

Avingtrans plc

engineering technology group

ANNUAL REPORT YEAR ENDED 31 MAY 2005



SUBSIDIARIES

- **Crown UK Ltd - UK**

Design, manufacture, repair and service of 'CrownPole™', housings for roadside safety cameras and gantry and trackside signalling poles



- **Jenaer Gewindetechnik GmbH - Germany**
- **Jena Rotary Technology Ltd - UK**
- **Jena-Tec Inc - USA**

Specialists in rotating bearing technology, Jena-Tec design, manufacture, distribute and service ballscrews and spindles from their plants in Germany, UK and USA.



- **C&H Precision Finishers Ltd - UK**

Specialist polishing and finishing of turbine and compressor blades and vanes for the aeroengine and power generation industries.



- **Stainless Metalcraft (Chatteris) Ltd - UK**

Manufacture of machined and fabricated components for diagnostic imagery (MRI) with supply to worldwide medical, scientific and research communities.



Stainless Metalcraft has recently completed a major project for the MOD, replacing the command module, battery pods and skirts for the Royal Navy rescue submersible LR5, *pictured*.



**ANNUAL REPORT
YEAR ENDED 31 MAY 2005**

I N T R O D U C T I O N

“ The year has been a period of positive transformation for the Group in terms of a step-change in revenues, profitability, earnings per share, profile, share price and our future prospects.”

K. M. BAKER
Chairman

H I G H L I G H T S

- Turnover of £24,329,000 (2004: £5,533,000)
 - Profit before tax £1,969,000 (2004: £140,000)
 - Earnings per share (before goodwill) 13.6p (2004: 3.1p)
 - Cashflow from operating activities £3,917,000 (2004: £196,000)
 - Gearing 41% (2004: 37%)
-

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Company information

Directors

K M Baker
S J Lawrence
S M King
J J Hamer (non-executive)
S M Bruh (non-executive)

Secretary

S M King

Registered office

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Nottingham
NG10 5HU

Website

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Registered number

1968354

Auditors

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Chartered Accountants
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Bankers

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Bridgewell Securities Limited
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Putsmans.wlc
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50 Great Charles Street
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Chairman's statement

I am, on behalf of the Board of Directors, pleased to present the results for Avingtrans plc for the year ended 31 May 2005.

The year under review has been a period of positive transformation for the Group and has resulted in a step-change in revenues, profitability, earnings per share, profile and future prospects.

Trading conditions in all our major markets improved and despite the continued weakness of the U.S Dollar against the Pound Sterling and Euro, we have been able to maintain attractive margins across all the Group's products whilst enjoying the benefits of adding to each of the subsidiary's client base.

The Jena Group (Jena) benefited from a growth in demand for its ballscrew products, spindles and services as the machinery sector recovered in Germany, and new customers came on stream in the USA and China with demand for serviced aerospace turbine blades continuing at a high level.

Crown UK Limited (Crown) completed its first full year with the Group with supply of its highway products and rail-side products continuing to meet expectations.

The acquisition of Stainless Metalcraft Limited (Metalcraft) on 13 October 2004 for £8.1million was the major event for the Group during the year. Metalcraft has made a significant contribution to sales and revenue in the subsequent seven and a half months of the financial year. Metalcraft is based in Chatteris, Cambridgeshire, and makes machined and fabricated components for the worldwide medical, scientific and research communities. It specialises in the manufacturing of vacuum and cryogenic components for the MRI scanner industry. The demand for the latter continued strongly during the period due to the medical benefits that accompany this technology and its non-invasive nature. Metalcraft continues to benefit from this thriving market. This increase in demand is forecast to continue and Avingtrans has consequently continued to invest funds into production enhancing machinery, equipment and the upgrading of the premises during the period.

Financial performance

Earnings before interest, tax, depreciation and goodwill amortisation (EBITDA) was £3,169,000 (2004: £531,000) on 340% improved turnover of £24,329,000 (2004: £5,533,000).

Operating profit for the period was £2,264,000 (2004: £187,000). Profit before tax was £1,969,000 (2004: £140,000) an increase of 1,306%.

Earnings per share (EPS) before goodwill amortisation for the year was 13.6p (2004: 3.1p).

Cash flow from operating activities for the year was £3,917,000 (2004: £196,000) with net cash at bank and in hand at the year-end of £736,000 (2004: £517,000). The net debt at year-end was £4,217,000 (2004: £1,740,000) resulting in gearing of 41%.

An exchange rate gain of £37,000 (2004: loss of £163,000) was recorded through the reserves during the year on currency translation of foreign subsidiaries.

Dividend

In light of the financial performance highlighted above and with the agreement of Group's bankers the Board is recommending to the shareholders at the AGM a final dividend of 0.5p per share for the year under review.

Acquisitions and investment

The Group worked on a number of acquisition opportunities during the period under review. The acquisition of Metalcraft for £8.1 million was completed on 13 October 2004. The funding for the acquisition included the raising of £4 million through a placing of new shares and bank lending of £4.3 million from HSBC. At the same time, the Group raised funds for working capital of £327,000 through a one for ten limited open offer to existing shareholders.

The Group increased its investment at Metalcraft and other Subsidiaries through placing orders for £1.8 million of new robots, computer controlled production machinery and other equipment to support increasing order books and improvement of productivity.

Chairman's statement (continued)

Review of the year

Aside from the increase in trading resulting from the acquisition of Metalcraft described previously, progress in the other areas of the Group has also been very positive. This improved overall Group progress resulted in Avingtrans indicating better than expected profits in a trading statement post year-end.

At Jena Group both Jena Tec and C&H Precision Finishers enjoyed a significant recovery in orders. This led to a record sales year at C&H due to the increased demand for finishing processes on turbine and compressor blades from both the aerospace and power generation industries. One of the more high-profile events in this division's year was its involvement in the finishing of the compressor blades and vanes for the new Rolls Royce Trent engine used on the Airbus A380 which recently made its successful maiden flight in France.

In line with our policy, stated in the last annual report, to seek new markets for our products, it is encouraging to report new demand for Jena's miniature ball screw products in the Far-East and many new customers in existing markets for spindle repairs and upgrades for Jena Tec in the UK and USA.

Our Bristol-based subsidiary, Crown, was acquired on 31 May 2004 and is now fully integrated within the Group. The much publicised increase in demand for roadside speed cameras all over Europe continues to have a most positive impact on this division which manufactures, repairs and services the complex stands and housings for these devices. Crown is the only UK government accredited supplier of the poles for the roadside speed cameras, and is the market leader in this field. Plans for the migration from existing analogue-based devices to digital-based camera equipment and the use of the pole technology for rail-side signalling, both requiring new pole and housing components, developed strongly during the period.

Negotiations with our primary collaborator in Europe led to Crown being able to market its speed cameras posts and housings to other speed camera makers. This led to a significant increase in the level of enquiries from both European and North American companies and some immediate growth in sales of our components overseas.

Crown has attracted new customers and is penetrating new territories for both speed and red light enforcement products. In November, Crown was awarded accreditation from network rail for railside signal posts, alongside its gantry product that it continues to supply to the railway industry.

Directors and senior management

Whilst the composition of the main board of directors remained unchanged during the year, Avingtrans continued to strengthen its senior management team. We welcomed a new commercial and financial controller to the Group as well as welcoming new Managing Directors to a number of the subsidiaries of Avingtrans.

