

Solid State plc

Annual Report & Accounts
31 March 2006

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DIRECTORS, SECRETARY AND ADVISERS

Directors:	Peter Haining, FCA, <i>Chairman</i> Lewis Cyril Ashby Newnham, <i>Deputy Chairman</i> Gary Stephen Marsh, <i>Managing Director</i> William George Marsh, <i>Director</i> John Michael Lavery, <i>Director</i>
Company Secretary and Registered Office:	Peter Haining, FCA Solid State Supplies PLC Unit 2 Eastlands Lane Paddock Wood Kent TN12 6BU
Company Number:	771335
Nominated Adviser:	Charles Stanley Securities 25 Luke Street London EC2A 4AR
Broker:	Charles Stanley Securities 25 Luke Street London EC2A 4AR
Auditors:	BDO Stoy Hayward LLP 8 Baker Street London W1U 3LL
Solicitors:	Thomson Snell & Passmore 3 Lonsdale Gardens Tunbridge Wells Kent TN1 1NX
Bankers:	HSBC plc 9 Wellesley Road Croydon Surrey CR9 2AA
Registrars:	Capita IRG plc The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

CHAIRMAN'S STATEMENT

Results

The audited loss before tax of the Group was £60,000 (2005: profit of £315,000) after charging non-recurring expenses of £119,000 comprising, relocation expenses of £89,000 and an ex gratia payment to a former director of £30,000 and after charging goodwill amortisation of £71,000 (2005: £35,000), on a turnover of £10,452,000 (2005: £9,480,000). The basic earnings per share amounted to -0.4p (2005: 3.8p).

Dividends

In view of the substantial costs incurred in recent months with the re-organisation of Steatite and Wordsworth Technology the Directors have decided that no final dividend should be declared for the year ended 31st March 2006. This means that the total dividend in respect of the year is 0.5p compared with 3.5p per share last year.

Trading Review

Solid State Supplies

During the course of 2005 and in common with other distributors Solid State Supplies suffered the loss of three component franchises, as the market in electronic component distribution continues to consolidate. We have since taken steps to both replace these lines and broaden our product offering with the appointment of a Business Development Manager. The first phase of this process is now complete and we will sign further lines during the first half of this fiscal year. We continue to reduce costs where appropriate without compromising customer service levels.

In addition, the re-branding of the group we believe will increase customer awareness of our product range and assist us in increasing sales. I am pleased to report that trading conditions have improved since March and our book to bill ratio for the first quarter of the year amounted to 1.20 to 1.00 and the signs are that market conditions will remain buoyant throughout this financial year.

Steatite and Wordsworth Technology

The re-organization of Steatite and Wordsworth was completed in January 2006 on time and within budget. The improved efficiencies projected have already shown a positive result to the businesses.

Year on year sales growth of the continuing business was 6.8% over the corresponding period in the prior year.

Costs have remained under close scrutiny and the companies have prepared themselves for the introduction of RoHs (Restriction of Hazardous Substances) registration which comes into effect in July 2006 minimizing risks to the business.

The result is that a strong platform for maximizing profit and increasing sales is in place and the companies are confident in achieving their goals moving forward. Our business strategy is to continue to focus on demand creation for value added own brand products increasing market share and consolidating their position.

Summary

We have recorded a good start to the new financial year at both sites and the Board believes we are in a strong position to develop during the current financial year and beyond.

CHAIRMAN'S STATEMENT (continued)

Renewal of authority to purchase the Company's shares

Last year, resolutions were passed at the Annual General Meeting to give the Company the authority to purchase its own Ordinary shares on the Stock Exchange. This authority would expire after a period of eighteen months from the passing of the resolution. In order to avoid this authority expiring during the next year and the need to call an extraordinary general meeting to renew the authority, a resolution to renew the authority is set out in the notice of the Annual General Meeting on page 30 of this document.

Under the terms of the resolution to be proposed at the Annual General Meeting, the maximum number of shares which may be purchased is 923,476 shares representing 15% of the issued Ordinary share capital of the Company. The minimum price payable by the Company for its Ordinary shares will be 35p and the maximum price will be 150p. The authority will automatically expire after a period of eighteen months from the passing of the resolution unless renewed.

It is not the Directors' current intention to exercise the power to purchase the Company's Ordinary shares but they believe that under certain circumstances it would be in the Company's best interests to do so.

Your Directors consider that the resolution to be proposed at the meeting is in the best interests of the Company and its shareholders. They unanimously recommend that all Ordinary shareholders vote in favour of the resolution at the Annual General Meeting as they intend to do in respect of their beneficial holdings amounting to 1,795,500 Ordinary shares, representing 29.16% of the Company's issued Ordinary share capital.

Conclusion

I would like to thank my fellow Directors and the staff in general for their continued support.

Peter Haining

Chairman

3rd July 2006

DIRECTORS' REPORT

For the year ended 31st March 2006

The Directors submit their report together with the audited financial statements of the Group in respect of the year ended 31st March 2006.

Principal Activities, Review of the Business and Future Developments

The principal activities of the Group during the year continued to be those of the distribution of electronic components and materials and the manufacturing of electronic equipment.

An overall review of the Group's trading performance and future developments is given in the Chairman's Statement.

The group loss before tax of £60,000 is after charging non-recurring expenses of £119,000. After charging these items, the financial statements show that an operating profit of £17,000 was achieved.

The difficulties experienced in the electronic component distribution business illustrate the importance of the Group's strategy in diversifying into manufacturing, commenced in 2002 with the acquisition of the Steatite business and strengthened in 2005 with the acquisition of Wordsworth Technology Limited. In the year ended 31st March 2006, over 60% of the group turnover was generated by these businesses, whereas in the previous year Solid State Supplies had accounted for 56% of group turnover.

Following the loss of three significant franchises in 2005, the Board took the decision that investment should be made to restore the core electronic component distribution business to profitability and the results to date have been positive. Book to bill ratio is always a key indicator of trading trends, and a ratio of 1.20 to 1.00 for the first three months of the new financial year is a strong indication that the steps being taken which have included strengthening the sales team, the appointment of a Business Development Manager and actively seeking new lines to broaden the overall product range are now giving positive results. A process of tightening stock control has been in place for many years, but the current expansion is being achieved with stock at historically low levels thus improving financial efficiency.

The relocation of Wordsworth Technology Limited to Steatite's existing premises at Redditch at the end of 2005 was achieved with a minimum of disruption to trade and the two businesses are now operating side by side. This has enabled significant savings in overheads, principally staff costs and premises expenses, in the order of £30,000 per month, and both businesses have been able to benefit from the close relationship with the other in terms of customer base, and technical expertise.

