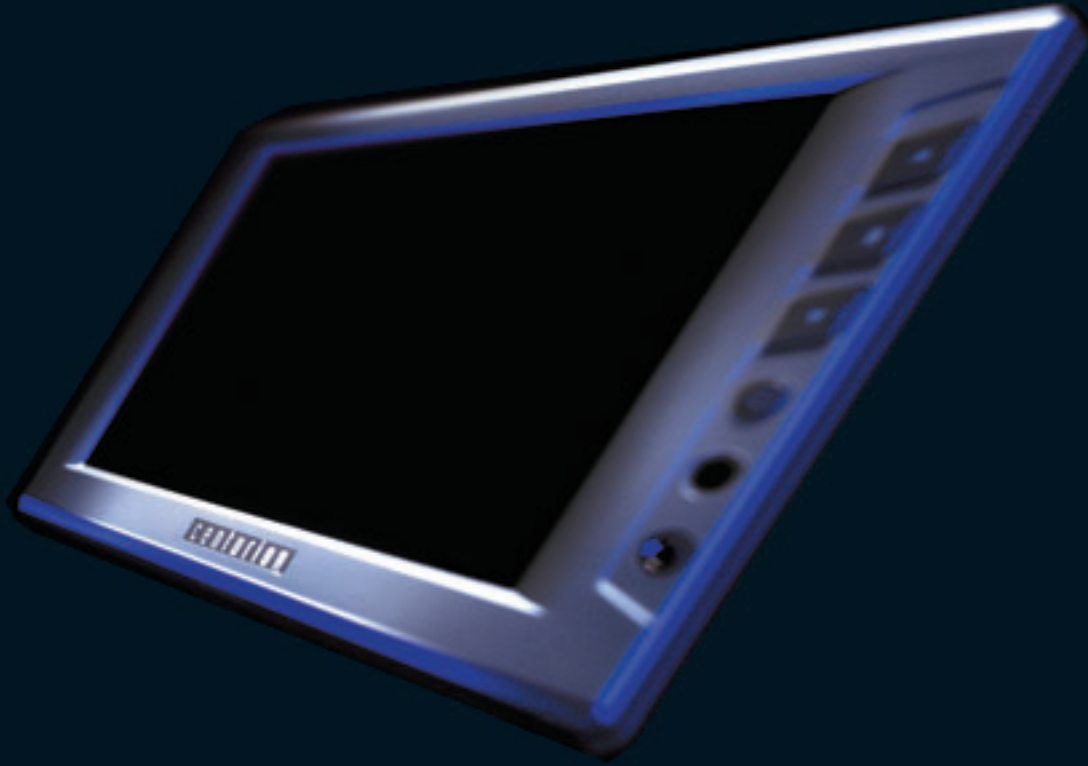


centurion®
electronics plc



2005

annual report

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Directors & Advisers

Directors

C Rhodes
E Kastner
M Diamond
K Davis
M Harrison

Principal Solicitors

Finers Stephens Innocent
179 Great Portland Street
London
W1W 5LS

Secretary and Registered Office

M Harrison
Satellite House, City Park
Swiftfields
Welwyn Garden City
Herts
AL7 1LY

Nominated Adviser & Broker

Charles Stanley Securities
25 Luke Street
London
EC2A 4AR

Company Number

2826917

Auditors

Ernst & Young LLP
400 Capability Green
Luton
LU1 3LU

Principal Bankers

Fortis Bank
23 Camomile Street
London
EC3A 7PP

Chairman's statement

Introduction

We announced on 17 February 2006 that Centurion had secured sufficient funding to restructure the Company's debts and other obligations, and to provide sufficient working capital for at least the next twelve months. The resolutions necessary to affect these measures were approved at the EGM held on 13 March 2006. Details of the restructuring were set out in a circular issued to shareholders on 17 February (the "Circular").

As foreshadowed in the interim statement, and the subsequent trading statements, the disappointing results for the year to 30 September 2005 were due primarily to previously announced issues over management of the supply chain and our planned withdrawal as a supplier to high street retailers in the UK and mainland Europe. This withdrawal has now been completed and as a result we have no further exposure to the high street.

However, these disappointing results mask the positive performance achieved by the automotive division, which has exceeded budgets and traded profitably during the second half of the year under review.

With the restructuring and refinancing of the business now completed the Board is confident that the Company is well positioned to return to profitability in the second half of the current financial year and we look forward to reporting a significant improvement during 2006.

Results

The company set out its preliminary announcement of unaudited results for the year to September 2005 in the Circular and announcement to shareholders on 17 February 2006. Following approval of each of the resolutions at the EGM on 13 March 2006, Ernst and Young have concluded their audit of results to 30 September 2005 which has resulted in certain adjustments to the statement of 17 February 2006. In particular, cost of sales were £215,128 higher than previously stated giving rise to a gross loss, after exceptional cost of sales, of £2,462,635. Administrative expenses have also been restated at £6,345,343 against £6,143,342 as set out in the Circular.

Following these adjustments the stated net current liabilities as at 30 September 2005 have been increased by £464,772 to £2,810,579.

Turnover for the year was £14.0 million (2004: £15.7 million). This resulted in an operating loss, before exceptional costs and expenses, interest and taxation of £2.1 million (2004: profit £1.7 million restated). The loss before taxation was £9.5 million (2004: profit £2.0 million restated). Loss per share, before exceptional items, was 8.7p (2004: earnings per share 4.2p restated).

As set out in the Circular, exceptional charges amounted to some £6.8 million in aggregate the largest item being a £5.9 million stock write-down resulting from issues in the supply chain management and stock purchase which were referred to in the interim statement. A further £0.8 million related to one-off costs incurred as part of the restructuring of the Company together with a loss on disposal of fixed assets.

Dividend

The Directors are not recommending a dividend for the year (2004: 1.1p per share).

OEM

We continue to develop our relationships with car manufacturers and our customers include Toyota, Kia, and Renault.

Sales from the OEM division showed an improvement over the previous year with our products being supplied to new models including the Lexus IS 200 and the Toyota Rav 4.

In addition, in early October we announced we had been selected to develop and supply a unique product to Renault's accessories division. Known as the integrated i-Pod holder, the product allows consumers to fit their own i-Pods into an in-vehicle mounting holder, in much the same way as mobile phones are fitted. The product has been completely designed and engineered in-house by Centurion and a strategic partner and will be launched initially across four vehicles: Modus, Clio, Espace and Laguna with a further roll-out across the entire range. Sales of the system will be across Europe and available via Renault dealerships as an accessory.