In accordance with the Articles of Association, Kenneth Baker and Stephen King retire from the Board in rotation and offer themselves for re-election at the AGM scheduled for 5 October 2005.

Outlook

The positive momentum in the year under review has continued into the current year with enquiry levels and order intake remaining strong. The Board is keen to continue to nurture this organic growth but also recognises the benefits of further acquisitions. The Board is seeking complementary and earnings enhancing companies, within the precision engineering area that operate in a niche market or produce a niche product and demonstrate differentiation. This is a strategy that is serving us well within each of our existing subsidiaries as it reduces the exposure to the wider economic forces that influence the more general engineering sectors.

The acquisition of Crown, followed by Metalcraft, combined with an upturn in economic conditions and a significantly more efficient operation has led to a Group that, today, enjoys a portfolio of subsidiaries which are each performing profitably and have real potential to achieve further growth. This is in no small part due to the skill and dedication of every member of Avingtrans and, on behalf of the Board I would like to thank them for their efforts.

Together we have every reason to look forward to the current year and beyond with confidence.

K M Baker

Chairman

7 September 2005

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 May 2005.

Principal activities and business review

The Group's principal activities are the provision of precision engineering components and services to the medical, scientific and research communities, traffic management, automation, machinery and aerospace industries worldwide. Details of the business review are included in the Chairman's statement. A list of the principal operating subsidiaries of the Group is set out in note 13 to the financial statements.

Results and dividends

The Group's profit for the year before tax amounted to £1,969,000 (2004: £140,000). Details of the Group's performance are included in the Chairman's statement. A final dividend of £71,000 (0.5p per share) is proposed (2004: £Nil).

Substantial shareholdings

As at 1 September 2005, the following had notified the Company that they held or were beneficially interested in 3% or more of the Company's issued ordinary share capital:

	<i>Number of shares</i>	<i>Percentage of issued share capital owned</i>
Bluehone Investors LLP	2,101,000	14.7%
Nigel Wray	1,715,000	12.0%
Funds managed by Unicorn Asset Management Limited	1,660,000	11.6%
Funds managed by Singer & Friedlander Investment Management Limited	1,477,000	10.4%
F&C Asset Management Plc	882,000	6.2%
Guy Thomas	473,000	3.3%

Directors and their interests

The present Directors of the Company are set out on page 2. Their interests in the share capital of the Company are set out below.

	<i>Ordinary shares of £1 each</i>	
	<i>31 May 2005</i>	<i>31 May 2004</i>
K M Baker	630,455	630,455
S M Bruh	10,000	-
J J Hamer	74,500	55,000
S J Lawrence	182,818	202,818
S M King	40,000	40,000

At 31 May 2005 and 31 May 2004 S M Bruh was a potential beneficiary of settlements excluded from the above analysis which owned shares as follows:

	<i>Number of shares</i>	<i>Percentage of issued share capital owned</i>
Max Bruh – No 1 Discretionary Settlement	52,646	0.37%
Max Bruh – No 2 Discretionary Settlement	52,646	0.37%

Report of the Directors (continued)

Share options

The director's interests with respect to options to acquire ordinary shares are detailed in the Directors' Remuneration Report.

Interest in contracts

No Director was materially interested in any contract during the year.

Treasury operations

Foreign currency risk

The Group's principal exposure to exchange rate fluctuations arises on the translation of overseas net assets and profits into sterling for accounting purposes. The Group has investments principally in the Euro and US dollar associated with its overseas businesses. Wherever possible, translation exposure is hedged by matching of assets with borrowings in Euros and US dollars.

The Group enters into forward foreign currency contracts to eliminate exposures on material sales or purchases denominated in foreign currency once a significant commitment has been made.

The Group has forward sale contracts of €1,049,000 (2004: €Nil) to manage the transactional currency exposure on certain contracts. These forward sale contracts expire at regular intervals throughout the next year.

Interest risk

The Group finances its operations where necessary through bank loans, overdrafts and hire purchase facilities principally at variable rates at negotiated fine margins using pooling of the Group's requirements to achieve this.

In order to manage the interest rate exposure, the Group has capped the bank interest rate on loans of £3,000,000 to 14 February 2006, and £2,250,000 to 14 February 2007.

Liquidity risk

The Group funds acquisitions through a mixture of equity and long term debt. Short term financing needs are met by working capital facilities. Both facilities are secured on the assets of the Group.

Donations

Donations made by the Group during the year for charitable purposes in the United Kingdom amounted to £2,000 (2004: £Nil).

Supplier payment policy

For all trade creditors, it is the policy of the Group and Company, wherever practical, to:

- Agree the terms of payment at the start of business with a supplier
- Ensure that the suppliers are aware of the terms of payment
- Pay in accordance with its contractual and other legal obligations.
- At the year end creditor days were 49 (2004: 50) for the Company and 61 days (2004: 49) for the Group.

Disabled persons

The Group gives careful consideration to applications for employment from disabled persons, and wherever possible, continues the employment of members of staff who may become disabled.

Report of the Directors (continued)

Employee involvement

It is the policy of the Group to communicate with employees by employee representation on works and staff committees and by briefing meetings conducted by senior management. Career development is encouraged through suitable training.

Statement of directors' responsibilities for the financial statements

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. 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; and
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

Auditors

RSM Robson Rhodes LLP are willing to continue in office, and a resolution to reappoint them will be proposed at the Annual General Meeting.

The report of the directors was approved by the Board on 7 September 2005 and signed on its behalf by:

S M King
Company Secretary
Avingtrans plc
Registered Company Number 1968354

Corporate governance

The Company is committed to high standards of corporate governance. The Board is accountable to the company's shareholders for good corporate governance. Although the company is not required to comply with the Combined Code, this statement describes how the principles of corporate governance are applied to the Company.

For the period to 31 May 2005, if the Company were required to act in accordance with the Code provisions set out in section 1 of the Combined Code on Corporate Governance. They would report the following exceptions:

Provision A.5.1 – Directors are not formally offered training upon their appointment to the Board as the Board does not consider this requirement as necessary for a Company of its present size.

Provisions B.2.1 and C.3.1 – the Remuneration and Audit Committees comprise two Non-executive Directors and the Chairman, who is an Executive Director rather than three Non-executive Directors.

Directors

The Board of Avingtrans plc comprised three Executive Directors and two Non-executive Directors throughout the period. The Board was chaired by K M Baker, and assisted by the Senior Independent Non-executive Director J J Hamer, who have primary responsibility for running the Board.

The Managing Director, S J Lawrence, has executive responsibilities for the remaining operations, results and strategic development of the Company. S M King is Finance Director and Company Secretary. The Board structure ensures that no individual or group dominates the decision making process.

The Non-executive Directors are considered to be independent of management and from any business relationship which could materially interfere with their independent judgement. The Senior Independent Non-executive Director is available to shareholders if they have concerns.

The Board meets regularly with no less than ten such meetings held in each calendar year. There is a formal schedule of matters specifically reserved to the Board for its decision to enable it to manage overall control of the Company's affairs. All Directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in the furtherance of their duties. Management has an obligation to provide the Board with appropriate and timely information to enable it to discharge its duties. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings.

The Nominations Committee is responsible for monitoring and reviewing the membership and composition of the Board, including the decision to recommend to appoint or re-appoint a director.