For some time the impending Restriction of Hazardous Substances regulations have cast a shadow on the electronic component industry in the UK with uncertainty over the detailed scope of the new regulations and areas to be exempted, and until recently a lack of urgency to react to the new regime on the part of overseas suppliers, particularly in the USA. Careful control of non-compliant stock levels at all sites has enabled the Group to prepare successfully for the implementation in July 2006.

Cash flow has been carefully controlled throughout the last year with the result that borrowing has been comfortably within available limits throughout. Invoice discounting in place at Steatite and Wordsworth allows increases in working capital requirements arising from increased trading levels to be absorbed without stretching available resources. The purchase of Wordsworth for cash consideration has increased borrowing levels significantly but repayments scheduled to medium term loans of £260,000 in the current year and £331,000 in the following year will result in a significant overall reduction in borrowing levels.

The new year has started well with turnover in excess of £3.2m in the first three months and strong booking levels.

DIRECTORS' REPORT

For the year ended 31st March 2006 (continued)

Results and Dividends

The profit and loss account is set out on page 11. The Directors recommend that no final dividend is paid. The total dividend for the year is thus 0.5p per share.

Directors

The Directors of the Company during the year were:

P Haining FCA

L C A Newnham

G S Marsh

G L Comben (resigned 24th October 2005)

W G Marsh

J M Lavery

Peter Haining FCA, aged 49, Non-executive Director, Company Secretary and Chairman

Peter Haining qualified as a chartered accountant in 1980 and later worked at Binder Hamlyn. He left Binder Hamlyn in 1992, together with three colleagues, to establish The Kings Mill Partnership, who were the Company's previous auditors. As well as fulfilling a role as Non-executive Director and Chairman, Peter Haining has specific responsibility for reviewing and advising on the Group's budgets and financial affairs.

Cyril Newnham, aged 68, Non-executive Director and Deputy Chairman

Cyril Newnham is a chartered accountant who has held senior management posts in major companies, both in the UK and overseas. He has held a number of directorships within the electronics industry. He currently conducts a management consultancy practice.

Details of the interests of Directors in the shares of the Company and Directors' service contracts are stated in Note 6 to the financial statements.

Corporate Governance

The Board confirms that the Group has had regard, throughout the accounting period, with the provisions set out in Section 1 of the Combined Code which was issued by the Financial Reporting Council in July 2003. Whilst not required to do so, as a matter of best practice, the Directors have voluntarily endeavoured to comply with those provisions which they consider to be relevant to a company of this size.

The audit committee consists of Messrs L C A Newnham and W G Marsh, and meets regularly to ensure that the financial performance of the Group is properly recorded and monitored, to meet the auditors and to review the reports from the auditors relating to accounts and internal control systems.

The remuneration committee consists of Messrs W G Marsh, L C A Newnham and P Haining. The purpose of the committee is to review the performance of the full time executive Directors and to set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of the shareholders. It is a rule of the committee that no Director shall participate in discussions or decisions concerning his own remuneration.

DIRECTORS' REPORT

For the year ended 31st March 2006 (continued)

Board of Directors

The Board consists of three executive Directors and two Non-executive Directors and meets regularly throughout the year.

The Board comprises the executive management of the Group and thus maintains full control over its activities. Decisions are accordingly taken quickly and effectively following consultation among the Directors concerned if any matters arise. The Board takes the view that this direct but flexible approach has enabled the Company to deal effectively with all matters.

Going Concern

The Directors confirm that they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Purchase of Own Shares

At the year end the Company had in place authority to purchase 923,476 ordinary shares under authority given by a resolution at the Annual General Meeting on 27th July 2005. This authority expires on 27th January 2007.

Financial Instruments

Details of the use of financial instruments by the Company and its subsidiaries are contained in Note 26 of the financial statements.

Internal Control

In respect of internal controls, the Directors are aware of the Turnbull Report and are continually reviewing the effectiveness of the systems of internal controls, the key elements of which having regard to the size of the Group are that the Board meets regularly and takes the decisions on all material matters, the organisational structure ensures that responsibilities are defined and authority only delegated where appropriate, and that the regular management accounts are presented to the Board wherein the financial performance of the Group is analysed.

The Directors acknowledge that they are responsible for the system of internal control which is established in order to safeguard the assets, maintain proper accounting records and ensure that financial information used within the business or published is reliable. Any such system of control can, however, only provide reasonable, not absolute, assurance against material misstatement or loss.

Statement of 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 the affairs of the Group and the Company 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;
- 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 Group will continue in business.

DIRECTORS' REPORT

For the year ended 31st March 2006 (continued)

Statement of Directors' Responsibilities (continued)

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Creditor Payment Policy

The Company's policy for the year to 31st March 2007 for all suppliers is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms and to abide by the agreed terms of payment.

Creditor days based on the year end trade creditors and purchases made in the year were 49 days.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

By order of the Board

P Haining FCA

Secretary

3rd July 2006

Registered Office:

Unit 2

Eastlands Lane

Paddock Wood

Kent TN12 6BU

REPORT OF THE INDEPENDENT AUDITORS
TO THE SHAREHOLDERS OF SOLID STATE PLC

We have audited the Group and Parent Company financial statements (the “financial statements”) of Solid State plc for the year ended 31st March 2006 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the reconciliation of movements in shareholders’ funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

The Directors’ responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors’ Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and 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 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 only the Directors’ Report and the Chairman’s Statement. 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely on this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group’s and 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

REPORT OF THE INDEPENDENT AUDITORS
TO THE SHAREHOLDERS OF SOLID STATE PLC (continued)

Opinion

In our opinion:

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

BDO Stoy Hayward LLP
Chartered Accountants and
Registered Auditors

London
3rd July 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st March 2006

		2006	2006	2006	2005
		£	£	£	£
	Notes	Continuing Operations		Total	Total
		Acquisitions			
Turnover	3	8,310,071	2,141,896	10,451,967	9,480,429
Cost of sales		(6,025,917)	(1,517,478)	(7,543,395)	(6,698,300)
GROSS PROFIT		2,284,154	624,418	2,908,572	2,782,129
Selling expenses and distribution costs		(1,075,315)	(140,207)	(1,215,522)	(1,181,137)
Administrative expenses		(1,251,417)	(424,436)	(1,675,853)	(1,285,865)
OPERATING (LOSS)/PROFIT	4	(42,578)	59,775	17,197	315,127
Other interest receivable and similar income	7			3,639	1,943
Interest payable	8			(80,897)	(1,660)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION				(60,061)	315,410
Tax on profit on ordinary activities	9			34,893	(79,573)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	21			(25,168)	235,837
EARNINGS PER SHARE					
Basic	11			(0.4p)	3.8p
Diluted	11			(0.4p)	3.8p

All amounts relate to continuing activities.