Chairman's statement (continued)

Retail

As we have announced previously Centurion has withdrawn from supplying the high street retailers and other specialist retailers in order to focus on its core OEM customers.

Supply Chain

We have introduced new rigorous controls and systems which will ensure that stock levels remain at a level which will properly satisfy the requirements of our customers. We are confident that the systems and other measures we have implemented over the last year will help to avoid the Company facing the funding pressures that it incurred in the last twelve months.

Board Changes

Due to the difficulties the Company has faced, we instigated significant senior management changes during the course of the year. As reported in the interim statement, the Company has been strengthened by the appointment of Chris Rhodes as Chief Executive, who joined in October 2004. Mike Harrison joined as Finance Director in January 2005 and Keith Davis was appointed Supply Chain Director in March 2005. In addition, Iwan Rees joined the Company as Sales Director in January 2006 and will be appointed to the Board in due course. John Bell, Operations Director, resigned in November 2004 and Amanda Thorneycroft resigned as Finance Director in January 2005. These resignations were followed by those of Alistair Powell, Product Development Director in April 2005 and Matt Savill, Sales and Marketing Director in June 2005. Brian Hendon announced that he would be resigning from the Board upon the successful implementation of the restructuring which received the necessary approvals at the EGM on 13 March 2006 and I have now taken over the role of Non-executive Chairman.

Refinancing

The Board announced details of a refinancing on 17 February 2006 and this was set out in the Circular sent to Shareholders on the same day. The Company announced that it had raised £2.5m (after expenses), through a placing of 510 million new Ordinary Shares at a placing price of 0.5p per share, and a further £1.0m through the issue of a 7.5% Convertible Loan Note.

The Board also announced the terms of an agreement with its principal lender, Portimao Investments Limited, under which the total debt owed of £3.6m, plus accrued interest, was partially repaid through a £2.0m cash payment and £0.6m debt for equity swap for 120 million new Ordinary Shares at the Placing Price per share of 0.5p. The balance of the debt owed by the Company of £1m, plus all accrued interest to the date of repayment was written off by its principal lender.

The refinancing proposals were approved at the EGM on 13 March, following which Centurion now has no borrowings other than the £1.0m Convertible Loan Note.

Outlook

We have now completed the refocusing and refinancing and the Board believes that the Company is well positioned to return to profitability, although the Directors anticipate that the Company is not likely to report a profit for the first half of the current financial year to 31 March 2006. Significant progress in expanding the automotive business beyond the existing client base has been made. I anticipate that further progress will be announced during 2006.



Ernst Kastner

Chairman

Financial Review

Overview

As described in the Chairman's statement this has been a year of transition, exiting from the retail sector; reshaping the cost base of the business and concentrating on the core automotive customers. Subsequent refinancing of the business was concluded in March 2006.

Turnover

Turnover for the year reduced by £1.73 million to £14.0 million. The year included sales to high street retail from which we withdrew during the financial year and the specialist market which was subsequently exited. There were automotive contract wins which will impact subsequent year's turnover.

Profitability

The operating loss before tax and interest for the year was of £8.8 million (2004: profit of £2.1 million), while pre-exceptional loss before tax and interest for the year was £2.1 million (2004: profit of £1.7 million). This produced a loss per share of 36.1p compared to an earnings per share of 5.9p in 2004. The pre-exceptional loss per share was 8.9p compared to an earnings per share of 4.5p in 2004.

The gross profit margin achieved on sales in 2005 has reduced from that achieved in 2004 reflecting the general market conditions and the competitive price pressure felt in the retail sector; whilst maintaining automotive gross margins.

The upward trend in administration costs in the final quarter of 2004, driven by anticipated retail sales increases, has been reversed and the restructuring undertaken during the second half of 2005 ensures the company's cost base is aligned to the automotive strategy.

As announced in previous statements the Board had implemented a stock dispersal program due to high inventory resulting from reducing High street sales at the start of the financial year and internal purchase logistics control weakness. The level at which the products affected had been discounted in order to generate the required revenue and the write down in stock valuation gave an exceptional write down of £5.9 million.

Earnings per share

The basic loss per share is 36.1p, fully diluted is also a loss of 36.1p. The basic pre-exceptional loss per share is 8.7p while the fully diluted pre-exceptional loss per share is also 8.7p.

Banking facilities, liquidity and financing

During 2005 the company's principal bankers have been HSBC Bank Plc. At September 2005 the facilities available from them were £6.2 million. During 2005 we have been supported by HSBC whilst reducing our level of debt. The company was advised by HSBC on 27 January 2006 that HSBC had entered an agreement with Portimao Investments Limited, under the terms of which Portimao acquired from HSBC all loans and debts owed by Centurion to HSBC. Centurion has been subsequently successfully re-financed through a placing of 510 million new ordinary shares raising £2.5 million (after expenses) and a further £1.0 million through the issue of a 7.5% convertible loan. As part of this re-financing Centurion had reached an agreement with Portimao to repay most of its outstanding debt and cancel its remaining debt of £1m.

As summarised in the chairman's statement the board has reached agreement with its current principal lender. The company borrowings comprise the £1.0 million convertible loan notes and up to a further £250,000 working capital facility (unused) which has been provided by Ravensworth (International) Limited. The resultant net cash retained within the business is sufficient to support the business and is in line with forecasts.

Corporate Governance Report

The company is supportive of the principles embodied in the combined code prepared and published by the Committee on Corporate Governance in June 1998, although the rules of the Stock Exchange do not require companies that have securities trading on the Alternative Investment Market to formally comply with the combined code. As a result, the directors have taken note of its provision insofar as they consider them appropriate to a company of this size.

The Board and its committees:

The Board

The Board currently comprises of the Chief Executive, two further executive directors, and two independent non-executive directors one of whom acts as Chairman. The Board is responsible to shareholders for the proper management of the company. A statement of the director's responsibilities in respect of the accounts is set out on page 8.

The Board meets formally on a monthly basis and, in addition, ad hoc meetings are called to address specific issues requiring board approval. At formal meetings the Board reviews trading performance, cash flow, and set and monitor strategies for the company's development. To enable the Board to discharge its duties, all directors receive appropriate and timely information.