The Company's Articles of Association ensure Directors retire at the third Annual General Meeting after the Annual General Meeting at which they were elected and may, if eligible, offer themselves for re-election.

K M Baker chairs the Nominations Committee, S M Bruh chairs the Remuneration Committee and J J Hamer chairs the Audit Committee. The Non-executive Directors and the Chairman are members of all the above committees.

Directors' remuneration

The responsibilities of the Remuneration Committee, together with an explanation of how it applies the Directors' remuneration principles of the Combined Code, are set out in the Report of the Directors on Remuneration on pages 10 to 11.

Relations with shareholders

The Board attaches a high importance to maintaining good relationships with shareholders, whether institutional or private ones.

The Board encourages all Directors to attend shareholder meetings and institutional presentations, where they are available for questions from shareholders. This enables the Board to develop an understanding of the views of shareholders.

The Board regards the Annual General Meeting as an opportunity to communicate directly with private investors and actively encourages participative dialogue.

Corporate governance (continued)

Relations with shareholders (continued)

The Company counts all proxy votes and except where a poll is called, it indicates the level of proxies lodged on each resolution and the balance for and against the resolution, after it has been dealt with on a show of hands.

A separate resolution on each substantially separate issue is proposed at the Annual General Meeting. The Chairman of the Board and each of the Chairmen of the Audit, Remuneration and Nomination Committees, are available to answer questions at the Annual General Meeting. All Directors are expected to attend the Annual General Meeting.

Each year, every shareholder receives a full Annual Report and Financial Statements. At the half year, all shareholders receive an Interim Report. Notice of the Annual General Meeting is sent to shareholders at least 20 days before the meeting.

Accountability and Audit

The respective responsibilities of Directors and Auditors are set out on pages 7 and 12. The Board has established an Audit Committee. The Audit Committee's primary responsibilities include monitoring of internal control, approving accounting policies, major accounting issues, appointment and remuneration of the external auditors and reviewing the interim and financial statements before submission to the Board. It meets twice a year with the external auditors to review their findings. At these meetings the Non Executive Directors have the opportunity to discuss findings with the auditors in the absence of the Executive Directors.

To follow best practice and in accordance with UK Statement of Auditing Standard 610, the external auditors have discussions with the audit committee on the subject of auditor independence and have confirmed their independence in writing.

Internal control

The Directors acknowledge that they are responsible for ensuring that the Group has in place a system of internal controls which is both effective and appropriate to the nature and size of the business.

The Board, through the Audit Committee, has reviewed the operation and effectiveness of the systems of internal control throughout the accounting year and the period to the date of approval of the financial statements, although it should be understood that such systems are designed to provide reasonable but not absolute assurance against material misstatement or loss. The Group's system of controls include:

- A comprehensive budgeting system with annual budgets approved by the Directors.
- Monthly monitoring of actual results against budget and regular review of variances.
- Close involvement of Directors who approve all significant transactions.
- Internal management rules which include financial and operating control procedures for all management of the Group.
- Identification and appraisal by the Board of the major risks affecting the business and the financial controls.
- Bank facilities and other treasury functions are monitored and policy changes approved by the Board.

The Board has considered the need for an internal audit function and concluded that this would not be appropriate at present due to the size of the Group.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group and the Company have 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.

S M King
Company Secretary
7 September 2005

Report of the Directors on remuneration

Composition

The Remuneration Committee comprises the two Non-Executive Directors; S M Bruh (Chairman) and J J Hamer, and K M Baker.

Principal function

The remuneration packages, including contract periods of Executive Directors and senior management, are determined by the Remuneration Committee. It ensures that the remuneration packages are appropriate for their responsibilities, taking into consideration the overall financial and business position of the Group.

Compliance

The Remuneration Committee is both constituted and operated throughout the period in accordance with the principles outlined in the Financial Services Authority Listing Rules derived from Schedule A of the Combined Code. In framing the remuneration policy, full consideration has been given to the best practice provisions set out in Schedule B annexed to the listing rules.

Base salary and benefits

The Committee sets the salary of each Executive Director by reference to the responsibility of the position held, performance of the individual, and external market data. Salaries are reviewed annually.

Annual performance related bonus

The Company operates a bonus scheme for its Directors which enables it to attract and retain high calibre senior management personnel who make a major contribution to the financial performance of the company. Bonuses paid under the scheme are directly linked to the growth in the Group's earnings per share. Additional bonuses have been awarded by the Remuneration Committee during the year and included in the cost of acquisition for the successful acquisitions which have resulted in a significant increase in revenue, profitability, earnings per share, profile, share price and future prospects.

Share options

The Committee is responsible for approving grants to the Executive Directors. Options may be exercised between three and ten years from the date the option is granted but only if certain performance criteria are satisfied.

Pensions

The Company is responsible for the contributions to the defined contribution schemes selected by the Executive Directors. Details of contributions provided in the year are set out later in this report.

Service agreements

K M Baker, S J Lawrence and S M King have service contracts which are terminable on 12 months notice by either party. The Committee consider that these contracts are in line with market.

Non-Executive Directors

Non-Executive Directors' remuneration is reviewed by all members of the Board other than the Non-Executive Director under review and takes the form solely of fees. J J Hamer and S M Bruh have a letter of appointment terminable on 3 months notice by either party.

Compensation for loss of office

There are no predetermined special provisions for Executive or Non-executive Directors with regard to compensation in the event of loss of office. The Remuneration Committee considers the circumstances of individual cases of early termination and determines compensation payments accordingly with the aim not to reward poor performance.

Directors' emoluments

Details of the remuneration of all Directors are set out in note 6 to the Accounts.

Report of the Directors on remuneration (continued)

Share options

Details of the share options of all Directors are as follows:

	<i>At 31 May 2004</i>	<i>Granted</i>	<i>Exercised</i>	<i>Expired</i>	<i>At 31 May 2005</i>	<i>Weighted Average exercise price £</i>
Executive:						
K M Baker	60,000	-	-	-	60,000	0.40
S J Lawrence	50,000	-	-	-	50,000	0.40
S M King	50,000	25,000	-	-	75,000	0.47

The share options are exercisable from 2 October 2006 to 25 October 2014 if the basic earnings per share of Avingtrans plc during the period between grant and exercise, is at least equal to the increase in the Retail Price Index during the same period and if the Director agrees to release their rights under the Warrant package for the same number of shares.

Warrant packages

The following warrants were issued for an exercise price of 50p to the following Directors as part of the purchase agreement of the Jena Group and will vest if certain performance targets are achieved.

	<i>Number of warrants</i>
K M Baker	1,040,000
S J Lawrence	560,000

The warrant targets are as follows:

<i>Following audited accounts for the year to:</i>	<i>Earnings per share target</i>	<i>Warrants exercisable</i>
31 May 2005	9.93p for year ended 31 May 2005	80% of warrants
31 May 2006	12.41p for year ended 31 May 2006	20% of warrants

If in respect of any financial year the relevant earnings per share target ("EPS Target Figure") has not been reached, so that the Auditors' Certificate confirms that the actual earnings per share for the relevant Subscription Period (the "Actual EPS Figure") is less than the EPS Target Figure, then the relevant tranche of Warrants capable of being exercised in respect of the relevant Subscription Period shall be reduced by a percentage being twice the percentage by which the Actual EPS Figure fell short of the EPS Target Figure.