There were no recognised gains or losses other than the (loss)/profit for the year as stated above.

The notes on pages 16 to 29 form part of these financial statements.

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

For the year ended 31st March 2006

Group	Notes	2006 £	2005 £
Opening shareholders' funds as previously stated		2,074,927	2,089,406
Prior year adjustment re. proposed dividends		123,130	124,500
Opening shareholders' funds as restated		<u>2,198,057</u>	<u>2,213,906</u>
(Loss)/profit for the year		(25,168)	235,837
Dividends paid	10	(153,912)	(217,875)
Purchase of own shares		-	(33,811)
Closing shareholders' funds		<u>2,018,977</u>	<u>2,198,057</u>
Company		2006 £	2005 £
Opening shareholders' funds as previously stated		1,944,552	1,888,934
Prior year adjustment re. proposed dividends		123,130	124,500
Opening shareholders' funds as restated		<u>2,067,682</u>	<u>2,013,434</u>
(Loss)/profit for the year		(78,919)	305,934
Dividends paid	10	(153,912)	(217,875)
Purchase of own shares		-	(33,811)
Closing shareholders' funds		<u>1,834,851</u>	<u>2,067,682</u>

The notes on pages 16 to 29 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31st March 2006

	Notes	2006		2005 (as restated)	
		£	£	£	£
FIXED ASSETS					
Intangible assets	13		1,660,878		596,117
Tangible assets	14		373,562		415,322
			<u>2,034,440</u>		<u>1,011,439</u>
CURRENT ASSETS					
Stocks	16	1,081,498		1,091,215	
Debtors	17	1,863,854		1,941,024	
Cash at bank and in hand		153,903		108,536	
		<u>3,099,255</u>		<u>3,140,775</u>	
CREDITORS: Amounts falling due within one year	18	<u>2,560,981</u>		<u>1,599,908</u>	
NET CURRENT ASSETS			<u>538,274</u>		<u>1,540,867</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>2,572,714</u>		<u>2,552,306</u>
CREDITORS: Amounts falling due after more than one year	19		<u>553,737</u>		<u>354,249</u>
			<u>2,018,977</u>		<u>2,198,057</u>
CAPITAL AND RESERVES					
Called up share capital	20		307,826		307,826
Share premium account	21		756,980		756,980
Capital redemption reserve	21		4,674		4,674
Profit and loss account	21		949,497		1,128,577
SHAREHOLDERS' FUNDS-EQUITY			<u>2,018,977</u>		<u>2,198,057</u>

The financial statements were approved by the Board of Directors and authorised for issue on 3rd July 2006.

P. Haining
Director

The notes on pages 16 to 29 form part of these financial statements.

COMPANY BALANCE SHEET

at 31st March 2006

		2006		2005 (as restated)	
Notes	£	£	£	£	£
FIXED ASSETS					
Tangible assets	14		162,462		202,069
Investments	15		1,879,474		46,171
			2,041,936		248,240
CURRENT ASSETS					
Stocks	16	467,875		692,937	
Debtors	17	1,734,823		2,137,460	
Cash at bank and in hand		85,048		72,537	
		2,287,746		2,902,934	
CREDITORS: Amounts falling due within one year	18		1,941,094		729,243
NET CURRENT ASSETS			346,652		2,173,691
TOTAL ASSETS LESS CURRENT LIABILITIES					
CREDITORS: Amounts falling due after more than one year	19		553,737		354,249
			1,834,851		2,067,682
CAPITAL AND RESERVES					
Called up share capital	20		307,826		307,826
Share premium account	21		756,980		756,980
Capital redemption reserve	21		4,674		4,674
Profit and loss account	21		765,371		998,202
SHAREHOLDERS' FUNDS-EQUITY			1,834,851		2,067,682

The financial statements were approved by the Board of Directors and authorised for issue on 3rd July 2006.

P. Haining
Director

The notes on pages 16 to 29 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2006

	Notes	2006		2005	
		£	£	£	£
Net cash inflow from operating activities	23		1,216,366		673,859
Return on investments and servicing of finance:					
Interest received		3,639		1,943	
Hire purchase interest paid		-		29,522	
Other interest paid		(80,897)		(31,182)	
Net cash (outflow)/inflow from return on investments and servicing of finance			(77,258)		283
Taxation					
Corporation tax paid			(185,253)		(71,575)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(145,093)		(80,616)	
Receipts from sales of tangible fixed assets		43,957		25,934	
Net cash outflow from capital expenditure and financial investment			(101,136)		(54,682)
Acquisitions and disposals					
Receipt from sale of joint venture		-		500	
Purchase of business operation		(1,833,167)		-	
Net cash acquired with subsidiary		234,977		-	
Net cash (outflow)/inflow from acquisitions and disposals			(1,598,190)		500
Equity dividends paid			(153,912)		(217,875)
Net cash (outflow)/inflow before financing			(899,383)		330,510
Financing					
Medium term loan received		500,000		-	
Repayments of medium term loan: capital element		(138,429)		(108,572)	
Hire purchase finance repaid: capital element		-		(32,218)	
Invoice discounting finance received/(paid) (net movement)		501,566		(122,675)	
Purchase of own shares		-		(33,811)	
Net cash inflow/(outflow) from financing			863,137		(297,276)
(Decrease)/increase in cash	24 & 25		(36,246)		33,234

The notes on pages 16 to 29 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2006

1. ACCOUNTING POLICIES

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

a. Basis of Consolidation

The consolidated financial statements incorporate the results of Solid State Supplies plc and all of its subsidiary undertakings as at 31st March 2006 using the acquisition method of accounting. Where a subsidiary was acquired during the year its results are included from the date of acquisition.

b. Goodwill

Goodwill arising on the acquisition of a business is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Goodwill arising from such acquisitions is recorded as an asset on the balance sheet and amortised over its useful economic life amounting to 20 years. Goodwill taken direct to the reserves on acquisitions made prior to 1st April 1998 under the Group's previous accounting policy will be taken to the profit and loss account on any future disposals of the business acquired. Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following acquisition and in any other periods if events or changes in circumstances indicate that the carrying value might not be recoverable.

c. Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax or local taxes on sales. Turnover is recognised when the risks and rewards of owning the goods has passed to the customer which is generally on collection. For goods that are subject to bill and hold arrangements this means:

- the goods are complete and ready for collection;
- the goods are separately identified from the Group's other stock and are not used to fulfil any other orders; and
- the customer has specifically requested that the goods be held pending collection.

d. Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset fairly over its expected useful life.