The following committees have been established by the Board:

Remuneration Committee

The company's remuneration committee comprises of one executive director, C Rhodes and two non executive directors, E Kastner and M Diamond. The committee is chaired by M Diamond. It is responsible for making recommendations to the Board on the company's framework of executive remuneration and cost.

The overall policy of the committee is to provide pay and benefits packages to directors that are appropriate to retain and motivate them to meet the objectives set by the Board.

Audit Committee

The audit committee comprises of two executive directors, C Rhodes and M Harrison, and two non-executive directors E Kastner and M Diamond. The audit committee is chaired by E Kastner. The audit committee determines the application of the financial reporting and internal control principles, including reviewing the effectiveness of the company's financial reporting, internal control and risk management procedures and the scope, quality and results of the external audit.

Nomination Committee

The nomination committee comprises of two non-executive directors, M Diamond and E Kastner and is chaired by E Kastner. The committee is used to select and put forward candidates for Board appointment.

Relations with Shareholders

The Board recognises the importance of communication with the company's shareholders. There is a regular dialogue with institutional shareholders including presentations after the company's preliminary announcement of the year end results and at the half year. In addition and in order to help communication with private investors, all announcements are posted on the company's website at www.ceplc.net.

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

Report of the directors

for the year ended 30 September 2005

The directors have pleasure in submitting their report and the audited financial statements for the year ended 30 September 2005.

Business of the company

The principal activities of the company in the year under review continued to be the conception, research, design and distribution of automotive audio visual products.

A review of the development of the business of the company during the year, its position at the end of it and likely future developments in the business are set out in the Chairman's statement on pages 2 and 3 and the financial review on page 4.

Results and Dividends

The profit and loss account is set out on page 11 and shows a loss for the year of £8,896,292 (2004 profit £1,401,927).

As set out in the Chairman's statement the directors do not recommend the payment of a final dividend (2004: 1.1 pence per share).

Directors

Changes in the directors of the company during the year are as follows:

C Rhodes was appointed as a director of the company on 18 October 2004 and J Bell resigned as a director on 16 November 2004. A Thorneycroft resigned as a director and M Harrison was appointed as a director on 31 January 2005. K Davis was appointed as a director on 2 March 2005. In addition, A Powell and M Savill resigned as directors of the company on 29 April 2005 and 27 June 2005 respectively.

Subsequent to September 2005 and the EGM on 13 March 2006, Brian Hendon resigned as non executive chairman and Ernst Kastner was appointed to replace him.

The beneficial interests of the directors in the ordinary share capital of the company and options to purchase shares under the

company's EMI scheme and unapproved share option scheme are set out in this report on page 7.

Directors' Remuneration

Basic salary and benefits are determined by the remuneration committee by taking into account the performance of the individual and the performance of the company.

The directors are entitled to participate in the company's share option schemes and options are granted at the discretion of the remuneration committee.

Report of the directors (continued)

for the year ended 30 September 2005

Directors' interests in shares

Directors' interests in the issued share capital of the company are set out as follows:

	Ordinary 0.1p Shares	
	2005 Number	2004 Number
C Rhodes (appointed 18 October 2004)	30,000	–
B Hendon (resigned 13 March 2006)	37,000	20,000
M Diamond	21,000	5,000
K Davis (appointed 2 March 2005)	5,000	–
M Harrison (appointed 31 January 2005)	5,000	–

Directors' share options

The outstanding share options of the directors under the EMI share scheme are set out below:

	1 October 2004	Granted During the Year	30 September 2005
C Rhodes	–	487,803	487,803
K Davis	–	487,803	487,803
M Harrison	–	487,803	487,803

All of the above options were issued on 30 June 2005. Options were exercised in 2005 by directors who resigned during the year.

The outstanding share options of the directors under the unapproved share option scheme are set out below:

	1 October 2004	Granted During the Year	30 September 2005
B Hendon (resigned 13 March 2006)	266,667	150,000	416,667
C Rhodes	–	731,700	731,700

All of the above options were issued on 30 June 2005.

No options under the unapproved scheme were exercised during 2003 or 2004.

Further details relating to the company's share option schemes are shown in note 16.

Changes in share capital

Full details of the movements in the issued share capital of the company are given in note 16 to the accounts.

Report of the directors (continued)

for the year ended 30 September 2005

Policy on the payment of creditors

It is the policy of the company to negotiate and agree payment terms with each individual supplier. Creditors are paid in accordance with these agreed terms. The number of days purchases of the company represented by trade creditors at 30 September 2005 was 55 (2004: 40).

Donations

During the year the company made charitable donations totalling £2,000 (2004: Nil).

Going concern

The directors are satisfied that, subject to the matter referred to in note 1, the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly these financial statements have been prepared on a going concern basis.

Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for ensuring that the directors report and other information included in the annual report is prepared in accordance with company law in the United Kingdom.

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditors

Following a tender process for the company's external audit work, BDO Stoy Hayward resigned as auditors during the year and Ernst & Young LLP were appointed to fill the vacancy.

A resolution to approve the appointment of Ernst & Young LLP as auditors will be proposed at the Annual General Meeting.

By order of the board



M Harrison

Secretary

Date : 27th March 2006

Independent auditors report to the shareholders of Centurion Electronics Plc

We have audited the company's financial statements for the year ended 30 September 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement, and the related notes 1 to 25. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with United Kingdom law and applicable accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement, Corporate Governance Report, and the Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in Note 1 of the financial statements concerning the fundamental uncertainty over the company's ability to continue as a going concern. The financial statements are prepared on a going concern basis which is dependent on the company's managing its operations to achieve sufficient cash flows through meeting its sales forecasts. In view of the significance of this fundamental uncertainty we consider that it should be brought to your attention, but our opinion is not qualified in this respect.

