.03.2017
	40,765	0.0p	27.03.2012 – 27.03.2017
	43,282*	0.0p	02.07.2011 – 02.07.2018
	279,947*	0.0p	19.12.2011 – 19.12.2012
Outstanding at 31 March 2009	445,524		
Granted in year	445,524#	52.8p	23.02.2013 – 23.02.2020
	1,042,007	52.8p	23.02.2013 – 23.02.2020
<b>Outstanding at 31 March 2010</b>	<b>1,933,055</b>		

# 445,524 options were granted in parallel to the options indicated \*. These options are only tested against the vesting conditions as set out on page 18 (and thus potentially become eligible to vest), in the event that the options that they are granted in parallel to fail to vest.

**20 SHARE-BASED PAYMENTS**

The Company has four share option schemes used to incentivise directors and senior managers of the Group as follows:

- Performance Share Plan which prior to 19 December 2008 granted nil cost options under an Enterprise Management Incentive Scheme. These will normally vest in three equal tranches on the third, fourth and fifth anniversary of grant subject to satisfaction of performance conditions set by the Remuneration Committee of the Company. These options expire on the tenth anniversary of grant. After 19 December 2008 option grants were not made under EMI scheme and vest three years from grant and expire after a further year.
- Share Option Scheme where options are exercisable at the average quoted market price of the Company's shares over the three months prior to the date of grant. These will normally vest on the third grant subject to satisfaction of performance conditions set by the Remuneration Committee of the Company and set out in the Remuneration committee report on page 18. These options expire on the tenth anniversary of grant.
- Inland Revenue Approved 1997 Share Option Scheme where options are exercisable at a price equal to the average quoted market price of the Company's shares over the five days prior to the date of grant. The vesting period is three years and the options expire after ten years from date of grant. All outstanding options under this scheme were surrendered during the year.
- Inland Revenue Unapproved 1997 Share Option Scheme where options are exercisable at a price equal to the average quoted market price of the Company's shares over the five days prior to the date of grant. The vesting period is three years and the options expire after seven years from date of grant. All outstanding options under this scheme were surrendered during the year.

## Notes to the Accounts continued

### 20 SHARE-BASED PAYMENTS continued

Under all of the above, options lapse if the employee leaves the Group subject to certain exceptions set out in the scheme rules. Under the transitional arrangements in IFRS 2, only live options granted after 7 November 2002 which had not vested at the effective date of the IFRS are included in the share-based payment calculations. Due to the small number of individual grants made, each individual option is priced using the Black-Scholes pricing model, rather than applying the model to weighted average figures for options granted in each year.

Relevant options outstanding during the year were as follows:

	No. of options	Weighted average Exercise price	Remaining contractual life (years)
At 31 March 2008	519,410	151.0p	8.6
Granted	837,071	87.8p	7.6
Lapsed	–	–	–
Surrendered	–	–	–
At 31 March 2009	1,356,481	112.0p	7.6
Granted	1,487,531	52.8	9.9
Exercised	–	–	–
Surrendered	(862,958)	176.1	7.3
Lapsed	(48,000)	–	4.0
<b>At 31 March 2010</b>	<b>1,933,054</b>	<b>40.6</b>	<b>8.6</b>

Based on the following assumptions at 31 March 2010, the total fair value of options was £385,000, of which £28,000 was charged to the income statement (2009: charge of £12,000). The fair value of options granted in the year was £190,000 (2009: £118,000). The exercise price of options range from nil p to 52.8p.

	2010	2009
Share price at 31 March 2010	<b>64.5p</b>	46.5p
Expected volatility	<b>30.0%</b>	30.0%
Expected life	<b>4.0 years</b>	4.6 years
Risk free rate	<b>3.0%</b>	3.0%
Expected dividend yield	<b>2.3%</b>	7.7%

Expected volatility, to which the fair value is most sensitive, is based on movements in the share price during the year and taking account of the Directors' expectations of future movements. The expected life has been arrived at based on the Directors' best estimate taking into account exercise conditions and behavioural considerations.

The mid-market price of the shares ranged between 41.5p and 67.5p during the year to 31 March 2010.

**21 FIXED ASSET INVESTMENTS**

	<b>£000</b>
<b>Shares in subsidiary undertakings</b>	
Cost at 1 April 2009	8,159
Addition	–
Cost at 1 April 2010	8,159

**Wholly owned operating subsidiaries****Principal activity**

Fred Duncombe Ltd	Manufacture and sale of architectural hardware
Petrel Ltd	Manufacture and sale of lighting, switchgear and electrical installation products
Russell Ductile Castings Ltd	Manufacture and sale of engineering castings
Chamberlin & Hill Castings Limited	Manufacture and sale of engineering castings

The Company owns 100% of the issued ordinary share capital of the above companies, all of whom operate principally in England and Wales.

**22 PENSION ARRANGEMENTS**

During the year, the Group operated funded defined benefit and defined contribution pension schemes for the majority of its employees, these being established under trusts with the assets held separately from those of the Group. The pension operating cost for all of the Group schemes for 2010 was £308,000 (2009: £366,000) plus £239,000 of financing cost (2009: £39,000) .

The pension cost for the defined benefit scheme, providing benefits based on final salary has been projected forward, updated each six months by an independent qualified actuary, from the results of an actuarial valuation carried out as at 1 April 2007 using the projected unit method. The market value of the schemes total assets on that date was £14,080,000 and the value of these assets represented 96% of the benefits that had accrued to members allowing for expected future increases in salaries (which from 1 April 2002 have been limited to inflation).

The other schemes within the Group are defined contribution schemes and the pension cost represents contributions payable. The total cost of defined contributions schemes was £308,000 (2009: £366,000). The notes below relate to the defined benefit scheme.

The service cost has been calculated using the Projected Unit method. The major assumptions used by the actuary were (in nominal terms):

	<b>At 31 March 2010</b>	At 31 March 2009	At 31 March 2008
Rate of increase in salaries	<b>n/a</b>	n/a	n/a
Rate of increase of pensions in payment – post 1997 accrual only	<b>3.4%</b>	3.1%	3.6%
Discount rate	<b>5.6%</b>	7.0%	6.1%
Inflation assumption	<b>3.4%</b>	3.1%	3.6%

Demographic assumptions are all based on the PA92 (YOB) mc+2 mortality tables. The post retirement mortality assumptions allow for expected increases in longevity. The current disclosures relate to assumptions based on longevity in years following retirement as of the balance sheet date, with future pensioners relating to an employee retiring in 2032.

	<b>2010 Years</b>	2009 Years
Current pensioners at 65 – male	<b>20.3</b>	20.3
– female	<b>23.1</b>	23.1
Future pensioners at 65 – male	<b>21.2</b>	21.2
– female	<b>24.0</b>	24.0

## Notes to the Accounts continued

### 22 PENSION ARRANGEMENTS continued

The scheme was closed to future accrual with effect from 30th November 2007, after which the Company's regular contribution rate reduced to zero (previously the rate had been 9.1% of members' pensionable salaries). In addition the past service "catch up" contribution was reduced to £21,475 per month (previously £21,475 per month) designed to return the scheme to a fully funded position by April 2012. The contributions expected to be paid during the year to 31 March 2011 are £257,700.

The scheme assets are stated at the market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers forecasts for each category of scheme asset. The rates quoted below are the expected net rates of return after allowance for expenses.

The assets and liabilities of the scheme and the expected rates of return were:

	As at 31 March 2010		As at 31 March 2009	
	Rate of return %	Value £000	Rate of return %	Value £000
Equities	8.05	6,964	7.55	4,909
Gilts	4.55	1,906	4.05	1,767
Bonds	5.55	2,388	7.00	2,160
Property	7.55	974	7.05	981
Cash		143		–
Market value of assets		12,375		9,817
Actuarial value of liability		(14,741)		(11,645)
Recoverable deficit in scheme		(2,366)		(1,828)
Related deferred tax asset		662		512
Net pension liability		(1,704)		(1,316)

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
<b>Recognised as finance cost</b>		
Expected return on pension scheme assets	552	777
Interest on pension liabilities	(791)	(816)
<b>Net return disclosed in finance cost</b>	<b>(239)</b>	<b>(39)</b>

#### Analysis of amount recognised in Consolidated Statement of other Comprehensive Income

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
Actual return less expected return on assets	2,423	(3,118)
Other actuarial (loss)/gain on liabilities	(2,995)	2,136
<b>Actuarial loss recognised in the Statement of other Comprehensive Income</b>	<b>(572)</b>	<b>(982)</b>
<b>Cumulative actuarial losses recognised in the Statement of other Comprehensive Income</b>	<b>(737)</b>	<b>(165)</b>

The cumulative amount of actuarial gains and losses recognised since 1 January 2004 in the Group statement of other comprehensive income is £(737,000) (2009: £(165,000)). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRSs, and taken directly to equity of £2,136,000 in the Group, is attributable to actuarial gains and losses since inception of those pension schemes.

**22 PENSION ARRANGEMENTS** continued

Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of other comprehensive income before 1 January 2004.

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
<b>Actual gain/(loss) on plan assets</b>	<b>2,990</b>	<b>(2,328)</b>

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
<b>Movement in deficit during the year</b>		
Deficit in scheme at beginning of year	(1,828)	(1,078)
Movement in year:		
Regular contributions	273	271
Net expected return on assets	(239)	(39)
Actuarial loss	(572)	(982)
<b>Deficit in scheme at end of year</b>	<b>(2,366)</b>	<b>(1,828)</b>

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
<b>Movement in scheme assets</b>		
Fair value at beginning of year	9,817	12,719
Expected return on scheme assets	552	777
Actuarial gains/(losses)	2,423	(3,118)
Employer contributions	273	271
Benefits paid	(690)	(832)
<b>Fair value at end of year</b>	<b>12,375</b>	<b>9,817</b>

	Year to 31 March 2010 £000	Year to 31 March 2009 £000
<b>Movement in scheme liabilities</b>		
Benefit obligation at start of year	11,645	13,797
Interest cost	791	816
Actuarial loss	2,995	(2,136)
Benefits paid	(690)	(832)
<b>Benefit obligation at end of year</b>	<b>14,741</b>	<b>11,645</b>

		Year to 31 March 2010	Year to 31 March 2009	Year to 31 March 2008	Year to 31 March 2007	Year to 31 March 2006
<b>Experience gains and losses</b>						
Difference between expected and actual return on scheme assets	£000	2,423	(3,118)	(1,856)	(38)	1,285
	% of assets	19.6%	(31.8)%	(14.6)%	(0.3)%	9.4%
Experience gains on scheme liabilities	£000	–		600	–	–
	% of liabilities	–		4.3%	–	–
Other gains/(losses) on scheme liabilities	£000	2,995	2,136	1,985	(2,094)	(144)
	% of liabilities	20.3%	18.3%	14.4%	12.9%	1.0%
Net (losses)/gains	£000	(572)	(982)	729	(2,132)	1,141
	% of liabilities	(3.9)%	(8.4)%	5.3%	13.2%	8.0%

## Notes to the Accounts continued

### 23 CONTINGENT LIABILITIES

Cross guarantees exist between the Company and its subsidiary undertakings in respect of the Group's bank overdrafts. The borrowings of the subsidiaries at 31 March 2010 amounted to £Nil (2009: £2,034,000).

### 24 FINANCIAL COMMITMENTS

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
<b>Capital expenditure</b>				
Contracted for but not provided in the accounts	–	46	–	–

#### Lease commitments

The Group had total outstanding commitments under operating leases as follows:

	Group	
	2010	2009
	£000	£000
Future minimum payments due:		
Not later than one year	331	315
After one year but not more than five years	1,324	1,084
After five years	842	813
	<b>2,497</b>	<b>2,212</b>

Leases on land and buildings comprise the lease for the Leicester foundry (£271,000 per annum with an end date, subject to earlier termination, of 31 March 2017), and a lease within the Engineering Division for £60,000 terminating in August 2019.

The lease on the Leicester foundry is terminable by the Company only on 12 months notice.

### 25 DERIVATIVES AND FINANCIAL INSTRUMENTS

The Group considers the use of derivatives to reduce financial risk in a number of areas noted below.

The only area where the use of derivatives is considered appropriate at present is that of currency risk.

#### Currency risk

The Group's functional currency is sterling but approximately 15% of revenues are denominated in foreign currencies, principally Euros in relation to castings exports. In order to reduce the Group's exposure to currency fluctuations the Group sells approximately 80% of its expected Euro revenues on forward currency contracts of 12 months or less. If these contracts were not in place and the Euro moved by plus or minus 5% the corresponding gain/loss would be £39,000 (2009: £37,000).

Forward currency contracts for the sale of Euros outstanding at the year end have been retranslated to the fair value with the difference being taken to the income statement, as follows:

	Contracted amount (Euros '000)	Weighted average contract rate	Contracted amount £000	Fair value at year end rate £000	Unrealised loss £000
<b>At 31 March 2010</b>	<b>6,000</b>	<b>1.1257</b>	<b>5,330</b>	<b>5,359</b>	<b>(29)</b>
At 31 March 2009	5,250	1.2258	4,283	4,864	(581)

At the year end it had net monetary assets denominated in Euros of £818,000 (2009: £442,000 liability).

**25 DERIVATIVES AND FINANCIAL INSTRUMENTS** continued**Interest rate risk**

The Group operates an overdraft facility with HSBC Bank plc and has no other borrowings. Exposure to interest rate risk is considered to be low and no derivatives are used to modify the Group's interest rate risk profile.

The impact of a 50 basis point increase in UK interest rates would be a £20,000 reduction in profit before tax (2009: £17,000). An equivalent decrease in rates would increase profit before tax by £20,000 (2009: £17,000).

An analysis of interest bearing financial assets and liabilities is given below.

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
<b>Cash and cash equivalents/(bank overdraft)</b>				
Bank overdraft (Sterling denominated)	(3,232)	(1,974)	(4,556)	(1,225)
Bank overdraft (Euro denominated)	(217)	(1,284)	–	–
	<b>(3,449)</b>	<b>(3,258)</b>	<b>(4,556)</b>	<b>(1,225)</b>

Balances outstanding on the Group's overdraft facility are subject to floating rate interest and are repayable on demand.

**Credit risk**

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 16. For transactions that do not occur in the UK, the Group does not offer credit terms without the approval of the operating business Finance Director. There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with the maximum exposure equal to the carrying amount of the instrument.

There are no material differences between the fair values and carrying values of the financial assets and liabilities.

The bad debt charge for the year was £87,000 (2009: £130,000).

**Liquidity risk**

The Group aims to mitigate liquidity risk by managing the cash generation of its operating units, and applying cash generation targets across the Group. Investment is carefully controlled, with authorisation limits operating up to Group Board level and cash payback periods applied as part of the investment appraisal process. In this way the Group aims to maintain a good credit rating and operate within its existing facilities.

The Group's funding strategy is to maintain flexibility in managing its day to day working capital needs through the use of an overdraft facility, and to fund acquisitions and significant capital projects through the use of longer-term funding including bank loans and equity.

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs have a significant effect on the recorded fair value that are not based on observable market data

All derivative assets and liabilities are valued by level 1 techniques.

## Notes to the Accounts continued

### 25 DERIVATIVES AND FINANCIAL INSTRUMENTS continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2010 and 31 March 2009.

Non-derivative financial liabilities	On demand	Less than 3 months	3 to 12 months	Total
<b>At 31 March 2010</b>				
Bank overdraft	3,449	–	–	3,449
Trade and other payables	–	3,942	–	3,942
	<b>3,449</b>	<b>3,942</b>	<b>–</b>	<b>7,391</b>
<b>At 31 March 2009</b>				
Bank overdraft	3,258	–	–	3,258
Trade and other payables	–	4,434	5	4,439
	<b>3,258</b>	<b>4,434</b>	<b>5</b>	<b>7,697</b>

The gross undiscounted future cash flows are analysed as follows:

Derivative financial liabilities	On demand	Less than 3 months	3 to 12 months	Total
<b>At 31 March 2010</b>				
Foreign Exchange forward contracts	–	1,332	3,998	5,330
	<b>–</b>	<b>1,332</b>	<b>3,998</b>	<b>5,330</b>
<b>At 31 March 2009</b>				
Foreign Exchange forward contracts	–	1,407	2,876	4,283
	<b>–</b>	<b>1,407</b>	<b>2,876</b>	<b>4,283</b>

#### Capital management

The Group defines capital as the total equity of the Group. The Group objective for managing capital is to deliver competitive, secure and sustainable returns to maximise long-term shareholder value. Chamberlin is not subject to any externally-imposed capital requirements.

The Group monitors capital on the basis of the gearing ratio, that is, the ratio of net debt to equity. Net debt is calculated as gross finance debt, as shown in the balance sheet, less cash and cash equivalents. All components of equity are included in the denominator of the calculation. The Directors believe that a net debt ratio in the range 30-50% provides an efficient capital structure and an appropriate level of financial flexibility. At 31 March 2010 the net debt ratio was 44% (2009: 34%).

### 26 RELATED PARTY TRANSACTIONS

#### Group

All transactions between the Parent Company and subsidiary companies and between subsidiaries companies have been eliminated on preparation of the consolidated accounts. The Group has not entered into any other related party transactions.

#### Company

The Company provides certain management services to subsidiary companies free of charge.

Certain payments in relation to items settled or provided on a central basis, principally corporation tax and insurance payments, are made by the Company and are then recharged to subsidiaries at cost.

	Group		Company	
	2010	2009	2010	2009
Compensation of key management personnel (including Directors)	£000	£000	£000	£000
Short-term employee benefits	1,259	1,156	677	533
Share-based payments	28	12	28	12
Pension contributions	70	71	32	33
	<b>1,357</b>	<b>1,239</b>	<b>737</b>	<b>578</b>

Key management, other than Directors of the Company, comprise the Managing Directors and Finance Directors of the main operating subsidiaries.

## Directors and Advisers

<b>Directors</b>	<b>Tom Brown</b> (Non-executive Chairman) <b>Tim Hair</b> (Chief Executive) <b>Mark Bache</b> (Finance Director) <b>Adam Vicary</b> (MD – Chamberlin & Hill Castings Ltd) (Resigned 17 May 2010) <b>Keith Jackson</b> (Non-executive) <b>Alan Howarth</b> (Non-executive)
<b>Company Secretary</b>	Mark Bache
<b>Registered Office</b>	Chuckery Road, Walsall WS1 2DU Registered in England No. 76928
<b>Auditors</b>	Ernst & Young LLP, Birmingham
<b>Solicitors</b>	DLA Piper, Birmingham
<b>Stockbrokers</b>	Charles Stanley Securities, London
<b>Bankers</b>	HSBC Bank plc, Birmingham
<b>Registrars</b>	Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA

## Notice of Annual General Meeting

**Notice is hereby given** that the Annual General Meeting of the Company will be held on Thursday 29 July 2010 at the Registered Office, Chuckery Road, Walsall at 2.00 p.m. for the following purposes.

### Ordinary resolutions

1. To receive and adopt the Report of the Directors, Statement of Accounts and Report of the Auditors for the year ended 31 March 2010.  
(Resolution 1)
2. To declare no Final Dividend for the year ended 31 March 2010.  
(Resolution 2)
3. To re-elect as a Director Tom Brown who is retiring by rotation pursuant to Article 94 of the Company's Articles of Association.  
(Resolution 3)
4. To approve the Directors' Remuneration Report for the year ended 31 March 2010.  
(Resolution 4)
5. To reappoint Ernst & Young LLP as Auditors of the Company.  
(Resolution 5)
6. To authorise the Directors to fix the remuneration of the Auditors.  
(Resolution 6)
7. That the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (in substitution for all existing authorities under section 80 of the Companies Act 1985 which, to the extent unused at the date of this resolution, are revoked with immediate effect) to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £618,805 provided that (unless previously revoked, varied or renewed) such authority shall expire at the earlier of the conclusion of the next Annual General Meeting of the Company or 29 October 2011, but so that this authority shall allow the Company to make, before the expiry of this authority, offers or agreements which would or might require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after such expiry and notwithstanding such expiry the Directors may allot shares or grant such rights in pursuance to such offers or agreements as if this authority had not expired.  
(Resolution 7)

### Special resolutions

- 8 That, subject to the passing of resolution 7 and pursuant to section 570 of the Companies Act 2006 the Directors be empowered (in substitution for all existing powers under section 95 of the Companies Act 1985 which, to the extent unused at the date of this resolution, are revoked with immediate effect) to allot equity securities (as defined in Section 560 of the Companies Act 2006) for cash pursuant to the authority granted by resolution 7 as if Section 561(1) of the Companies Act 2006 did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:
  - (a) in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise):
    - (i) to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and

- (ii) to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

- (b) otherwise than pursuant to paragraph (a) of this resolution, up to an aggregate nominal amount of £92,971,

and (unless previously revoked, varied or renewed) this power shall expire at the earlier of the conclusion of the next Annual General Meeting, of the Company or 29 October 2011, but so that this authority shall allow the Company to make, before the expiry of this authority, offers or agreements which would or might require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after such expiry and notwithstanding such expiry the Directors may allot shares or grant such rights in pursuance of such offers or agreements as if this authority had not expired.

(Resolution 8)

9. That the Company be and hereby is generally and unconditionally authorised pursuant to section 701 of the Companies Act 2006 to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of Ordinary Shares of 25p each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the Directors may from time to time determine provided that:

- (a) the maximum number of Ordinary Shares which may be purchased is 743,700;
- (b) the minimum price (exclusive of expenses) which may be paid for each Ordinary Share is 25 pence;
- (c) the maximum price which may be paid for each Ordinary Share is an amount equivalent to 105% of the average of the middle market quotations for an Ordinary Share as derived from the Daily Official List of the London Stock Exchange Plc for the five business days immediately preceding the day on which the Ordinary Share in question is purchased,

and (unless previously revoked, varied or renewed) this authority shall expire at the earlier of the conclusion of the next Annual General Meeting of the Company or 29 October 2011, save that the Company may enter into a contract to purchase Shares before this authority expires under which such purchase will or may be completed or executed wholly or partly after this authority expires and may make a purchase of Shares pursuant to any such contract as if this authority had not expired.

(Resolution 9)

By order of the Board

**Mark Bache**

Company Secretary  
10 June 2010

Chuckery Road  
Walsall  
WS1 2DU

## Notice of Annual General Meeting

continued

### General Information

In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, in order to have the right to attend or vote at the meeting, a person must be entered on the register of members by 6.00 p.m. on Tuesday 27 July 2010.

A member is entitled to appoint another person (whether a member or not) as his or her proxy to exercise all or any of his or her rights to attend and to speak and vote at the Meeting for which purpose a form of proxy is enclosed. Proxies must be lodged at the office of the Company's Registrars, Neville Registrars Ltd, 18 Laurel Lane, Halesowen, West Midlands B63 3DA, not later than 2:00 p.m. on 27 July 2010 (or if the Meeting is adjourned, not later than 48 hours (excluding any part of a day that is not a working day) before the time of the adjourned meeting). Completion and return of the form of proxy in accordance with its instructions will not prevent a member from attending and voting at the Meeting instead of their proxy if they wish. A member may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the member. A member wishing to appoint more than one proxy should photocopy the proxy card and indicate on each copy the name of the proxy he appoints and the number of shares in respect of which that proxy is appointed. A failure to specify the number of shares each proxy appointment relates to or specifying a number in excess of those held by the member may result in the proxy appointment being invalid.

There will be available for inspection at the Registered Office of the Company during normal business hours (Weekends and Public Holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting copies of contracts of service of Directors (including letters of appointment of non-executive Directors) with the Company or with any of its subsidiary undertakings.

Biographical details of all those Directors who are offering themselves for re election at the meeting are set out on page 11 of the enclosed annual report and accounts.

An explanation of Resolutions 7, 8 and 9 is set out in the Report of the Directors on page 12.

Members should notify the Registrars without delay of any change of address.

---

## Principal Activities and Markets

---



Small complex grey iron castings, principally for the automotive sector and hydraulic applications.

CHAMBERLIN & HILL CASTINGS LTD  
Chuckery Road  
Walsall, WS1 2DU

Tel: 01922 721411  
Fax: 01922 614610

Bonchurch Street  
Leicester, LE3 5EP

Tel: 0116 2992000  
Fax: 0116 2998844

[www.chcastings.co.uk](http://www.chcastings.co.uk)



Emergency exit equipment and traditional architectural hardware directed mainly at the DIY and construction markets.

FRED DUNCOMBE LTD  
Progress Drive  
Cannock, WS11 0JE

Tel: 01543 460030  
Fax: 01543 573534

[www.fredduncombe.co.uk](http://www.fredduncombe.co.uk)



Products associated with cable management. Lighting and switchgear associated with petrochemicals and construction applications.

PETREL LTD  
22 Fortnum Close  
Kitts Green  
Birmingham, B33 0LB

Tel: 0121 783 7161  
Fax: 0121 783 5717

[www.petrel-ex.co.uk](http://www.petrel-ex.co.uk)



Large grey, ductile and alloyed iron castings for a range of applications including power generation, bearing housings, steelworks, construction and compressors.

RUSSELL DUCTILE CASTINGS LTD  
Trent Foundry  
Dawes Lane  
Scunthorpe, DN15 6UW

Tel: 01724 862152  
Fax: 01724 280461

[www.russellcastings.co.uk](http://www.russellcastings.co.uk)



Chamberlin plc

Chuckery Road, Walsall, West Midlands, WS1 2DU

Tel: 01922 707100 Fax: 01922 638370

**website: [www.chamberlin.co.uk](http://www.chamberlin.co.uk)**

email: [plc@chamberlin.co.uk](mailto:plc@chamberlin.co.uk)