The rates used are as follows:

Short leasehold property	- straight line over minimum life of the lease
Fittings and equipment	- 25% per annum on a reducing balance basis
Computer	- 20% per annum on a straight line basis
Motor vehicles	- 25% per annum on a reducing balance basis

e. Hire purchase and leasing

Assets acquired under hire purchase or lease purchase agreements are capitalised at the normal capital cost and depreciated on the same basis as other assets of their class. Interest is written off over the life of the agreement and is calculated so that it approximates a constant proportion of the balance of capital repayments outstanding. Rental payments in respect of operating leases are charged to the profit and loss account on a straight line basis.

f. Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

g. Deferred taxation

The charge for taxation takes into account taxation deferred as a result of timing differences between the treatment of certain items for taxation and accounting purposes. In general, deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. However, deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2006 (continued)

1. ACCOUNTING POLICIES (continued)

h. Pensions

The pension schemes operated by the Group are defined contribution schemes. The pension cost charge represents the contributions payable by the Group.

i. Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at the rate of exchange ruling at the balance sheet date. Exchange differences arising are taken to the profit and loss account.

j. Research and development

Expenditure on pure and applied research is charged to the profit and loss account in the year in which it is incurred.

Development costs are also charged to the profit and loss account in the year of expenditure, unless individual projects satisfy all of the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs are expected to be exceeded by future sales; and
- adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward and amortised over a period not exceeding 3 years commencing in the year the group starts to benefit from the expenditure.

k. Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

l. Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment.

2. CHANGES TO ACCOUNTING POLICIES

The group has adopted FRS 21 'Events after the balance sheet date'. Previously, equity dividends declared after the balance sheet date were recognised as liabilities at the year end, as required by company law and SSAP 17 'Accounting for post balance sheet events'. In accordance with FRS 21 and recent changes to the law, if a final equity dividend is declared after the balance sheet date but before the financial statements are authorised for issue, the dividend is not recognised as a liability at the balance sheet date.

The adoption of FRS 21 has resulted in an increase in shareholders funds of £123,130 at 1st April 2006 (2005 - £124,500) due to the write back of the dividend proposed at 31st March 2005.

3. SEGMENTAL ANALYSIS

The turnover and profit before taxation are attributable to the one principal activity of the Group. All operations are located in the United Kingdom. An analysis of sales by destination is as follows:

	2006	2005
	£	£
United Kingdom	9,516,788	8,987,478
Europe	773,906	395,777
United States of America	124,046	60,704
Asia	20,103	25,189
Africa	14,554	8,834
Australasia	2,570	2,447
	<hr/>	<hr/>
	10,451,967	9,480,429
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2006 (continued)

4. OPERATING (LOSS)/PROFIT

The operating profit is stated after charging/(crediting):

	2006	2005
	£	£
Depreciation	150,860	177,049
Loss on disposal of fixed assets	17,453	8,409
Amortisation of goodwill	71,062	34,762
Auditors' remuneration:		
Audit services	35,406	24,495
Operating lease rentals:		
Plant and machinery	25,429	23,227
Other	123,421	102,838
Research and development	10,123	-
Foreign exchange gains	(67,184)	(100,837)
Employment termination costs	33,688	14,896
Relocation expenses : Wordsworth Technology Limited	89,918	-
Ex gratia payment to former director	30,000	-
	<hr/>	<hr/>

Included in audit fees is an amount of £15,349 (2005: £12,495) in respect of the Company. Additional non-audit services regarding the purchase of Wordsworth Technology Limited were £24,498 (2005: £nil) and have been capitalised and added to the goodwill figure on consolidation.

The relocation expenses for Wordsworth Technology Limited of £89,918 represent the costs, mainly staff termination costs, arising from the relocation of its business from Edenbridge in Kent to the Steatite Limited premises at Redditch in Worcestershire.

5. EMPLOYEES

Staff costs for all employees during the year, including the four executive Directors, were as follows:

	Group 2006	Group 2005	Company 2006	Company 2005
	£	£	£	£
Wages and salaries	1,593,049	1,427,594	659,128	697,032
Social security costs	168,425	163,790	74,159	78,273
Other pension costs	-	3,600	-	3,600
	<hr/>	<hr/>	<hr/>	<hr/>
	1,761,474	1,594,984	733,287	778,905

Wages and salaries include termination costs of £33,688 (2005: £14,896).

The average monthly number of employees during the year, including the four executive Directors, was as follows:

Selling and distribution	25	29	16	19
Manufacturing	13	15	-	-
Management and administration	23	17	8	8
	<hr/>	<hr/>	<hr/>	<hr/>
	61	61	24	27

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2006 (continued)

6. DIRECTORS' EMOLUMENTS, INTERESTS AND SERVICE CONTRACTS

The value of all elements of remuneration received by each Director in the year was as follows:

	Salary £	Fees £	Benefits in kind £	Total £	Compensation for loss of office £	Pension contribs. £
31st March 2006						
Executive Directors						
G L Comben	-	-	7,000	7,000	30,000	-
W G Marsh	12,000	-	3,000	15,000	-	-
G S Marsh	80,000	-	11,000	91,000	-	-
J M Lavery	70,000	-	17,000	87,000	-	-
Non-executive Directors						
P Haining	-	12,000	-	12,000	-	-
L C A Newnham	-	12,000	-	12,000	-	-
Total	162,000	24,000	38,000	224,000	30,000	-
31st March 2005						
Executive Directors						
G L Comben	-	-	12,000	12,000	-	4,000
W G Marsh	-	-	3,000	3,000	-	-
G S Marsh	85,000	-	11,000	96,000	-	-
J M Lavery	75,000	-	17,000	92,000	-	-
Non-executive Directors						
P Haining	-	12,000	-	12,000	-	-
L C A Newnham	-	12,000	-	12,000	-	-
Total	160,000	24,000	43,000	227,000	-	4,000

The executive Directors waived their entitlement to emoluments during the year as follows:

	2006 £	2005 £
G L Comben	18,000	36,000
W G Marsh	24,000	36,000
	<u>42,000</u>	<u>72,000</u>

The principal benefits in kind relate to the provision of company cars.