In the event that the above paragraph applies, the Warrants no longer exercisable in respect of a Subscription Period may be exercised by the warrant holder on or at any time after the next Subscription Period in respect of which the Auditors' Certificate confirms that the Actual EPS Figure for that subsequent Subscription Period is equal to or greater than the EPS Target Figure for the same subsequent Subscription Period.

S M Bruh

Director

Chairman of the Remuneration Committee

7 September 2005.

Independent auditors' report to the shareholders of Avingtrans plc

We have audited the financial statements on pages 13 to 33.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards. We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been 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 and other members of the group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Chairman's Statement, the Report of the Directors, the Corporate Governance Statement, the Report of the Directors on Remuneration and the Notice of the Annual General Meeting. 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 group'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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 May 2005 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

RSM Robson Rhodes LLP

Chartered Accountants and Registered Auditors
Birmingham, England
7 September 2005

Consolidated profit and loss account

For the year ended 31 May 2005

	<i>Note</i>	<i>Existing operations £'000</i>	<i>Acquisition £'000</i>	<i>2005 Total £'000</i>	<i>2004 £'000</i>
Turnover- continuing operations	2,3	9,454	14,875	24,329	5,533
Cost of sales		(5,416)	(12,405)	(17,821)	(3,140)
Gross profit		4,038	2,470	6,508	2,393
Selling and distribution expenses		(493)	(272)	(765)	(315)
Administration expenses		(2,791)	(688)	(3,479)	(1,891)
Operating profit:					
Continuing operations		894	1,648	2,542	268
Goodwill amortisation		(140)	(138)	(278)	(81)
Operating profit - continuing operations		754	1,510	2,264	187
Interest receivable				5	2
Interest payable	5			(300)	(49)
Profit on ordinary activities before taxation	4			1,969	140
Taxation on profit on ordinary activities	8			(668)	1
Profit for the financial year				1,301	141
Dividend	9			(71)	-
Retained profit transferred to reserves	21,22			1,230	141
Earnings per share – basic	10			11.2p	2.0p
Earnings per share (before goodwill amortisation) – basic	10			13.6p	3.1p
Earnings per share – diluted	10			10.6p	3.1p

The notes on pages 17 to 33 form part of these financial statements.

Consolidated balance sheet

at 31 May 2005

	<i>Note</i>	2005 £'000	<i>2004</i> £'000
Fixed assets			
Intangible assets	11	6,739	2,625
Tangible assets	12	5,869	1,791
Investments	13	26	59
		<u>12,634</u>	<u>4,475</u>
Current assets			
Stocks	14	4,566	1,908
Debtors	15	5,495	1,593
Cash at bank and in hand		909	687
		<u>10,970</u>	<u>4,188</u>
Creditors: amounts falling due within one year	16	(9,437)	(2,544)
Net current assets		<u>1,533</u>	<u>1,644</u>
Total assets less current liabilities		<u>14,167</u>	<u>6,119</u>
Creditors: amounts falling due after more than one year	17	(3,801)	(1,358)
Provisions for liabilities and charges	19	(197)	(3)
Net assets		<u><u>10,169</u></u>	<u><u>4,758</u></u>
Capital and reserves			
Called up share capital	20	713	352
Share premium account	21	3,783	-
Capital redemption account	21	813	813
Other reserves	21	180	180
Profit and loss account	21	4,680	3,413
Equity shareholders' funds	22	<u><u>10,169</u></u>	<u><u>4,758</u></u>

The notes on pages 17 to 33 form part of these financial statements.

The financial statements were approved by the Board on 7 September 2005 and signed on its behalf by:

S M King
Director

Balance sheet

at 31 May 2005

	<i>Note</i>	<i>2005</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
Fixed assets			
Investments	13	13,470	5,344
		<u>13,470</u>	<u>5,344</u>
Current assets			
Debtors: amounts falling due within one year	15	811	801
Debtors: amounts falling due after one year	15	1,134	1,134
Cash at bank and in hand		3	151
		<u>1,948</u>	<u>2,086</u>
Creditors: amounts falling due within one year	16	(2,138)	(1,209)
Net current (liabilities)/assets		<u>(190)</u>	<u>877</u>
Total assets less current liabilities		<u>13,280</u>	<u>6,221</u>
Creditors: amounts falling due after more than one year	17	(3,591)	(1,707)
Net assets		<u><u>9,689</u></u>	<u><u>4,514</u></u>
Capital and reserves			
Called up share capital	20	713	352
Share premium account	21	3,783	-
Capital redemption account	21	813	813
Other reserves	21	180	180
Profit and loss account	21	4,200	3,169
Equity shareholders' funds	22	<u><u>9,689</u></u>	<u><u>4,514</u></u>

The notes on pages 17 to 33 form part of these financial statements.

Approved by the Board on 7 September 2005 and signed on its behalf by:

S M King
Director

Consolidated cash flow statement

For the year ended 31 May 2005

	<i>Note</i>	<i>2005</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
Net cash inflow from operating activities	23	3,917	196
Returns on investment and servicing of finance		<u>5</u>	<u>2</u>
Interest received		(126)	(12)
Interest paid		(128)	(37)
Interest element of hire purchase and finance lease payments		(249)	(47)
Net cash outflow from returns on investments and servicing of finance		(249)	(47)
Taxation (paid)/repayment		(266)	31
Capital expenditure			
Purchase of tangible fixed assets		(589)	(194)
Sale of tangible fixed assets		31	-
Net cash outflow for capital expenditure and financial investment		(558)	(194)
Acquisitions			
Purchase of subsidiary undertakings	24	(8,159)	(1,652)
Net cash acquired with subsidiary undertakings	24	5	256
Purchase of unincorporated business		-	(466)
Net cash outflow for acquisitions		(8,154)	(1,862)
Financing			
Issue of ordinary share capital	22	4,144	-
New loans	23	2,896	1,749
Loan repayments	23	(1,165)	-
Capital element of hire purchase and finance lease payments	23	(354)	(205)
Net cash inflow from financing		5,521	1,544
Increase/(decrease) in cash		211	(332)

Consolidated statement of total recognised gains and losses

	<i>2005</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
Profit for the financial year	1,301	141
Other recognised gains and losses		
- exchange gains/(losses) on translation of foreign subsidiaries	37	(163)
Total recognised gains and losses relating to the year	1,338	(22)

The notes on pages 17 to 33 form part of these financial statements.

Notes to the financial statements

31 May 2005

1. Accounting policies

These financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and the Companies Act 1985.

Basis of consolidation

The financial statements for the year consist of the accounts for Avingtrans plc and its subsidiary undertakings made up to 31 May 2005. The results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

All significant intra-group transactions have been eliminated on consolidation. Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account. The profit for the financial year dealt within the financial statements of the holding company was £1,114,000 (2004: £49,000 profit).

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration and associated costs given over the fair value of the separable net assets required) arising on consolidation in respect of acquisitions is capitalised. Goodwill is amortised to nil by equal annual instalments over its estimated useful life up to a presumed maximum of 20 years.

Turnover

Turnover consists of the invoiced value (excluding VAT) for goods and services supplied in the year.

Fixed assets and depreciation

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Where there is any evidence of impairment, tangible fixed assets are written down to their recoverable amount.