Independent auditors report to the shareholders of Centurion Electronics Plc (continued)

Opinion

In our opinion: the financial statements give a true and fair view of the state of affairs of the company as at 30 September 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditors
London

Date : 27th March 2006

Profit and loss account

for the year ended 30 September 2005

	Notes	2005	2005	2005	2004	2004	2004
		Continuing operations before exceptional items £	Exceptional* (Continuing) £	Continuing operations after exceptional items £	As restated* Continuing operations before exceptional items £	As restated* Exceptional* (Continuing) £	As restated* Continuing operations after exceptional items £
Turnover	2	14,006,539	–	14,006,539	15,744,431	–	15,744,431
Cost of sales		(10,549,208)	(5,919,966)	(16,469,174)	(10,727,377)	–	(10,727,377)
Gross (Loss)/Profit		3,457,331	(5,919,966)	(2,462,635)	5,017,054	–	5,017,054
Administrative expenses		(5,561,386)	(783,957)	(6,345,343)	(3,351,423)	–	(3,351,423)
Other operating income		–	–	–	–	470,000	470,000
Operating (loss)/profit	3	(2,104,055)	(6,703,923)	(8,807,978)	1,665,631	470,000	2,135,631
Loss on disposal of fixed assets		–	(47,643)	(47,643)	–	–	–
Interest payable and similar charges		(659,767)	–	(659,767)	(174,946)	–	(174,946)
(Loss)/profit on ordinary activities before taxation		(2,763,822)	(6,751,566)	(9,515,388)	1,490,685	470,000	1,960,685
Taxation on (loss)/profit on ordinary activities		619,096	–	619,096	(493,898)	(64,860)	(558,758)
(Loss)/profit on ordinary activities after taxation		(2,144,726)	(6,751,566)	(8,896,292)	996,787	405,140	1,401,927
Dividends		–	–	–	(266,359)	–	(266,359)
Retained (loss)/profit for the financial period		(2,144,726)	(6,751,566)	(8,896,292)	730,428	405,140	1,135,568
Earnings/(loss) per share	9						
Basic		(8.70p)	(27.39p)	(36.09p)	4.20p	1.71p	5.91p
Diluted		(8.70p)	(27.39p)	(36.09p)	4.09p	1.66p	5.75p

* Further details of exceptional items and prior period restatements are disclosed in note 3 All amounts relate to continuing activities

Statement of total recognised gains and losses

for the year ended 30 September 2005

	2005 £	Restated 2004 £
(Loss)/profit for the financial year	(8,896,292)	1,401,927
Total recognised gains and losses relating to the year	(8,896,292)	1,401,927
Prior year adjustment (as explained in note 3)	(256,681)	
Total gains and losses recognised since last annual report	(9,152,973)	

Balance sheet

at 30 September 2005

	Note	2005 £	2005 £	2004 as restated £	2004 as restated £
Fixed assets					
Tangible assets	10		853,264		833,369
Current assets					
Stocks	11	2,135,476		4,706,099	
Debtors	12	1,969,493		8,297,246	
Cash at bank and in hand		682,936		2,863,896	
			4,787,905	15,867,241	
Creditors: amounts falling due within one year	13	(7,598,484)		(9,796,168)	
Net current (liabilities)/assets			(2,810,579)		6,071,073
Total assets less current liabilities			(1,957,315)		6,904,442
Creditors: amounts falling due after more than one year	14	(100,534)		(193,365)	
Provisions for liabilities and charges	15	–		(52,634)	
			(100,534)		(245,999)
			(2,057,849)		6,658,443
Capital and reserves					
Called up share capital	16		221,481		220,881
Share premium account	17		4,731,879		4,552,479
Capital redemption reserve	17		130,000		130,000
Profit and loss account	17		(7,141,209)		1,755,083
Shareholders' funds – Equity	18		(2,057,849)		6,658,443

The financial statements were approved by the Board on 27 March 2006.



M Harrison

Director

The notes on pages 15 to 29 form part of these financial statements.

Cash flow statement

for the year ended 30 September 2005

	Note	2005 £	2005 £	2004 £	2004 £
Net cash inflow/(outflow) from operating activities	23		768,371		(4,276,725)
Returns on investments and servicing of finance					
Interest paid		(659,767)		(174,946)	
Net cash outflow from returns on investments and servicing of finance			(659,767)		(174,946)
Taxation					
UK corporation tax paid			(170)		(261,208)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(297,883)		(271,046)	
Receipts from sales of tangible fixed assets		53,141		–	
			(244,742)		(271,046)
Equity dividends paid			(272,959)		(184,078)
Cash outflow before financing			(409,267)		(5,168,003)
Financing					
Short term loans (paid)/advanced		(740,418)		2,076,060	
Bank loans paid		(45,333)		(25,000)	
Bank loans received		–		50,833	
Capital element of finance lease rental payments		(76,105)		(62,114)	
Share issues (net of expenses)		–		1,173,701	
Share options exercised		180,000		31,500	
			(681,856)		3,244,980
(Decrease)/increase in cash	24		(1,091,123)		(1,923,023)

The notes on pages 15 to 29 form part of these financial statements.

Notes forming part of the financial statements

for the year ended 30 September 2005

I Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

Fundamental accounting concept

At 30 September 2005 the company had net current liabilities of £2,810,579 and net liabilities of £2,057,849. On 13 March 2006, new funds were raised by an equity placing; further details are provided in note 22. The directors have produced forecast cash flows to 30 September 2007 which indicate that the company can continue as a going concern and meet its liabilities as they fall due.

The forecast assumes no revenue from the specialist market and that the sales pattern of the OEM market follows that demonstrated in the year-ended 30 September 2005. In particular, the sales revenue is dependent upon the OEM customers drawing down product in line with their existing forecasts for the period.

The directors believe that the forecast cash flows are achievable and therefore believe it is appropriate to prepare the accounts on the going concern basis. The financial statements do not include any adjustment to the balance sheet tangible fixed assets or provision for future liabilities which would result should the going concern basis not be appropriate.

The following principal accounting policies have been applied:

Turnover

Turnover represents sales to outside customers at invoiced amounts less value added tax or local taxes on sales.

Depreciation

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all tangible fixed assets, except for investment properties and freehold land, evenly over their expected useful lives. It is calculated at the following rates:

Motor vehicles	–	20% per annum on reducing balance
Fixtures & fittings	–	10% – 50% per annum on cost
Office equipment	–	20% per annum on cost
Tooling	–	25% per annum on cost

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Research and development

Research and development is written off as incurred.

Financial Instruments

In relation to the disclosures made in note 21:

- Short term debtors and creditors are not treated as financial assets or financial liabilities except for the currency disclosures;
- The company does not hold or issue derivative financial instruments for trading purposes; and
- Forward exchange contracts are used to fix the exchange rate of committed and anticipated foreign currency transactions. Gains and losses arising are not recognised until the transaction occurs.

Pensions

The company contributes to a money purchase pension scheme. The amounts charged to the profit and loss in respect of pension costs represent contributions payable in the year. Differences between contributions payable and actually paid are shown as either accruals or prepayments in the balance sheet.

Notes forming part of the financial statements

for the year ended 30 September 2005 (continued)

1 Accounting policies (continued)

Deferred tax

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances arising from underlying timing differences in respect of tax allowances on industrial buildings are reversed if and when all conditions for retaining those allowances have been met.

Deferred tax balances are not discounted.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred or the contracted to forward exchange rate if appropriate. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates, or if appropriate the forward contract rate. All differences are taken to the profit and loss account.

National Insurance on Share Options

To the extent that the share price at the balance sheet date is greater than the exercise price on options granted under unapproved schemes a charge for any National Insurance contributions payable by the company is accrued over the performance period and has been based on the prevailing rate of National Insurance.

2 Turnover, net assets and profits

Turnover, (which is stated net of VAT and trade discounts), net assets and profits are wholly attributable to the sole principal activity of the company.

No further segmental reporting disclosures have been presented in these financial statements as the directors believe these would be seriously prejudicial to the interests of the company.

3 Operating (loss)/profit and restatement

This is arrived at after charging/(crediting)

	2005	Restated
	£	2004
		£
Depreciation of tangible fixed assets	246,006	179,914
Remuneration to former auditors' – audit services	16,211	32,611
Auditors' remuneration – audit services	38,918	–
Auditors' remuneration – non audit services	35,200	–
Exceptional items (see below)	6,703,923	(470,000)
Operating leases – other than plant and machinery	152,388	132,346
	<hr/>	<hr/>

3 Operating (loss)/profit and restatement (continued)

Exceptional Items

Included in cost of sales for the year ended 30 September 2005 is an exceptional charge of £5,919,966 (2004 £nil). Of this £5,772,440 relates to a stock write down for obsolescence and valuation considerations resulting from issues in the supply chain management and stock purchase, categorisation and net realisable value procedures. £147,526 relates to under declared duty as a result of the issues in the supply chain management. A further £783,957 (2004 £nil) is included in administrative expenses and relates to compensation costs paid to outgoing directors as well as consultants' costs and redundancy payments. An amount of £47,643 relates to the loss on disposal of a number of motor vehicles which were sold at less than their net book value.

The cash flow implications relating to the exceptional items during the year totalled £4,390,855.

The exceptional credit of £470,000 for the year ended 30 September 2004 relates to insurance proceeds from the policies held on Steven Cunningham which were paid out on his death. The taxation payable on this amounted to £64,860.

Prior year restatements

The profit and loss account for the year ended 30 September 2004 has been restated as a result of the supply chain review highlighting a fundamental error in a duty calculation for a specific product. The effect of this error on the comparatives is that net assets have been reduced by £256,681 and operating profit has been reduced by £366,687, taxation has been affected by £110,006. Had this error not occurred, current year net assets would have been higher by £256,681. The operating loss in the current year is unaffected.

The cash flow per September 2004 has been restated as a result of the incorrect inclusion of Invoice discounting facilities in 'Other creditors' in previous years. As a result operating cash flow as previously reported has increased from an outflow of £1,202,590 to £4,276,725.

4 Employees

	2005	2004
	£	£
Staff costs (including directors) consist of:		
Wages and salaries	1,839,506	1,349,139
Social security costs	231,399	141,699
Other pension costs	25,716	2,416
	<hr/>	<hr/>
	2,096,621	1,493,254
	<hr/>	<hr/>
	Number	Number
The average number of employees, including directors, during the year was as follows:		
Management and administration	13	13
Sales and distribution	18	19
Technical and engineering	14	14
	<hr/>	<hr/>
	45	46
	<hr/>	<hr/>

Notes forming part of the financial statements

for the year ended 30 September 2005 (continued)

5 Directors' remuneration

	2005 £	2004 £
Aggregate emoluments	718,880	399,998
Compensation for loss of office	244,160	–
Company contributions made to money purchase pension scheme	20,000	–
	<hr/>	<hr/>

Included within the aggregate emoluments is an amount in respect of the highest paid director of £148,302 (2004: £104,780).

There are three directors in the company's money purchase pension scheme (2004: nil). Company contributions for money purchase pension scheme in respect of the highest paid director amounted to £13,178 (2004: nil).

During the year two directors (2004: none) exercised their share options resulting in a gain of £203,000 (2004: nil).

6 Interest payable and similar charges

	2005 £	2004 £
Invoice discounting charges	211,031	100,524
Bank loan and overdraft interest	439,156	66,115
Finance lease interest	9,580	8,307
	<hr/>	<hr/>
	659,767	174,946
	<hr/>	<hr/>

7 Taxation on (loss)/profit on ordinary activities

	2005 £	Restated 2004 £
<i>Current tax</i>		
UK corporation tax on profits of the year	(567,223)	566,039
Adjustment in respect of previous years	761	–
	<hr/>	<hr/>
Current tax (credit)/charge for the year	(566,462)	566,039
<i>Deferred tax</i>		
Origination and reversal of timing difference	(52,634)	(6,749)
Adjustment in respect of previous years	–	(532)
	<hr/>	<hr/>
Tax (credit)/charge on (loss)/profit on ordinary activities	(619,096)	558,758
	<hr/>	<hr/>

The tax assessed for the year is different from the standard rate of corporation tax in the UK of 30% (2004:30%).The differences are reconciled below:

7 Taxation on (loss)/profit on ordinary activities (continued)

	2005 £	Restated 2004 £
(Loss)/profit on ordinary activities before taxation	(9,515,388)	1,960,685
(Loss)/profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2004 : 30%)	(2,854,616)	588,206
Effects of:		
Expenses not deductible for tax purposes	7,536	(28,917)
Depreciation in excess of capital allowances	6,107	(8,250)
Adjustment to tax charge in respect of previous years	761	–
Unrelieved tax losses carried forward	2,237,750	–
Other timing differences	36,000	15,000
Current tax charge for year	(566,462)	566,039

8 Dividends

	2005 £	2004 £
Ordinary shares of 0.1p each – Proposed 0.0p (2004: 1.1p) per share	–	266,359

9 (Loss)/Earnings per share

Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial years. These take into account the issue of 350,000 ordinary shares on 21 December 2004 and the issue of 250,000 ordinary shares on 2 February 2005.

The weighted average number of equity shares in issue for the basic earnings per share calculation is 24,651,824 (2004: 23,726,817) and the earnings, being (losses)/profits after tax, are (£8,896,292) (2004: £1,401,927).

The numerator for the diluted earnings per share disclosure is the same as the basic earnings per share numerator.

The denominator for the diluted earnings per share disclosure is as follows:

	2005	2004
Basic earnings per share denominator ordinary shares of 0.1pence	24,651,824	23,726,817
Dilutive effect of company share option schemes	–	665,565
Diluted earnings per share denominator	24,651,824	24,392,382

Notes forming part of the financial statements

for the year ended 30 September 2005 (continued)

9 (Loss)/Earnings per share (continued)

Earnings per share excluding exceptional items

The directors have also disclosed, for clarity, both basic and fully diluted earnings per share disclosures excluding exceptional items. For the purposes of these ratios the denominators are no different to those as set out above. The numerators for these additional ratios are (£2,144,726) (2004: £996,787) and have been calculated as the earnings, being (losses)/profits after tax, less exceptional items (see note 3) for each year respectively. The effects of the exceptional items are shown in the table below.

	2005	2005	2005	2004	2004	2004
	Total	Weighted	Per Share	Total	Weighted	Per Share
	Earnings	average		Earnings	average	
	£	no. of shares		£	no. of shares	
Basic EPS	(8,896,292)	24,651,824	(36.09p)	1,401,927	23,726,817	5.91p
Dilutive effect of share options	–	–	–	–	665,565	–
Diluted EPS	(8,896,292)	24,651,824	(36.09p)	1,401,927	24,392,382	5.75p
Basic EPS (as above)	(8,896,292)	24,651,824	(36.09p)	1,401,927	23,726,817	5.91p
Effect of stock write down	5,772,440	–	23.41p	–	–	–
Effect of under declared duty	147,526	–	0.60p	–	–	–
Effect of compensation to directors for loss of office	783,957	–	3.19p	–	–	–
Effect of loss on disposal of fixed assets	47,643	–	0.19p	–	–	–
Effect of key man insurance proceeds	–	–	–	(470,000)	–	(1.98p)
Effect of taxation on exceptional item	–	–	–	64,860	–	0.27p
Basic EPS excluding exceptional items	(2,144,726)	24,651,824	(8.70p)	996,787	23,726,817	4.20p
Diluted EPS excluding exceptional items	(2,144,726)	24,651,824	(8.70p)	996,787	24,392,382	4.09p

10 Tangible fixed assets

	Tooling £	Motor Vehicles £	Fixtures & Fittings £	Office Equipment £	Total £
<i>Cost</i>					
At 1 October 2004	189,995	317,889	477,740	168,519	1,154,143
Additions	110,968	68,802	62,257	124,659	366,686
Disposals	–	(172,719)	–	–	(172,719)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2005	300,963	213,972	539,997	293,178	1,348,110
<i>Depreciation</i>					
At 1 October 2004	52,284	86,100	115,341	67,049	320,774
Provided for the year	52,348	50,913	91,086	51,659	246,006
Disposals	–	(71,934)	–	–	(71,934)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2005	104,632	65,079	206,427	118,708	494,846
<i>Net book value</i>					
At 30 September 2005	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	196,331	148,893	333,570	174,470	853,264
At 30 September 2004	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	137,711	231,789	362,399	101,470	833,369

The net book value of tangible fixed assets included assets held under finance leases and hire purchase contracts as follows:

	2005 £	2004 £
<i>Net book value</i>		
Motor vehicles	148,893	196,755
Fixtures and fittings	14,529	16,316
	<hr/>	<hr/>
<i>Depreciation charged on these assets during the year was as follows:</i>		
Motor vehicles	47,168	31,078
Fixtures and Fittings	1,787	1,554
	<hr/>	<hr/>

11 Stocks

	2005 £	2004 £
Finished goods held for resale	2,135,476	4,706,099
	<hr/>	<hr/>

There is no material difference between the replacement cost of stocks and the amounts stated above.

Notes forming part of the financial statements

for the year ended 30 September 2005 (continued)

12 Debtors

	2005	2004
	£	£
Trade debtors	1,384,539	6,076,017
Other debtors	584,954	2,221,229
	<hr/>	<hr/>
	1,969,493	8,297,246
	<hr/>	<hr/>

13 Creditors: amounts falling due within one year

	2005	Restated
	£	2004
		£
Invoice discounting facilities	438,315	3,972,734
Bank loans and overdrafts (secured as per note 14)	4,573,317	2,869,154
Trade creditors	698,202	925,758
Taxation and social security	56,612	64,337
Obligations under finance lease and hire purchase contracts	109,179	68,983
Corporation tax	–	566,463
Proposed dividend	–	266,359
Other creditors	1,722,859	1,062,380
	<hr/>	<hr/>
	7,598,484	9,796,168
	<hr/>	<hr/>

The invoice discounting facility is secured over the trade debtors from which the proceeds have been advanced.

14 Creditors: amounts falling due after more than one year

	2005	2004
	£	£
Bank loan	41,417	86,750
Obligations under finance leases	59,117	106,615
	<hr/>	<hr/>
	100,534	193,365
	<hr/>	<hr/>

The bank loans are secured by fixed and floating charges over the assets of the company.

14 Creditors: amounts falling due after more than one year (continued)

	2005 £	Restated 2004 £
Financial liabilities are due:		
In one year or less or on demand	5,011,632	6,841,888
In more than one year but not more than two years	35,167	45,333
In more than two years but not more than five years	6,250	41,417
	<hr/>	<hr/>
	5,053,049	6,928,638
Less: amounts included within creditors less than one year	(5,011,632)	(6,841,888)
	<hr/>	<hr/>
	41,417	86,750
	<hr/>	<hr/>

Finance leases

Obligations under finance leases are due as follows:

	2005 £	2004 £
In one year or less	109,179	68,983
In more than one year but not more than two years	34,366	59,966
In more than two years but not more than five years	24,751	46,649
	<hr/>	<hr/>
	168,296	175,598
Less: amounts included within creditors less than one year	(109,179)	(68,983)
	<hr/>	<hr/>
	59,117	106,615
	<hr/>	<hr/>

15 Provisions for liabilities and charges

			2005 £
<i>Deferred taxation</i>			
As at 1 October 2004			52,634
Credit to profit and loss account			(52,634)
			<hr/>
As at 30 September 2005			–
			<hr/>
	Unprovided 2005	Unprovided 2004	Provided 2005 £
Accelerated capital allowances	100,679	–	–
Other timing differences	(36,000)	–	–
Losses carried forward	(2,237,750)	–	–
	<hr/>	<hr/>	<hr/>

The unprovided deferred tax asset will become recoverable when the company has generated sufficient taxable profits to offset the losses carried forward.