In addition to the above, fees totalling £51,970 (2005: £44,299) arose during the year in respect of accountancy services provided by The Kings Mill Partnership, a firm of which P Haining is a partner. A balance of £10,363 (2005: £10,966) was due to The Kings Mill Partnership at 31st March 2006. The fees for the year ended 31st March 2006 included £7,300 which relates to the purchase of Wordsworth Technology Limited. These costs have been capitalised in investments in the Company and added to the goodwill on consolidation.

The three executive Directors have service contracts with the Company which are terminable by the Company, or the relevant Director, on one year's notice.

The Directors of the Company on 3rd July 2006 and at the balance sheet date, and their interests in the issued ordinary share capital of the Company at that date, at 31st March 2006 and 31st March 2005 or date of appointment if later, were as follows:

	3.7.06	31.3.06	31.3.05
W G Marsh	1,700,500	1,700,500	1,700,500
G S Marsh	72,500	72,500	72,500
J M Lavery	-	-	-
P Haining	12,500	12,500	12,500
L C A Newnham	10,000	10,000	10,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2006 (continued)

6. DIRECTORS' EMOLUMENTS, INTERESTS AND SERVICE CONTRACTS (continued)

At 31st March 2006 the following options over the Company's shares had been granted under the Enterprise Management Incentives Scheme and remained outstanding:

	Options held at 1st April 2005	Lapsed dur- ing the year	Number granted during the year	Options held at 31st March 2006	Subscrip- tion price	Exercise period
G S Marsh	160,000	-	-	160,000	60.5p	Sept 2005 to Sept 2013
J M Lavery	80,000	-	-	80,000	60p	July 2004 to July 2013
	80,000	-	-	80,000	60.5p	Sept 2005 to Sept 2013

The market price of the shares at 31st March 2006 was 40.5p (2005: 65.5p), with a quoted range during the year of 40.0p to 68.5p. No director exercised any share options during the year, or in the prior year.

7. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME	2006	2005
	£	£
Bank deposit interest receivable	3,533	1,618
Other interest receivable	106	325
	<u>3,639</u>	<u>1,943</u>
8. INTEREST PAYABLE	2006	2005
	£	£
Bank loans and overdrafts	58,219	25,462
Hire purchase contracts	-	(29,522)
Invoice discounting interest	22,678	5,720
	<u>80,897</u>	<u>1,660</u>

Interest payable for the prior year was reduced by £40,174 comprising bank loan interest of £10,652 and hire purchase interest of £29,522. These credits arose as a result of excessive provisions brought forward being written back on the termination of the relevant agreements.

9. TAX ON PROFIT ON ORDINARY ACTIVITIES	2006	2005
	£	£
UK corporation tax	(34,893)	79,573

The tax recoverable or assessable for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2006	2005
	£	£
(Loss)/profit on ordinary activities before taxation	(60,061)	315,410
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 - 30%)	(18,019)	94,623
Effect of:		
Expenses not deductible for tax purposes	629	2,208
Depreciation for the year in excess of capital allowances	60	16,253
Utilisation of tax losses	(11,880)	-
Marginal relief	(5,683)	(12,211)
General stock provision now allowed as specific	-	(21,300)
	<u>(34,893)</u>	<u>79,573</u>

Deferred tax has not been provided as it is not material.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2006 (continued)

10. DIVIDENDS	2006	2005
	£	(as restated)
		£
Final dividend for the prior year of 2p per share (2005: 2p)	123,130	124,500
Interim dividend paid of 0.5p per share (2005: 1.5p)	30,782	93,375
	<hr/>	<hr/>
	153,912	217,875
	<hr/>	<hr/>
No final dividend proposed for the year (2005: 2p)	-	123,130
	<hr/>	<hr/>
11. EARNINGS PER SHARE	2006	2005
	£	£
The earnings per share is based on the following:		
Earnings	(25,168)	235,837
	<hr/>	<hr/>
Weighted average number of shares	6,156,511	6,207,342
Diluted number of shares	6,156,511	6,207,342
Earnings per share	(0.4p)	3.8p
Diluted earnings per share	(0.4p)	3.8p

Earnings per ordinary share has been calculated using the weighted average number of shares in issue during the year. The weighted average number of equity shares in issue was 6,156,511 (2005: 6,207,342).

The Diluted earnings per share is based on 6,156,511 (2005: 6,207,342) ordinary shares which allow for the exercise of all dilutive potential ordinary shares.

12. PROFIT FOR THE FINANCIAL YEAR

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The Group profit for the year includes a (loss)/profit after tax and before dividends paid and payable of (£78,919) (2005 - £305,874) which is dealt with in the financial statements of the parent company.

13. INTANGIBLE FIXED ASSETS

Group	Goodwill on consolidation
	£
Cost	
1st April 2005	695,243
Additions	1,135,823
	<hr/>
31st March 2006	1,831,066
	<hr/>
Amortisation	
1st April 2005	99,126
Charge for the year	71,062
	<hr/>
31st March 2006	170,188
	<hr/>
Net book value	
31st March 2006	1,660,878
	<hr/>
31st March 2005	596,117
	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2006 (continued)

14. TANGIBLE FIXED ASSETS

Group	Short leasehold property improvements £	Motor vehicles £	Fittings, equipment and computers £	Total £
Cost				
1st April 2005	249,553	269,946	745,608	1,265,107
Additions	3,924	87,707	53,462	145,093
Acquisition of subsidiary	84,375	4,800	57,725	146,900
Disposals	-	(136,258)	(27,405)	(163,663)
31st March 2006	337,852	226,195	829,390	1,393,437
Depreciation				
1st April 2005	170,889	109,019	569,877	849,785
Acquisition of subsidiary	80,784	3,496	37,203	121,483
Charge for the year	36,136	43,155	71,569	150,860
On disposal	-	(79,848)	(22,405)	(102,253)
31st March 2006	287,809	75,822	656,244	1,019,875
Net book value				
31st March 2006	50,043	150,373	173,146	373,562
31st March 2005	78,664	160,927	175,731	415,322
Company				
Cost				
1st April 2005	188,041	188,510	425,560	802,111
Additions	-	47,004	8,781	55,785
Disposals	-	(68,205)	-	(68,205)
31st March 2006	188,041	167,309	434,341	789,691
Depreciation				
1st April 2005	146,287	71,865	381,890	600,042
Charge for the year	19,761	30,660	14,917	65,338
On disposals	-	(38,151)	-	(38,151)
31st March 2006	166,048	64,374	396,807	627,229
Net book value				
31st March 2006	21,993	102,935	37,534	162,462
31st March 2005	41,754	116,645	43,670	202,069

There were no capital commitments at 31st March 2005 and 31st March 2006 for the Group or the Company.