Depreciation is based on the cost of the relevant assets (except that depreciation is not provided on freehold land) to write them down to their residual value over their estimated useful lives, at the following rates:

Freehold buildings	2% straight line
Plant and machinery	12.5% straight line
Fixtures, fittings and tools	12.5% straight line
Motor vehicles	25% straight line
Computer equipment	33% straight line

Investments

Investments in subsidiaries and participating interests are stated at cost less provision for impairment where necessary to reduce book value to recoverable amount. Other investments are stated at cost less any provision for permanent diminution in value. Cost is purchase price including acquisition expenses, but excluding any payment for accrued interest or fixed dividend entitlement.

Investment income is recognised on a receivable basis. Dividend income on UK investments is recorded net of tax credits.

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of these leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Stocks

Stocks have been valued at the lower of cost and net realisable value. Cost includes materials, direct labour and related production overheads.

Notes to the financial statements

31 May 2005

1. Accounting policies (continued)

Financing costs

In accordance with FRS 4, costs incurred in connection with the issue of shares are written off to the Share Premium account. Costs in respect of loans are capitalised and written off over the period of the finance term.

Deferred taxation

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes.

In accordance with FRS 19 deferred tax is not provided on timing differences arising from:

- (a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date, and the gain or loss has been recognised in the financial statements; and
- (b) gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets, being charged to tax if and only when the replacement assets are sold.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Translation of foreign currencies

Normal trading activities denominated in foreign currencies are recorded in sterling at actual exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate year end rates and differences arising are dealt with in the profit and loss account. Exchange differences arising from the translation into sterling of the net equity interest in overseas undertakings are treated as movements in reserves (Group) together with the exchange differences on any foreign currency borrowings which finance overseas assets (Company).

Government Grants

Grants in respect of fixed assets are credited to the profit and loss account in equal annual instalments over the useful lives of the assets concerned.

Other grants are credited to the profit and loss account in the same period as the expenditure to which they relate.

Pensions

The Company makes contributions to defined contribution schemes. The cost of providing pension benefits is charged to the profit and loss account as they become payable.

Segmental analysis

	<i>Turnover</i>		<i>Profit before Tax</i>		<i>Net Assets</i>	
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
By class of business						
Precision Engineering	9,454	5,533	819	250	3,385	3,140
Medical and Scientific	14,875	-	1,510	-	4,042	-
Unallocated central items	-	-	(65)	(63)	2,813	1,618
Net Interest	-	-	(295)	(47)	-	-
Total	24,329	5,533	1,969	140	10,240	4,758

Unallocated central costs and net assets comprise certain unallocated central head office costs, goodwill and assets of the holding company respectively.

Notes to the financial statements

31 May 2005

6. Directors' emoluments

Particulars of directors' emoluments are as follows:

	<i>Salary and fees £'000</i>	<i>Benefits £'000</i>	<i>Bonus £'000</i>	<i>Total 2005 £'000</i>	<i>Total 2004 £'000</i>	<i>Pension Total 2005 £'000</i>	<i>Pension Total 2004 £'000</i>
Non-Executive:							
J J Hamer	23	-	-	23	20	-	-
S M Bruh	23	-	-	23	20	-	-
Executive:							
K M Baker	57	-	64	121	45	-	-
S J Lawrence	92	1	58	151	81	13	10
S M King	79	1	58	138	58	10	6
Total emoluments	<u>274</u>	<u>2</u>	<u>180</u>	<u>456</u>	<u>224</u>	<u>23</u>	<u>16</u>

The fees of J J Hamer and S M Bruh were paid to Financial Decisions and Astrojet Limited respectively.

The non-cash benefits comprise the provision of private health insurance.

The number of Directors who are accruing benefits under money purchase schemes is two (2004: two).

The bonuses above include £135,000 which was awarded specifically for the acquisition of Crown UK Limited and Stainless Metalcraft (Chatteris) Limited. These costs are incremental costs of the acquisition and as such have been included within the cost of investment and calculation of goodwill.

7. Employees

Particulars of employees, including Executive Directors:

	<i>2005 £'000</i>	<i>2004 £'000</i>
Wages and salaries	7,088	2,716
Social security costs	875	435
Other pension costs	123	29
	<u>8,086</u>	<u>3,180</u>

The average number of employees (including Executive Directors) during the year was as follows:

	<i>2005 No</i>	<i>2004 No</i>
Production	238	103
Selling and distribution	14	9
Administration	50	32
	<u>302</u>	<u>144</u>

Notes to the financial statements

31 May 2005

8. Taxation

	<i>2005</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
United Kingdom corporation tax		
Current tax on income for the year	586	-
Prior year adjustment	59	(2)
	<u>645</u>	<u>(2)</u>
Foreign tax		
Current tax on income for the year	-	1
Total current taxation	<u>645</u>	<u>(1)</u>
Deferred taxation		
Origination and reversal of timing differences	23	-
Tax on profit on ordinary activities	<u>668</u>	<u>(1)</u>
Current tax reconciliation:	<i>2005</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
Profit on ordinary activities before taxation	1,969	140
Theoretical tax at UK corporation tax rate 30% (2004: 30%)	591	42
Effects of:		
- goodwill amortisation	80	22
- income not taxable	-	(23)
- other permanent timing differences	30	(17)
- movement in accelerated capital allowances	(46)	(5)
- short term timing differences not recognised	2	-
- utilisation of overseas losses not recognised	(68)	(15)
- short term timing differences	12	-
- utilisation of UK losses not recognised	(8)	(3)
- marginal relief	(7)	-
- adjustments in respect of prior years	59	(2)
Actual current taxation charge/(credit)	<u>645</u>	<u>(1)</u>

Factors affecting future tax charges:

The Group has tax losses carried forward of approximately £1.1 million at 31 May 2005 (2004: £1.6 million) that may be relievable against future profits.

9. Dividends

	<i>2005</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
Proposed final dividend of 0.5p per share (2004: Nil)	<u>71</u>	<u>-</u>

Notes to the financial statements

31 May 2005

10. Earnings per ordinary share

Basic and diluted earnings per share have been calculated in accordance with FRS14 which requires that earnings should be based on the net profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares, being the warrants and EMI share options.

	<i>2005</i> <i>No</i>	<i>2004</i> <i>No</i>
Weighted average number of shares – basic	11,594,530	7,049,804
Warrant/ Share Option adjustment	653,485	-
	<hr/>	<hr/>
Weighted average number of shares – diluted	12,248,015	7,049,804
	<hr/>	<hr/>
	<i>£'000</i>	<i>£'000</i>
Earnings attributable to shareholders	1,301	141
Earnings attributable to shareholders before goodwill	1,579	222
Basic earnings per share	11.2p	2.0p
Basic earnings per share – pre goodwill	13.6p	3.1p
Diluted earnings per share	10.6p	3.1p

The Directors believe that basic earnings per share (pre goodwill amortisation) provides a useful additional performance indicator.