Notes forming part of the financial statements

for the year ended 30 September 2005 (continued)

16 Share capital

	2005 No.	2005 £	2004 No.	2004 £
Authorised				
<i>Equity share capital</i>				
Ordinary shares of 0.1 pence each	243,333,000	243,333	243,333,000	243,333
Deferred shares of £1 each	196,667	196,667	196,667	196,667
	<u>243,529,667</u>	<u>440,000</u>	<u>243,529,667</u>	<u>440,000</u>

	2005 No.	2005 £	2004 No.	2004 £
Allotted, called up and fully paid				
<i>Equity share capital</i>				
Ordinary shares of 0.1 pence each	24,814,760	24,814	24,214,760	24,214
Deferred shares of £1 each	196,667	196,667	196,667	196,667
	<u>25,011,427</u>	<u>221,481</u>	<u>24,411,427</u>	<u>220,881</u>

	Ordinary Shares of 0.1p each No.	£
In issue at 1 October 2004	24,214,760	24,214
Share options exercised	600,000	600
	<u>24,814,760</u>	<u>24,814</u>
In issue at 30 September 2005	<u>24,814,760</u>	<u>24,814</u>

On 21 December 2004, the Company issued 350,000 ordinary shares of 0.1 pence for a consideration of 30 pence per share to satisfy the exercise of options by two directors.

On 2 February 2005, the Company issued an additional 250,000 new shares of 0.1 pence for a consideration of 30 pence per share to satisfy the exercise of options by a former employee.

The deferred shares carry no voting rights and are non-redeemable. They are entitled to 1p of every £999.99 of distributions made to ordinary shareholders and are also entitled to the equivalent proportion of net assets in the event of the company being wound up.

Share options

At 30 September 2005 the following share options were outstanding under the company's share option schemes in respect of the ordinary shares of 0.1 pence each:

EMI Scheme

Date of Grant	Number of Shares	Period of Option	Price per Share
05/10/2004	65,550	5 October 2006 to 5 October 2014	75.0 pence
20/6/2005	1,927,609	30 June 2007 to 30 June 2015	20.5 pence

Unapproved share option scheme

Date of Grant	Number of Shares	Period of Option	Price per Share
21/11/2002	166,667	21 November 2004 to 21 November 2012	30.0 pence
19/2/2004	100,000	19 February 2006 to 19 February 2014	105.0 pence
30/6/2005	881,700	30 June 2007 to 30 June 2015	20.5 pence

16 Share capital (continued)

All of the above shares under option at 30 September 2005 were held by the directors and employees of the company.

The Directors consider that an important part of the company's remuneration policy should include equity incentives through the grant of share options to directors and employees. Consequently on 21 November 2002, the company entered into the Enterprise Management Incentive (EMI) Options and adopted the Unapproved Share Option Scheme.

Pursuant to the Share Option Schemes, options have or may be granted to directors and employees of the company at not less than the market value of the Ordinary Shares at the time of grant over an aggregate maximum of 10% of the company's issued ordinary share capital.

For options issued on 19 February 2004, the performance criteria conditional upon which the options are exercisable is that the average closing mid-market share price of the Company for the five business days preceding the date of exercise of the option must not be less than 140 pence per share.

For options issued on 30 June 2005 to directors (as per the remuneration report on page 6) the performance criteria upon which the options are exercisable are that 33.3% may be exercised in the event that the share price is over 40p, 66.6% may be exercised in the event that the share price is over 60p, and 100.0% may be exercised in the event that the share price is over 80p.

All options issued are conditional upon the individual remaining a director or employee of the Company.

17 Reserves

	Share premium account £	Capital redemption reserve £	Profit and loss account £
As previously reported at 1 October 2004	4,552,479	130,000	2,011,764
Prior year adjustment (see note 3)	–	–	(256,681)
As restated	4,552,479	130,000	1,755,083
Loss for the year	–	–	(8,896,292)
Exercise of share options on 21 December 2004	104,650	–	–
Exercise of share options on 2 February 2005	74,750	–	–
As at 30 September 2005	4,731,879	130,000	(7,141,209)

18 Reconciliation of movements in shareholders' funds

	2005 £	Restated 2004 £
(Loss)/profit on ordinary activities after taxation for the year	(8,896,292)	1,401,927
Dividends	–	(266,359)
	(8,896,292)	1,135,568
Nominal value of share capital issued	600	1,205
Premium arising on share issue (net of expenses)	179,400	1,203,996
Net (deduction)/addition to shareholders' funds	(8,716,292)	2,340,769
Opening shareholders' funds (originally £6,915,124 before deducting prior year adjustments of £256,681)	6,658,443	4,317,674
Closing shareholders' (deficit)/funds	(2,057,849)	6,658,443

Notes forming part of the financial statements

for the year ended 30 September 2005 (continued)

19 Commitments under operating leases

As at 30 September 2005, the company had annual commitments under non-cancellable operating leases in respect of land and buildings and motor vehicles as set out below:

	2005	2004
	£	£
Operating leases which expire:		
In two to five years		
Land and buildings	145,674	150,612
Motor vehicles	42,603	–
	<u>188,277</u>	<u>150,612</u>

20 Related party transactions

There were no related party transactions in either year.

21 Financial instruments

The company's financial instruments comprise short term loans, an unsecured bank loan, finance leases, a loan under the Government's small firm's loan guarantee scheme, and cash and short term deposits. In addition to this, during the year the company invoice-discounted certain debts.

Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies.

The main risks arising from the company's financial instruments are interest rate risk, currency risk and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the Board.

Interest rate risk

The company's exposure to interest rate risk in relation to year end borrowings is in the short term import loans, which are repayable in 60 days or less, the Government Small Firms Loan as well as an overdraft on the company's sterling current bank account. The interest rate on the import loans is 1.75% above bank base, and the interest rate on the Government loan is 2.5% above bank base. The overdraft has an interest rate of 2.5% above bank base. The invoice discounting facility has interest of 2% above bank base rate.

The weighted average interest rate of fixed rate financial liabilities and the weighted average period for which they are fixed is as follows:

	Weighted average interest rate	Weighted average period for which rate is fixed	Weighted average interest rate	Weighted average period for which rate is fixed
	%	Years	%	Years
Currency	2005	2005	2004	2004
Sterling	4.48	1.19	6.09	2.24

21 Financial instruments (continued)

The breakdown of borrowings between fixed rate and floating rate is set out below. Fixed rate borrowings consist of an unsecured bank loan and finance lease liabilities.

	2005	Restated
	£	2004
		£
Fixed rate borrowings	198,796	226,431
Floating rate borrowings	5,022,549	6,877,805
	<hr/>	<hr/>
	5,221,345	7,104,236
	<hr/>	<hr/>

Maturity of financial liabilities

The maturity of the company's financial liabilities at 30 September is as follows:

Bank loans and overdrafts

	2005	Restated
	£	2004
		£
Financial liabilities are due:		
In one year or less or on demand	5,011,632	6,841,888
In more than one year but not more than two years	35,167	45,333
In more than two years but not more than five years	6,250	41,417
	<hr/>	<hr/>
	5,053,049	6,928,638
	<hr/>	<hr/>

Finance leases

Financial liabilities are due:

	2005	2004
	£	£
In one year or less or on demand	109,179	68,983
In more than one year but not more than two years	34,366	59,966
In more than two years but not more than five years	24,751	46,649
	<hr/>	<hr/>
	168,296	175,598
	<hr/>	<hr/>

Total financial liabilities

Financial liabilities are due:

	2005	Restated
	£	2004
		£
In one year or less or on demand	5,120,811	6,910,871
In more than one year but not more than two years	69,533	105,299
In more than two years but not more than five years	31,001	88,066
	<hr/>	<hr/>
	5,221,345	7,104,236
	<hr/>	<hr/>

Notes forming part of the financial statements

for the year ended 30 September 2005 (continued)

21 Financial instruments (continued)

Currency rate risk

As at 30 September 2005

Currency	Fixed rate borrowings £	Floating Rate borrowings £	Total
Sterling	198,796	3,062,428	3,261,224
US Dollar	–	1,960,121	1,960,121
	<u>198,796</u>	<u>5,022,549</u>	<u>5,221,345</u>

As at 30 September 2004 restated

Currency	Fixed rate borrowings £	Floating Rate borrowings £	Total
Sterling	226,431	6,877,805	7,104,236
	<u>226,431</u>	<u>6,877,805</u>	<u>7,104,236</u>

Liquidity risk

At September 2005, the facilities available from our bankers, HSBC Plc, were £6.2 million. A subsequent re-financing saw £2.5 million (after expenses) being raised through the placing of 510 million new ordinary shares, and a further £1 million raised by way of an issue of 7.5% convertible loan. An additional working capital facility of up to £250,000 is being provided by Ravensworth (International) Ltd. This refinancing will generate sufficient cash for the company's requirement for the foreseeable future, and allow the company to pursue its policy of supporting the business by way of internally generated funds.

Fair values of financial assets and liabilities

The directors believe that the fair value of financial assets and liabilities are not materially different from their book values.

Market values, where available, have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

22 Post Balance sheet event

On 13 March 2006 the company announced that it had restructured its existing debt and raised a additional working capital finance.

£2.5 million (after expenses) has been raised by the issue of 510 million ordinary shares at 0.5p and additional funding has been raised by the issue of £1.0 million of 7.5% convertible loan notes.

As part of the restructuring bank debt of £3.6 million has in effect been settled by the payment of £2million and the issue of 120 million ordinary shares in respect of £600,000 of debt. The balance of the debt of £1 million has been forgiven.

The £1.0 million convertible loan notes were issued to Ravensworth (International) Limited a company of which Ernst Kastner is a consultant.

Further working capital is provided by the balance of the proceeds of the issue of the ordinary shares and the provision of a further working capital facility of £250,000 by Ravensworth (International) Limited.

23 Reconciliation of operating profit to net cash outflow from operating activities

	2005	Restated
	£	2004
		£
Operating (loss)/profit	(8,807,978)	2,135,631
Depreciation	246,006	179,914
Decrease/(increase) in stocks	2,570,623	(2,443,939)
Decrease/(increase) in debtors	6,335,359	(5,642,836)
(Decrease)/Increase in creditors	424,361	1,494,505
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	768,371	(4,276,725)
	<hr/>	<hr/>

24 Reconciliation of net cash inflow to movement in net funds/(debt)

	2005	2005	Restated	Restated
	£	£	2004	2004
			£	£
(Decrease)/increase in cash in the year	(1,091,123)		(1,923,023)	
Cash outflow/(inflow) from changes in debt and lease financing	861,856		(2,039,779)	
	<hr/>		<hr/>	
Change in net debt resulting from cash flows		(229,267)		(3,962,802)
New finance leases		(68,802)		(146,890)
		<hr/>		<hr/>
Movement in net debt in the year		(298,069)		(4,109,692)
Net (debt)/funds at start of year		(4,240,340)		130,648
		<hr/>		<hr/>
Net debt at end of year (note 25)		(4,538,408)		(4,240,340)
		<hr/>		<hr/>

25 Analysis of net debt

	Restated		Other	At
	At	Cash	non-cash	30 September
	1 October	flow	changes	2005
	2004	£	£	£
	£			£
Cash in hand and at bank	2,863,896	(2,180,961)	–	682,936
Bank Overdrafts	–	(2,444,581)	–	(2,444,581)
Invoicing discounting facility	(3,972,734)	3,534,419	–	(438,315)
	<hr/>	<hr/>		<hr/>
Debt due after 1 year	(1,108,838)	(1,091,123)		(2,199,960)
Debt due within 1 year	(86,750)	45,333	–	(41,417)
Obligations under finance leases	(2,869,154)	740,418	–	(2,128,736)
	(175,598)	76,105	(68,802)	(168,295)
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Total	(4,240,340)	(229,267)	(68,802)	(4,538,408)
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