Disposals of motor vehicles for the Group and the Company include one vehicle purchased from the Company by Mr G L Comben for a consideration of £19,000. This represented the open market value. No amounts were outstanding at the year end.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2006 (continued)

15. INVESTMENTS

Company	Group undertakings £
Cost	
1st April 2005	46,171
Additions	1,833,303
Disposals	-
	<hr/>
31st March 2006	1,879,474
	<hr/>
Net book value	
31st March 2006	1,879,474
	<hr/>
31st March 2005	46,171
	<hr/>

Subsidiary undertakings

The principal undertakings in which the Company's interest at the year end is 20% or more are as follows:

	Provision of voting rights and ordinary share capital held	Nature of business
Subsidiary undertakings		
Steatite Limited	100%	Distribution of electronic components and manufacturer of electronic equipment
Wordsworth Technology Limited	100%	Distribution of industrial computing equipment and manufacturer of electronic equipment
SSS Highway Technologies Limited	100%	Dormant
Solid State Supplies Limited	100%	Dormant
Surge Technologies (UK) Limited	100%	Dormant

In all cases the country of operation and of incorporation or registration is England.

16. STOCKS

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Raw materials, finished goods and goods for resale	967,181	1,045,646	467,875	692,937
Work in progress	114,317	45,569	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	1,081,498	1,091,215	467,875	692,937
	<hr/>	<hr/>	<hr/>	<hr/>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2006 (continued)

17. DEBTORS: Amounts receivable within one year

	Group 2006	Group 2005	Company 2006	Company 2005
	£	£	£	£
Trade debtors	1,735,644	1,850,444	598,320	955,109
Amounts owed by Group undertakings	-	-	1,061,165	1,121,828
Corporation tax recoverable	34,575	-	34,575	-
Other debtors	7,537	1,985	-	1,985
Prepayments and accrued income	86,098	88,595	40,763	58,538
	<u>1,863,854</u>	<u>1,941,024</u>	<u>1,734,823</u>	<u>2,137,460</u>

Group trade debtors include £1,045,070 (2005: £436,248) which are subject to an invoice discounting agreement. Under this agreement, borrowing equal to 85% of the relevant book debts can be taken with interest charged at 1.5% over bank base rate and an administration fee of 0.15% of the gross value of debts per month. At 31st March 2006, borrowing under the agreement of £836,023 (2005: £314,711) was available of which £571,365 (2005: £69,799) was taken up leaving unused borrowing facilities of £264,658 (2005: £244,912). Interest charges in the year amounted to £22,678 (2005: £5,720) and administration fees to £15,311 (2005: £9,466).

18. CREDITORS: Amounts falling due within one year

	Group 2006	Group 2005 (as restated)	Company 2006	Company 2005 (as restated)
	£	£	£	£
Bank overdrafts (secured)	87,584	5,971	87,584	5,971
Bank loans (secured)	260,679	98,596	260,679	98,596
Trade creditors	1,313,863	1,049,345	504,076	380,057
Amounts owed to Group undertakings	-	-	968,565	-
Amounts due to invoice discounters	571,365	69,799	-	-
Corporation tax	39,955	79,573	-	79,573
Other taxes and social security costs	209,377	238,151	81,932	135,270
Other creditors	4,479	4,694	4,479	4,694
Accruals and deferred income	73,679	53,779	33,779	25,082
	<u>2,560,981</u>	<u>1,599,908</u>	<u>1,941,094</u>	<u>729,243</u>

The bank loan and overdraft are secured by a fixed and floating charge over the assets of the Company and the Group. At the balance sheet date, the Group had an undrawn overdraft facility of £362,416 (2005: £656,529), which enables flexibility in the management of liquidity.

The Company has guaranteed bank borrowings of its subsidiary undertakings, Steatite Limited and Wordsworth Technology Limited. At the year end the liabilities covered by those guarantees amounted to £nil (2005: £nil). The Company accounts for guarantees provided to Group companies as insurance contracts, recognising a liability only to the extent that it is probable the guarantees will be called upon.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2006 (continued)

19. CREDITORS: Amounts falling due after more than one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Bank loans (secured)	553,737	354,249	553,737	354,249
	<u>553,737</u>	<u>354,249</u>	<u>553,737</u>	<u>354,249</u>
Bank loan repayments are due:				
In more than one year but not more than two years	330,548	98,596	330,548	98,596
In more than two years but not more than five years	223,189	255,653	223,189	255,653
	<u>553,737</u>	<u>354,249</u>	<u>553,737</u>	<u>354,249</u>

There are two bank loans. The first was for £750,000 taken out in May 2002 and repayable by instalments over seven years. The second loan was for £500,000 taken out in August 2005 and repayable by instalments over three years. The loans are secured by a fixed and floating charge over the assets of the Company and the Group.

20. CALLED UP SHARE CAPITAL

	2006 £	2005 £
Authorised 9,000,000 ordinary shares of 5p each	450,000	450,000
Allotted, issued and fully paid 6,156,511 (2005: 6,156,511) ordinary shares of 5p each	<u>307,826</u>	<u>307,826</u>

An Enterprise Management Incentive Scheme was adopted by the Company in September 2000 and formally approved at an Extraordinary General Meeting on 12th December 2000.

At 31st March 2006, options were exercisable over 80,000 ordinary shares (2005: 80,000) at any time between July 2004 and July 2012 at a subscription price of 60p per share, and over 240,000 ordinary shares (2005: 240,000) at any time between September 2005 and September 2013 at a subscription price of 60.5p per share.

No options were exercised in the year (2005: nil).