11. Intangible fixed assets

	<i>Group</i> <i>£'000</i>
Goodwill	
Cost	
At 1 June 2004	2,773
Additions (note 24)	4,392
At 31 May 2005	<hr/> 7,165
Amortisation	
At 1 June 2004	148
Charge for the year	278
At 31 May 2005	<hr/> 426
Net book value	
At 31 May 2005	<hr/> 6,739
At 31 May 2004	<hr/> <hr/> 2,625

Notes to the financial statements

31 May 2005

12. Tangible fixed assets - Group

	<i>Freehold Land and buildings £'000</i>	<i>Plant and machinery £'000</i>	<i>Equipment and motor vehicles £'000</i>	<i>Total £'000</i>
Cost				
At 1 June 2004	362	1,574	247	2,183
Acquisitions	1,726	1,451	109	3,286
Additions	68	1,229	139	1,436
Disposals	-	(15)	(105)	(120)
Exchange adjustments	-	43	5	48
At 31 May 2005	2,156	4,282	395	6,833
Depreciation				
At 1 June 2004	10	322	60	392
Charge for the year	17	483	127	627
Disposals	-	(9)	(79)	(88)
Exchange adjustments	-	30	3	33
At 31 May 2005	27	826	111	964
Net book value				
At 31 May 2005	2,129	3,456	284	5,869
At 31 May 2004	352	1,252	187	1,791

Leased assets

The net book value of assets held under hire purchase leases are as follows:

	<i>Freehold Land and buildings £'000</i>	<i>Plant and machinery £'000</i>	<i>Equipment and motor vehicles £'000</i>	<i>Total £'000</i>
Net book value				
At 31 May 2005	-	2,093	98	2,191
At 31 May 2004	-	671	74	745

Notes to the financial statements

31 May 2005

13. Investments

	<i>Group undertakings £'000</i>	<i>Listed investments £'000</i>	<i>Total £'000</i>
Cost			
At 1 June 2004	5,285	59	5,344
Additions	8,159	-	8,159
At 31 May 2005	13,444	59	13,503
Provision			
At 1 June 2004	-	-	-
Impairment	-	(33)	(33)
At 31 May 2005	-	(33)	(33)
Net book value At 31 May 2005	13,444	26	13,470
At 31 May 2004	5,285	59	5,344

The aggregate market value of the listed investments was £26,000 at 31 May 2005 (2004: £33,000).

The principal subsidiaries are:

Name	Country of incorporation	Principal activity
Jenaer Gewindetechnik GmbH	Germany	Precision engineering
Jena-Tec Inc	USA	Distributor
Jena Rotary Technology Limited	England and Wales	Distributor
C & H Precision Limited	England and Wales	Precision engineering
Crown UK Limited	England and Wales	Precision engineering
Stainless Metalcraft (Chatteris) Limited	England and Wales	Precision engineering

The Company owns 100% of the issued share capital of all of the subsidiary undertakings with the exception of Jena-Tec Inc which is a 100% subsidiary of Jenaer Gewindetechnik GmbH.

14. Stocks

	<i>2005 Group £'000</i>	<i>2005 Company £'000</i>	<i>2004 Group £'000</i>	<i>2004 Company £'000</i>
Raw materials and consumables	899	-	723	-
Work in progress	3,361	-	847	-
Finished goods	306	-	338	-
	4,566	-	1,908	-

The replacement cost of the stocks would not be significantly different from the values stated.

Notes to the financial statements

31 May 2005

15. Debtors

	<i>2005</i> <i>Group</i> <i>£'000</i>	<i>2005</i> <i>Company</i> <i>£'000</i>	<i>2004</i> <i>Group</i> <i>£'000</i>	<i>2004</i> <i>Company</i> <i>£'000</i>
Amounts: falling due within one year				
Trade debtors	4,911	-	1,337	-
Amounts owed by group undertakings	-	613	-	650
Other debtors	174	40	75	75
Prepayments and accrued income	410	158	181	76
	<u>5,495</u>	<u>811</u>	<u>1,593</u>	<u>801</u>
Amounts: falling due after one year				
Amounts owed by group undertakings	-	1,134	-	1,134
	<u>-</u>	<u>1,134</u>	<u>-</u>	<u>1,134</u>

Amounts owed by group undertakings falling due after one year are unsecured, interest bearing and are repayable on giving one year's notice.

16. Creditors: amounts falling due within one year

	<i>2005</i> <i>Group</i> <i>£'000</i>	<i>2005</i> <i>Company</i> <i>£'000</i>	<i>2004</i> <i>Group</i> <i>£'000</i>	<i>2004</i> <i>Company</i> <i>£'000</i>
Bank overdraft	173	-	170	-
Hire purchase liabilities	544	-	171	-
Current portion of long-term loans	608	588	728	708
Short-term borrowings	<u>1,325</u>	<u>588</u>	<u>1,069</u>	<u>708</u>
Trade creditors	4,783	166	515	101
Amounts owed to group undertakings	-	1,031	-	226
Taxation	356	-	191	-
Overseas taxation	-	-	-	-
Other tax and social security	873	36	359	8
Other creditors	1,100	23	35	35
Accruals and deferred income	929	223	375	131
Proposed dividend	71	71	-	-
	<u>9,437</u>	<u>2,138</u>	<u>2,544</u>	<u>1,209</u>

Notes to the financial statements

31 May 2005

17. Creditors: amounts falling due after more than one year

	<i>2005</i> <i>Group</i> <i>£'000</i>	<i>2005</i> <i>Company</i> <i>£'000</i>	<i>2004</i> <i>Group</i> <i>£'000</i>	<i>2004</i> <i>Company</i> <i>£'000</i>
Hire purchase liabilities	941	-	349	-
Long-term loans	2,860	2,812	1,009	941
Amounts owed to group undertakings	-	779	-	766
	<u>3,801</u>	<u>3,591</u>	<u>1,358</u>	<u>1,707</u>

Amounts owed to group undertakings falling due after one year are unsecured, interest bearing and are repayable on giving one year's notice.

Bank and other borrowings are further analysed as follows:

	<i>2005</i> <i>Group</i> <i>£'000</i>	<i>2005</i> <i>Company</i> <i>£'000</i>	<i>2004</i> <i>Group</i> <i>£'000</i>	<i>2004</i> <i>Company</i> <i>£'000</i>
Due within one year:				
Bank overdraft	173	-	170	-
Obligations under hire purchase leases	544	-	171	-
Current portion of long-term loans	608	588	728	708
	<u>1,325</u>	<u>588</u>	<u>1,069</u>	<u>708</u>
Due within one to two years:				
Obligations under hire purchase leases	399	-	159	-
Bank loans	627	607	198	178
	<u>1,026</u>	<u>607</u>	<u>357</u>	<u>178</u>
Due within two to five years:				
Obligations under hire purchase leases	542	-	190	-
Bank loans	1,386	1,358	610	562
	<u>1,928</u>	<u>1,358</u>	<u>800</u>	<u>562</u>
Due after five years:				
Bank loans	847	847	201	201

In accordance with FRS4, offset against the borrowing above are unamortised capitalised finance charges of £100,000 (2004: £35,000).

The bank loans due after more than 5 years are payable in equal monthly instalments ending October 2014. Interest is payable at a rate of bank base rate plus 1.75%.

Bank loans of £3,468,000 are secured on the assets of the Group.

Bank Overdrafts of £173,000 are secured on the assets of Jenaer Gewindetechnik GmbH. At 31 May 2005 the Group had £98,000 of undrawn committed borrowing facilities expiring in one year or less (2004: £86,000).

Hire purchase lease liabilities are secured on the related assets.

Notes to the financial statements

31 May 2005

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

Currency analysis of net funds is as follows:

	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
Financial liabilities:		
Sterling	4,662	1,837
Euro	464	590
US Dollar	-	-
	<u>5,126</u>	<u>2,427</u>
Financial assets:		
Sterling	566	538
Euro	305	106
US Dollar	64	102
	<u>935</u>	<u>746</u>

Financial liabilities comprise borrowings of £5,126,000 (2004: £2,427,000).

At 31 May 2005 the Group had no fixed interest borrowings. All other borrowings were at variable rates relative to local base rates.

The Group capped the bank interest rate at 6.5% plus variable margin on bank loans of £3,000,000 to 14 February 2006 and £2,250,000 to 14 February 2007.

Financial assets comprise cash of £909,000 (2004: £687,000) and listed investments of £26,000 (2004: £59,000). The cash bears interest at prevailing market rates. The listed investments do not bear interest.

18. Financial instruments

The Group's policies in respect of foreign currency and interest rate risk management are set out in the Treasury section of the Directors' report on page 6.

The Group held the following categories of financial instruments (excluding short term debtors and creditors) at 31 May 2005.

	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
Assets/(liabilities):		
Investments	26	59
Cash and deposits	909	686
Short-term borrowings	(1,325)	(1,069)
Borrowings falling due after more than one year	(3,801)	(1,358)
Forward contracts	-	-
	<u> </u>	<u> </u>

The fair value of the financial instruments set out above is not substantially different to the book value with the exception of the forward exchange contracts, which have a fair value of £29,000 (asset).

The Group has forward sale contracts of €1,049,000 to hedge income arising in Euros. At 31 May 2005 there was a £32,000 gain (2004: £Nil) which had not been reflected in the Group's profit and loss account. This gain will be reflected in the accounts for the year ended 31 May 2006.

Notes to the financial statements

31 May 2005

19. Provisions for liabilities and charges

Deferred taxation comprises the following:

	<i>2005</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
Accelerated capital allowances	201	22
Losses	(4)	(19)
	<u>197</u>	<u>3</u>

The movement in the period may be summarised as follows:

	<i>2005</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
At 1 June	3	-
Arising on acquisition	171	3
Transfer to profit and loss account	23	-
At 31 May	<u>197</u>	<u>3</u>

20. Called up share capital

	<i>2005</i> <i>No</i>	<i>2004</i> <i>No</i>	<i>2005</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
Authorised				
Authorised ordinary shares of 5p each	<u>20,000,000</u>	20,000,000	<u>1,000</u>	1,000
Allotted, issued and fully paid				
Ordinary shares of 5p each	<u>14,262,086</u>	7,049,804	<u>713</u>	<u>352</u>

As part of the Stainless Metalcraft acquisition, 7,212,264 shares were issued on 12 October 2004 at 60p.

1,600,000 share warrants were outstanding at 31 May 2005 (2004: 1,600,000). Further details are shown in the Report of the Directors on remuneration.

The Company has a share option scheme under which options to subscribe for the Company's shares have been awarded to certain Directors and employees. At 31 May 2005 options under this scheme were :

Date of Grant	<i>No of</i> <i>Shares</i>	<i>Option</i> <i>Price</i> <i>£</i>	<i>Amount</i> <i>£</i>	<i>Option</i> <i>Period</i>
1 October 2003	210,000	0.400	84,000	2006-2013
25 October 2004	190,000	0.605	114,950	2007-2014

The options are exercisable if the earnings per share of Avingtrans plc during the period between grant and exercise, is at least equal to the increase in the Retail Price Index during the same period.

The market price of the Company's shares at the end of the year was 123p. The highest and lowest market prices during the year were 139p and 54p respectively.

Notes to the financial statements

31 May 2005

21. Reserves

	<i>Share premium account £'000</i>	<i>Capital redemption reserve £'000</i>	<i>Other reserves £'000</i>	<i>Profit and loss account £'000</i>
Group				
At 1 June 2004	-	813	180	3,413
Premium on issue of shares	3,966	-	-	-
Costs of share issue	(183)	-	-	-
Profit for the financial year	-	-	-	1,230
Exchange gains on translation of foreign subsidiaries	-	-	-	37
At 31 May 2005	3,783	813	180	4,680

	<i>Share premium account £'000</i>	<i>Capital redemption reserve £'000</i>	<i>Other reserves £'000</i>	<i>Profit and loss account £'000</i>
Company				
At 1 June 2004	-	813	180	3,169
Premium on issue of shares	3,966	-	-	-
Costs of share issue	(183)	-	-	-
Profit for the financial year	-	-	-	1,043
Exchange adjustment	-	-	-	(12)
At 31 May 2005	3,783	813	180	4,200

Reconciliation of movements in shareholders' funds

	<i>Group 2005 £'000</i>	<i>Company 2005 £'000</i>	<i>Group 2004 £'000</i>	<i>Company 2004 £'000</i>
Profit for the financial year	1,301	1,114	141	49
Issue of shares	4,144	4,144	-	-
Foreign exchange adjustment	37	(12)	(163)	58
Dividends	(71)	(71)	-	-
Net change to shareholders' funds	5,411	5,175	(22)	107
Shareholders' funds at 1 June	4,758	4,514	4,780	4,407
Shareholders' funds at 31 May	10,169	9,689	4,758	4,514

Notes to the financial statements

31 May 2005

23. Notes to the consolidated cashflow statement

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

	2005 £'000	2004 £'000
Operating profit	2,264	187
Depreciation charges	627	263
Goodwill amortisation	278	81
Loss on sale of tangible fixed assets	1	-
Impairment of Investment	33	-
Increase in stocks	(764)	(237)
Increase in debtors	(1,016)	(246)
Increase in creditors	2,494	148
Net cash inflow from operating activities	<u>3,917</u>	<u>196</u>

Reconciliation of net cash flow to movement in net debt

	2005 £'000	2004 £'000
Increase in cash	211	(332)
Cash inflow from increase in debt and lease finance	(1,377)	(1,544)
Increase in net debt from cash flow	(1,166)	(1,876)
Inception of hire purchase agreements	(848)	-
Debt acquired with subsidiary	(463)	(172)
Translation difference	-	29
Increase in net debt	(2,477)	(2,019)
Net debt at 1 June	(1,740)	279
Net debt at 31 May	(4,217)	(1,740)

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

	<i>1 June</i>		<i>Acquisition (excl. cash and overdrafts)</i>		<i>Other non-cash Changes</i>	<i>Exchange Move- ments</i>	<i>31 May 2005</i>
	<i>2004 £'000</i>	<i>Cash flow £'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash at bank and in hand	687	211	-	-	11	-	909
Bank overdrafts	(170)	-	-	-	(3)	-	(173)
	<u>517</u>	<u>211</u>	<u>-</u>	<u>-</u>	<u>8</u>	<u>-</u>	<u>736</u>
Bank loans	(1,737)	(1,731)	-	-	-	-	(3,468)
Hire purchase leases	(520)	354	(463)	(848)	(8)	-	(1,485)
	<u>(2,257)</u>	<u>(1,377)</u>	<u>(463)</u>	<u>(848)</u>	<u>(8)</u>	<u>-</u>	<u>(4,953)</u>
Net debt	<u>(1,740)</u>	<u>(1,166)</u>	<u>(463)</u>	<u>(848)</u>	<u>-</u>	<u>-</u>	<u>(4,217)</u>

Notes to the financial statements

31 May 2005

24. Effect of acquisitions

(a) Stainless Metalcraft (Chatteris) Limited

On 13 October 2004, the Company acquired the entire issued share capital of Stainless Metalcraft (Chatteris) Limited whose assets and liabilities are:

	<i>Initial book value £'000</i>	<i>Provisional accounting policy alignment £'000</i>	<i>Provisional Fair value adjustments £'000</i>	<i>Provisional fair value of assets acquired £'000</i>
Tangible fixed assets	3,781	(495)	-	3,286
Stocks	1,881	(8)	-	1,873
Debtors	3,099	(4)	-	3,095
Cash at bank and in hand	5	-	-	5
Creditors	(4,251)	(68)	-	(4,319)
Deferred tax	(172)	-	-	(172)
Net separable assets	<u>4,343</u>	<u>(575)</u>	<u>-</u>	<u>3,768</u>
Goodwill				4,364
Consideration (including acquisition expenses of £573,000)				<u>8,132</u>

Provisional fair value adjustments comprise the alignment with Avingtrans accounting policies for tangible fixed assets, stock and debtor provisions, accruals and deferred tax.

Under the terms of the sale and purchase agreement £100,000 of the consideration is deferred until 13 October 2005.

Since the acquisition, the Company has contributed £2,651,000 to the Group's operating cashflow, paid £104,000 in respect of taxation, paid £28,000 in respect of net returns on investment and servicing of finance and paid £442,000 in respect of capital expenditure and financial investment.

Pre-acquisition performance of Stainless Metalcraft (Chatteris) Limited

	<i>£'000</i>
Turnover	1,760
Operating loss	(305)
Net interest	(4)
Loss before taxation	<u>(309)</u>
Taxation	185
6 weeks ended 13 October 2004 - loss for the period	<u>(124)</u>

The profit after tax for the financial year ended 31 August 2004 was £540,000.

There were no other recognised gains and losses arising in the year ended 31 August 2004 or the 6 weeks ending 13 October 2004.

Notes to the financial statements

31 May 2005

24. Effect of acquisitions (continued)

(b) Crown UK Limited

On 28 May 2004, the Company acquired the entire issued share capital of Crown UK Limited whose assets and liabilities are:

	<i>Provisional fair value of assets acquired £'000</i>	<i>Final Adjustments £'000</i>	<i>Final fair value of assets acquired £'000</i>
Tangible fixed assets	44	-	44
Stocks	212	-	212
Debtors	511	-	511
Cash at bank and in hand	256	-	256
Creditors	(265)	-	(265)
Taxation – current	(191)	(2)	(193)
Deferred tax	(3)	-	(3)
Net separable assets	<u>564</u>	<u>(2)</u>	<u>562</u>
Goodwill			<u>1,117</u>
Cash consideration (including expenses)			<u>1,679</u>

In accordance with FRS7, final fair values have been assessed and differences between these and provisional fair values have been taken as an adjustment to goodwill on acquisition.

Goodwill has increased by £27,000 during the period as a result of additional acquisition expenses and the aforementioned final fair value adjustments.

(c) Boneham and Turner Spindles

In accordance with FRS7, final fair values have been assessed, there are no differences between these and provisional fair values.

25. Contingent assets/liabilities

Following the liquidation of Frank Usher Limited, the Company has registered a claim with the receiver of £481,292. At 31 May 2004 the Company recognised an amount receivable of £75,000. During the year £35,000 was received with an amount receivable of £40,000 included within the balance sheet at 31 May 2005. The Directors estimate that there should be a contingent asset of a further minimum amount receivable of £20,000.

Notes to the financial statements

31 May 2005

26. Financial commitments

(a) Capital Commitments

Commitments for capital expenditure were as follows:

	<i>2005</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
Contracted for, but not provided in the accounts	211	-

(b) Operating lease commitments

The annual commitments under operating leases are analysed according to the period in which each lease expires as follows:

	<i>2005</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
Land and buildings, leases expiring:		
Within one year	-	-
Between two and five years	402	321
After more than five years	146	75
	548	396
Other assets, leases expiring:		
Within one year	15	9
Between two and five years	25	13
After more than five years	5	5
	45	27

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Avingtrans Plc will be held Ramada Jarvis, Bostock Lane, Long Eaton Nottingham, NG10 5NL on 5 October 2005 at 10.30am for the following purposes:

1. To receive and adopt the reports of the Directors and the auditors and the financial statements for the year ended 31 May 2005.
2. To declare a final dividend of 0.5p per ordinary share payable on 11 November 2005 payable to shareholders on the register of members on 30 September 2005.
3. To re-elect Kenneth Baker as a Director.
4. To re-elect Stephen King as a Director.
5. To reappoint RSM Robson Rhodes LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration to be fixed by the Directors.

To transact any other ordinary business of an Annual General Meeting and as special business to consider the following Resolutions, Resolution 4 being proposed as an Ordinary Resolution and Resolutions 7 and 8 as Special Resolutions:

6. That the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities as defined in Section 80 of the Companies Act 1985 ('the Act') up to an aggregate nominal amount of £235,324 provided that this authority shall expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 15 months from the date of the passing of this Resolution, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by this Resolution had not expired, and that this authority shall be in substitution for all previous authorities conferred upon the Directors pursuant to Section 80 of the Act.
7. That the Directors be empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority conferred upon them by Resolution 6 as if Section 89(1) of the Act did not apply to any such allotment provided that such power shall be limited:
 - a. to the allotment of equity securities in connection with a rights issue or other offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all the ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them subject only to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or legal or practical difficulties under the laws of any territory or the requirements of a regulatory body: and
 - b. to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £73,310

and shall expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 15 months from the date of the passing of this Resolution, except that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this Resolution had not expired.

8. That the Company be generally and unconditionally authorised, in accordance with Article 9 of its Articles of Association and Section 166 of the Act to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 5p each of the Company 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 authorised to be purchased is 1,426,209;
 - b. the minimum price which may be paid for an ordinary share is 5p (exclusive of expenses and advance corporation tax, if any, payable by the Company);
 - c. the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share of the Company derived from the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased (exclusive of expenses and advance corporation tax, if any, payable by the Company); and
 - d. the authority conferred shall expire at the conclusion of the next Annual General Meeting of the Company except that the Company may, prior to such expiry, make a contract to purchase its own shares which will or may be completed or executed wholly or partly after such expiry.

By order of the Board

S M King

Registered office
Precision House
Derby Road Industrial Estate
Sandiacre
Nottingham
NG10 5HU

Notes:

1. A member entitled to attend and vote at the meeting may appoint a proxy to attend, and on a poll, to vote instead of him. A proxy need not be a member.
2. A Form of Proxy is provided. To be valid, completed Proxy Forms must be received at the office of the Company's Registrars, Capita IRG plc, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than forty eight hours before the time fixed for the meeting.
3. Completion of the Form of Proxy will not prevent a member from attending the meeting and voting in person.
4. There will be available for inspection at the registered office during normal business hours from the date of this Notice to the date of the Annual General Meeting, and at the place of the meeting for 15 minutes prior to and during the meeting, the following:
 - a. The Register of Directors' interests in the shares of the company;
 - b. Copies of Directors' service contracts (other than contracts expiring or determinable by the Company in less than one year).
5. The Company specifies, pursuant to regulation 34 of the Uncertificated Securities Regulations 1995, that only those shareholders registered in the register of members of the Company as at 3 October 2005 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their respective names at that time. Changes to entries on the register after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

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