21. RESERVES

Group	Share premium account £	Capital redemption reserve £	Profit and loss account £
1st April 2005 as previously stated	756,980	4,674	1,005,447
Prior year adjustment	-	-	123,130
	<u>756,980</u>	<u>4,674</u>	<u>1,128,577</u>
1st April 2005 as restated	756,980	4,674	1,128,577
Loss for the year	-	-	(25,168)
Dividends paid	-	-	(153,912)
	<u>756,980</u>	<u>4,674</u>	<u>949,497</u>
31st March 2006	<u>756,980</u>	<u>4,674</u>	<u>949,497</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2006 (continued)

21. RESERVES (continued)

Company	Share premium account £	Capital redemption reserve £	Profit and loss account £
1st April 2005 as previously stated	756,980	4,674	875,072
Prior year adjustment	-	-	123,130
1st April 2005 as restated	756,980	4,674	998,202
Loss for the year	-	-	(78,919)
Dividends paid	-	-	(153,912)
31st March 2006	756,980	4,674	765,371

The cumulative amount of goodwill which has been eliminated against reserves at 31st March 2006 is £30,000 (2005 : £30,000)

22. LEASING COMMITMENTS

At 31st March 2006, the Group and the Company had annual commitments under operating leases as follows:

Group	2006	2005
Buildings:	£	£
Leases expiring in one to five years	132,700	102,200
Plant and machinery:		
Leases expiring in less than one year	1,850	2,851
Leases expiring in one to five years	24,897	17,466
Company	2006	2005
Buildings:	£	£
Leases expiring in one to five years	51,200	51,200
Plant and machinery:		
Leases expiring in less than one year	1,613	-
Leases expiring in one to five years	-	1,760

23. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006	2005
	£	£
Operating profit	17,197	315,127
Amortisation of intangible fixed assets	71,062	34,762
Depreciation of tangible fixed assets	150,860	177,049
Loss on sale of tangible fixed assets	17,453	8,409
Decrease in stocks	222,634	165,764
Decrease in debtors	800,776	85,597
(Decrease) in creditors	(63,616)	(112,849)
Net cash inflow from operating activities	1,216,366	673,859

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2006 (continued)

24. RECONCILIATION TO MOVEMENT IN NET DEBT

	2006	2005
	£	£
(Decrease)/increase in cash in the year (Note 25)	(36,246)	33,234
Cash movement relating to debt and lease financing	(361,571)	140,790
Movement in net debt resulting from cash flows	(397,817)	174,024
Net debt at 1st April 2005	(350,280)	(524,304)
Net debt at 31st March 2006	(748,097)	(350,280)

25. ANALYSIS OF CHANGES IN NET DEBT

	At 1.4.05 £	Non cash £	Cash flows £	At 31.3.06 £
Cash at bank and in hand	108,536	-	45,367	153,903
Bank overdrafts	(5,971)	-	(81,613)	(87,584)
	102,565	-	(36,246)	66,319
Debt due within one year	(98,596)	(240,512)	78,429	(260,679)
Debt due after one year	(354,249)	240,512	(440,000)	(553,737)
TOTAL	(350,280)	-	(397,817)	(748,097)

The non cash movement relates to the element of bank loans which had been due in more than one year and is now due within one year.

26. FINANCIAL INSTRUMENTS

All short term debtors and creditors have been excluded from disclosures relating to Financial Instruments, with the exception of disclosures relating to currency risk.

All the monetary assets and liabilities of the Group were denominated in sterling with the exception of the following items which were denominated in US dollars, and which are included in the financial statements at the sterling value based on the exchange rate ruling at the balance sheet date.

	2006	2005
	£	£
Trade debtors	197,303	232,185
Cash at bank and in hand	93,838	76,719
Trade creditors	(424,097)	(590,921)
Net US dollar liabilities	(132,956)	(282,017)

There were also net (liabilities)/assets of (£25,617) in euros (2005: £18,518).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2006 (continued)

26. FINANCIAL INSTRUMENTS (continued)

The Group is exposed to currency risk because it undertakes trading transactions in US dollars and euros. The Directors do not generally consider it necessary to enter into derivative financial instruments to manage the exchange risk arising from its operations.

The Group bank loan with HSBC plc incurs interest at the rate of 1.75% over the HSBC's base rate and the bank overdraft with HSBC plc incurs interest at the rate of 1.75% over the HSBC's base rate. The bank loan has the benefit of an interest rate cap agreement which has the effect of limiting the interest payable under the agreement between May 2002 and May 2007 to 7.25% per annum. The last two years of the seven year loan term is not subject to any such agreement. The Company paid a premium of £13,600 for the interest rate cap agreement which is being written off to the profit and loss account on a straight line basis over its five year term. The Group is affected by changes in the UK interest rate.

Details of interest payable under the invoice discounting agreement are stated in Note 17.

The US Dollar overdraft facility bears interest at 1.75% over the HSBC's US dollar base rate and is therefore affected by changes in the US interest rate.

The fair value of the Group's financial instruments is not materially different to the book value.

27. ACQUISITION

On 10th August 2005, the Group acquired the entire share capital of Wordsworth Technology Limited. The acquisition was for a consideration of £1,772,380 with costs of acquisition of £60,787 bringing the total costs to £1,833,167, and was financed from cash reserves, income discounting of the Wordsworth trade debtors and a loan for £500,000 from the bank repayable over three years. In calculating the goodwill arising on the acquisition, the fair value of the net assets has been assessed and adjustments from book value have been made where necessary. The adjustments are summarised in the following table:

	Book value £	Revaluations £	Other £	Fair value £
Fixed assets:				
Tangible	82,136	-	(56,719)	25,417
Current assets:				
Stock	250,083	(37,166)*	-	212,917
Trade debtors	631,505	-	-	631,505
Other debtors	37,686	-	-	37,686
Prepayments	19,840	-	-	19,840
Cash at bank in hand	234,977	-	-	234,977
Current liabilities:				
Trade creditors	(218,824)	-	-	(218,824)
Corporation tax	(134,802)	-	(11,151)	(145,953)
Social security and other taxes	(59,482)	-	-	(59,482)
Other creditors	(12,188)	-	-	(12,188)
Accruals	(28,551)	-	-	(28,551)
	<u>802,380</u>	<u>(37,166)</u>	<u>(67,870)</u>	<u>697,344</u>

* Revaluation to net realisable value

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March 2006 (continued)

27. ACQUISITION (continued)

The other fair value adjustments comprise £56,719 in respect of the net book value at 31st March 2006 of the leasehold improvements, and £11,151 of additional corporation tax reflecting the higher rates applying to corporation tax profits of Wordsworth Technology Limited for the whole year as a result of its inclusion as part of a Group post acquisition under the rules regarding associated companies.

With regard to the leasehold improvements, the acquired company had capitalised certain expenditure as leasehold improvements relating to the conversion of floor space into offices. However local planning regulations place limitations on the use of this space as offices and therefore those capitalised costs have been written off as part of the fair value exercise.

Cash consideration (including expenses of £60,787)	1,833,167
Net assets acquired	<u>(697,344)</u>
Goodwill arising on acquisition	<u>1,135,823</u>

The results of Wordsworth Technology Limited prior to its acquisition were as follows:

	1st April 2005 to 10th August 2005 £	Year ended 31st March 2005 £
Turnover	<u>1,431,032</u>	<u>3,599,366</u>
Operating profit	125,697	416,825
Net interest	<u>2,353</u>	<u>5,415</u>
Profit on ordinary activities before taxation	128,050	422,240
Taxation on profit from ordinary activities	<u>(29,122)</u>	<u>(105,680)</u>
Profit on ordinary activities after taxation	<u>98,928</u>	<u>316,560</u>

There were no recognised gains or losses for either period other than those included in the profit and loss account.

Cash flows

The net outflow of cash arising from the acquisition of Wordsworth Technology Limited was as follows:

Cash consideration, as above	£ 1,833,167
Cash acquired	<u>(234,977)</u>
Net outflow of cash	<u>1,598,190</u>

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of Solid State PLC will be held at Unit 2, Eastlands Lane, Paddock Wood, Kent TN12 6BU on Wednesday 2nd August 2006 at 11.30am for the following purposes:

ORDINARY BUSINESS

- (1) To receive and adopt the accounts for the year ended 31st March 2006, together with the reports of the Directors and auditors thereon. (Resolution 1)
- (2) To approve the ex gratia payment of £30,000 to Gordon Leonard Comben. (Resolution 2)
- (3) To reappoint William George Marsh, who retires by rotation, as a Director of the Company in accordance with the Company's Articles of Association. (Resolution 3)
- (4) To reappoint Lewis Cyril Ashby Newnham, who retires by rotation, as a Director of the Company in accordance with the Company's Articles of Association. (Resolution 4)
- (5) To reappoint BDO Stoy Hayward LLP as auditors of the Company and to authorise the Directors to fix their remuneration. (Resolution 5)
- (6) To pass the following resolution:

That the Company is, pursuant to Section 166 of the Companies Act 1985, hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163 of the Companies Act 1985) of ordinary shares of 5p each in the capital of the Company ("ordinary shares") provided that:-

- i) the minimum price which may be paid for the ordinary shares is 35p per ordinary share;
- ii) the maximum price which may be paid for the ordinary shares is £1.50 per ordinary share;
- iii) the authority hereby conferred shall expire after a period of 18 months from the passing of this resolution unless such authority is renewed prior to such expiry;
- iv) the authority hereby conferred is in substitution for any existing authority to purchase ordinary shares under the said Section 166;
- v) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will be executed wholly or partly after the expiry of such authority and may make a purchase or purchases of ordinary shares in pursuance of any such contract; and
- vi) the maximum number of ordinary shares hereby authorised to be purchased by the company does not exceed 15 per cent. of the issued ordinary share capital of the Company at the date of the passing of this resolution.

BY ORDER OF THE BOARD

P Haining FCA

Secretary

Date 3rd July 2006

Registered Office:

Unit 2, Eastlands Lane, Paddock Wood, Kent TN12 6BU

NOTES:

1. **Proxies**
Only holders of ordinary shares are entitled to attend and vote at this meeting. A member entitled to attend and vote may appoint a proxy or proxies who need not be a member of the Company to attend (and on a poll to vote) instead of him or her. Forms of proxy need to be deposited with the Company's registrar, Capita IRG plc, Balfour House, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not later than 48 hours before the time of the meeting. Completion of a form of proxy will not preclude a member attending and voting in person at the meeting.
2. **Documents on Display**
The register of Directors' interests in the share capital and debentures of the Company, together with copies of service agreements under which Directors of the Company are employed, are available for inspection at the Company's registered office during normal business hours from the date of this notice until the date of the Annual General Meeting and will also be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

SOLID STATE PLC

FORM OF PROXY

Please read the notes below before completing the form. Any amendments to this form should be initialled by the signatory.

I/We (name/(s) in full
of address(es)

.....
being a member(s) of the above named company, hereby appoint the Chairman of the Meeting, or failing him
as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Unit 2, Eastlands Lane, Paddock Wood, Kent, TN12 6BU on Wednesday 2nd August 2006 at 11.30am and at any adjournment thereof.

Resolution	For	Against
1. To receive and adopt the accounts for the year ended 31st March 2006 together with the reports of the Directors and auditors thereon		
2. To approve the ex gratia payment of £30,000 to Gordon Leonard Comben.		
3. To re-appoint William George Marsh, who retires by rotation, as a Director of the Company in accordance with the Company's Articles of Association		
4. To re-appoint Lewis Cyril Ashby Newnham, who retires by rotation, as a Director of the Company in accordance with the Company's Articles of Association		
5. To re-appoint BDO Stoy Hayward LLP as auditors of the Company and to authorise the Directors to fix their remuneration		
6. To authorise the Company to purchase its own shares		

Signature Date

Notes

1. You may appoint one or more proxies of your own choice, if you are unable to attend the meeting but would like to vote. If such an appointment is made, delete the words "the Chairman of the Meeting" and insert the name(s) of the person or persons appointed as proxy/proxies in the space provided. A proxy need not be a member of the Company. If no name is entered above, the return of this form duly signed will authorise the Chairman of the meeting to act as your proxy.
2. In the case of a corporation, this form of proxy must be properly executed under the hand of its duly authorised officer or attorney or any other person authorised to sign on behalf of the corporation.
3. To be valid, this form must be deposited (together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power or a copy certified in accordance with Powers of Attorney Act 1971 or in some other manner approved by the Directors), at Capita IRG plc, The Registry, 34 Beckenham Road, Kent BR3 4TU, not later than 48 hours before the time appointed for the Meeting. The completion and return of a form of proxy will not, however, preclude shareholders from attending and voting in person at the Meeting.
4. If two or more persons are jointly entitled to a share conferring the right to vote, any one of them may vote at the Meeting either in person or by proxy, but if more than one joint holder be present at the Meeting either in person or by proxy the one whose name stands first in the Register of Members in respect of the joint holding shall alone be entitled to vote. In any event the names of all joint holders should be stated above.
5. If this form is returned without any indication as to how the person(s) appointed shall vote on the resolutions, such persons(s) will exercise his/her/their discretion as to how to vote or whether to abstain from voting. Unless instructed otherwise, the proxy may also vote or abstain from voting as he or she thinks fit on any other business, which may properly come before the meeting (including amendments to resolutions).

Please return this form to:

Capita IRG plc, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU