LPA GROUP PLC ANNUAL REPORT & ACCOUNTS 2011

LPA GROUP PLC

LPA is a leading designer, manufacturer and supplier of LED lighting, electronic and electro-mechanical systems.

The Group provides cost effective solutions to improve reliability, and reduce maintenance and life cycle costs for the rail, aerospace, defence, aircraft support, infrastructure, marine and industrial markets. LPA was established more than 100 years ago, is headquartered close to Cambridge and presently employs 170 people at four locations in the UK. The Company is listed on AIM.

CUSTOMERS

The Group has a wide customer base and exports to nearly fifty countries. Customers include: Agusta Westland, Airbus, Alstom Transportation, Bae Systems, Bombardier Transportation, Bosch, Downer EDI, Eurostar, First Group, Hitachi, Kinki Sharyo, London Underground, Royal Caribbean, Siemens, SNCF, Star Shipping, Tyco and Wabtec.

INNOVATION

LPA has a strong reputation for innovation, finding solutions to customers' problems in both benign and hostile environments. LPA's LED-based lighting technology has been recognised by a number of awards including: 'Environmental Innovation of the Year' for LumiPanel® at the Rail Business Awards in 2010; by 'Modern Railways' for LED lighting technology at the Railway Industry Innovation Awards in 2010; and 'Passenger Comfort Innovation of the Year' for lighting supplied to 'SNCF' (the National Railway of France) at the Railway Interiors Expo in 2008.

QUALITY

LPA is committed to high standards of quality, reliability and service. LPA companies are ISO 9001 accredited.

ENVIRONMENT

LPA's mantra is 'Long life reliability does not cost the earth'. LPA's commitment to produce long-lived reliable products results in savings in energy and scarce resources. This green concept relies on the products being manufactured correctly first time, leaving a long time with minimal maintenance, and contributing less to landfill.

WWW.LPA-GROUP.COM

Long Life Reliability
does not cost the earth

INNOVATIVE PRODUCT DEVELOPMENT

Electro-mechanical connectors

The Module 32, 42 and 52 series of robust, compact, high density rail inter-car electrical connectors incorporating a wide range of contacts, including 4S, to satisfy a broad spectrum of requirements.

The 4S is a fully screened four pole contact suitable for Ethernet cable connection.

The N27, an aircraft ground power supply connector with extended functionality, and the Niphan C4 ship shore power supply connector, both offer robust solutions in harsh environments.

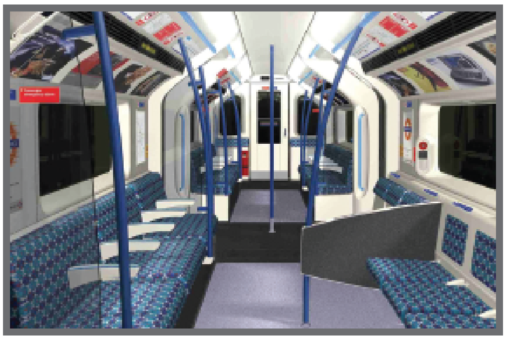
Further information can be found by visiting our website - www.lpa-group.com

Lighting

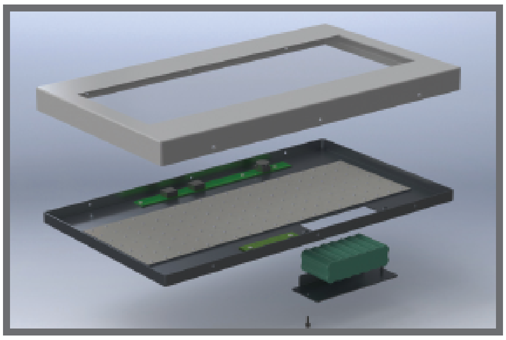
LPA has many years of experience in providing LED and fluorescent lighting solutions. From the design and manufacture of individual drive electronics, LED light engines and optics, through to complete luminaires it is able to deliver reliable and energy efficient solutions appropriate to the application.

LumiSeries™ is an LED-based range which offers a reduction in energy consumption, extended life, weight and space savings. Products include:-

- LumiPanel® - a replacement for complete fluorescent luminaires
- LumiStrip® - a replacement for fluorescent tubes within a luminaire
- LumiSpot™ - a replacement for conventional halogen downlights
- LumiMatrix™ - a light engine, based on chip LED technology, whose modular assembly allows it to be configured into a wide number of shapes



Underground train lighting



LumiMatrix™ technology

Oil & gas terminal lighting

FINANCIAL HIGHLIGHTS

For the year ended 30 September 2011

	2011 £'000	2010 £'000
REVENUE	17,322	14,716
OPERATING PROFIT / (LOSS)	434	(371)
PROFIT / (LOSS) BEFORE TAX	400	(458)
BASIC EARNINGS / (LOSS) PER SHARE	2.93p	(3.35p)
DIVIDENDS PER SHARE	0.90p	0.40p
GEARING	27.1%	47.5%

CONTENTS

COMPANY INFORMATION

Directors

Michael Rusch (Non-Executive Chairman), 66, joined the Company in 1966, five years after its inception. He has been on the Board since 1967. He relinquished his executive duties in 2000.

Peter G Pollock (Chief Executive), 65, is a chartered accountant, with over forty years industrial experience. He joined LPA Group in April 1997. He is a member of Council of the Railway Industry Association and a non-executive director of Ferrabyrne Ltd. Previous positions include Chairman of Lionheart plc, non-executive director of Mentmore Abbey plc and Menvier Swain plc, Chairman of Valetmatic Ltd, Chief Executive of ML Holdings plc, Finance Director UK of Fisher Controls International Inc. and Financial Director of Hawker Siddeley Power Transformers Ltd.

Stephen K Brett (Finance Director), 55, qualified as a chartered accountant in 1982 with Ernst & Whinney in London. Before joining LPA Group in December 2000 he held a number of financial appointments in the manufacturing sector most recently as Vice President Finance for the Environmental Control Division of Invensys plc.

Per F Staehr (Non-Executive Director), 68, is a Danish national with a distinguished international career in the rail, shipping and energy sectors who joined the Board in December 2007. He is currently Chairman of Euroferries Limited, a cross Channel transport project company and a director of EIVA A/S a Danish equipment and software supplier to the subsea survey and maintenance industry. Previously he was Chairman of Bombardier Transportation UK Ltd, Arrow Light Rail Ltd, the Nottingham Tram System concessionaire, Chairman of A2SEA A/S, the leading European offshore wind farm installation contractor, Chairman of the Rail Media Group, Chairman of the Railway Industry Association, a director of Riegens Lighting Ltd, a director of Trico Marine Services Inc, a US quoted subsea services provider and operator of offshore service vessels, Chairman of the Daniamant Group a Danish/UK manufacturer of marine survivor lights and President of Maersk Contractors, a global offshore drilling and contracting company.

Secretary	Stephen K Brett
Registered office	Tudor Works Debden Road Saffron Walden Essex CB11 4AN
Registered number	686429
Nominated adviser	Cairn Financial Advisers LLP 61 Cheapside London EC2V 6AX
Auditors	Grant Thornton UK LLP 101 Cambridge Science Park Milton Road Cambridge CB4 0FY
Registrars	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Broker	XCAP Securities plc 24 Cornhill London EC3V 3ND
Bankers	Lloyds Banking Group plc Endeavour House Chivers Way Histon Cambridge CB24 9ZR
Solicitors	Eversheds LLP 115 Colmore Row Birmingham B3 3AL

CHAIRMAN'S STATEMENT

Results

The welcome recovery from the difficulties experienced in the previous year has resulted in a set of substantially improved figures. Sales increased £2.6m to £17.3m (2010: £14.7m) resulting in an £858,000 turnaround in profit before tax, from a loss of £458,000 in 2010 to a profit of £400,000 in the reported year. Basic earnings per share likewise improved 6.28p, from a loss of 3.35p to earnings of 2.93p. Gearing fell from 47.5% to 27.1% and the order book at the end of the year amounted to £12.9m (2010: £15.4m).

Dividends

The interim dividend of 0.40p was restored and paid. Given the recovery achieved and good prospects in the current financial year your Board considers it appropriate to increase the final dividend by 25% to 0.50p (2010: 0.40p) giving a total for the year of 0.90p (2010: 0.40p). Subject to approval by shareholders at the annual general meeting, to be held at 12.00 noon on 1 March 2012 at the offices of College Hill Associates Limited, London, the final dividend will be paid on 23 March 2012, to shareholders registered at the close of business on 2 March 2012.

Board and management

The Board has remained unchanged throughout the year. The Board invited Peter Pollock, whose contract was due to expire on 6 September 2011, to continue to serve the Company on similar terms until 6 September 2016 and I am delighted to announce that he has agreed to do so.

The executive team was strengthened during the year with new Managing Directors being appointed at each of the operating entities.

Employees

Whether surviving crisis or capitalising on opportunity, our employees are critical to the Group's success and have once again proved to be our most valuable asset.

Property

During the year we identified a suitable property into which to relocate our Saffron Walden activities. We have agreed terms for the acquisition of the property, subject to an acceptable outcome of due diligence.

We have also initiated discussions with the local planning authority to obtain permission for a change of use for our existing factory in Saffron Walden (from industrial to residential), with a view to submitting a planning application in the Spring.

Outlook

The current financial year has started strongly and we have a good order book providing a base load for delivery this year and next. Whilst the general uncertainty created by the financial problems facing the Eurozone is a concern, our policy has been to develop business relationships with train builders supplying the UK (based both at home and overseas) and to develop export markets in Asia and Australasia as well as Europe. LPA Transport+ will continue to promote our position as a provider of solutions to train operators and maintainers in the UK. We are pursuing several major LED-based lighting opportunities, which we hope will contribute to the further rapid growth of the business.

We expect to make further significant progress this year.

Michael Rusch
Chairman
19 January 2012

CHIEF EXECUTIVE'S REVIEW

Trading results

The period under review benefited from deliveries delayed from the previous year, although some of these were at lower margins than we would normally expect. Nevertheless the Group recovered well from the difficulties created by the re-scheduling of approximately £2.3m of activity from the previous year to later periods.

Sales, profits, earnings per share, dividends and gearing all improved and the Group is in a much stronger position to deal with the current uncertainties caused by the financial difficulties facing the Eurozone.

Although the order book fell during the year this did not take account of the full value of projects won. Routine orders were relatively robust.

Our LED-based lighting was selected, and initial orders received, for the Gorgon Gas field project in Australia, and further orders have already been won in the current financial year. We were particularly pleased to be selected to supply LED-based lighting for Siemens' new Inspiro Metro train for Warsaw. We hope that Inspiro will be selected for other cities and that this will lead to further orders. LED lighting sales grew 47% during the year to £2.39m and the many prospects we have generated give us added confidence about the future growth of this business.

Our electro-mechanical business performed well, with good demand for our electrical connectors and the successful supply of train battery rafts on two major projects. We were delighted to win two new orders from Taiwan during calendar year 2011 for our inter-car electrical connectors: these will be supplied on both the Electric Multiple Unit 800 trains and the Tilting Train being built by Taiwan Rolling Stock Corporation and Nippon Sharyo from Japan. We are very pleased with the start that LPA Transport+ has made and we have great expectations for this new turnkey service offering.

Our distribution business delivered an improved performance and is currently working hard on a number of opportunities to develop its activities in aerospace and defence as well as the railway sector.

Details of the financial performance are contained in the Chairman's Statement and the Financial Review.

Markets

The global rail transport market continues to expand rapidly as does manufacturing capacity to satisfy it. Whilst the UK Government has announced new rail vehicle contracts, these have yet to be confirmed as orders.

We endeavour to build relationships with all train builders supplying the UK market, so that we can establish ourselves as suppliers on their new trains, for example Siemens' Inspiro. We also supply Alstom in Italy for the new trains it is building for the UK West Coast Mainline and Alstom in France for SNCF. We have supplied Hitachi with lighting for the Javelin High Speed Train operating in Kent and also for the Dubai and Sentosa Monorail projects. We supplied Bombardier in the UK for Turbostar Diesel Multiple Units and Victoria Line Upgrade. LPA Transport+ will help to secure our position in the after sales support of trains in the UK.

CHIEF EXECUTIVE'S REVIEW

The relatively small size of the UK market and its volatile demand has necessitated that we develop markets outside UK and indeed Europe. We have won very significant orders in Asia and Australasia and we continue to pursue opportunities in these regions.

We compete in a global market and often find ourselves challenged by low cost country sourcing. However our commitment to quality and long life reliability, which results in lower whole life cost, is often a deciding factor in our favour.

The world-wide aircraft ground power supply connector market and the UK defence and aerospace markets remain very important to us.

Design and development

We have added a number of variants of LumiMatrix to our LumiSeries range of energy saving LED-based lighting products. LumiMatrix has evolved into what can best be described as a light engine, which can be configured in almost any shape based on square modules, using power LEDs for industrial applications and chip LEDs for commercial or domestic applications.

Electro-mechanical design and development activity has produced a new connector and electrical contacts which can manage Cat5 data transmission, essential for CCTV and Video on trains.

Structure and costs

A major challenge over the coming months will be the acquisition of alternative accommodation for our Saffron Walden business and obtaining planning permission for a change of use for the present factory so that it may be sold for residential development. We are undertaking due diligence on the purchase of a factory in Saffron Walden, on which we have agreed terms and we are working hard on the planning application for, as well as discussing the sale of, the factory we currently occupy. We shall then have the challenge of managing the refurbishment of the acquired factory and relocating the business to it. This exercise will allow us to reduce the cost base of our electro-mechanical business.

Our LED-based lighting business is growing rapidly and we will be increasing capacity through the addition of an additional surface mount machine and upgrading facilities at our Normanton factory.

Our website has been upgraded.

Strategy

We remain committed to delivering shareholder value over the medium term. The Government spending review has been largely positive towards the rail market in the UK. The strength of sterling versus other currencies in export markets will be an important influence on our customers and the uncertainty in the Eurozone is a concern we seek to mitigate by exporting to Asia and Australasia. As promised, we have continued to reduce our exposure to the sub-contract market, which remains volatile, and have focussed more resource on the after-market for our products through the development of LPA Transport+.

Peter Pollock
Chief Executive
19 January 2012

FINANCIAL REVIEW

Accounts preparation

The accounts have been prepared in accordance with International Financial Reporting Standards (IFRS).

Financial performance

Revenue in the current year increased by £2.6m (17.7%) to £17.32m (2010: £14.72m) and produced an operating profit of £434,000 (2010: loss of £371,000) an advance of £805,000.

In the first half of the year sales of £8.44m (2010: £6.93m) were achieved generating an operating profit of £209,000 (2010: loss of £297,000) with sales and profits up on prior year by £1.51m and £506,000 respectively. The second half result saw further improvement with sales of £8.88m and an operating profit of £225,000 bettering both the first half and the corresponding period last year (2010: sales of £7.79m, loss of £74,000).

The majority of the sales growth was rail project driven and benefitted from the project delays seen in the previous year. This together with a 0.3% improvement in gross margin, to 23.4% (2010: 23.1%), resulted in a gross profit of £4.06m (2010: £3.40m). Other operating expenses were £0.15m below last year at £3.62m (2010: £3.77m): costs in the year included termination costs of £41,000 (2010: £82,000) and share option costs at £3,000 (2010: £47,000).

Within finance costs interest on borrowings fell to £77,000 (2010: £94,000), with comparable interest rates but lower average borrowings, and the interest cost on pension scheme liabilities was slightly lower at £562,000 (2010: £582,000). Finance income, which comprises the return on pension scheme assets, was higher at £605,000 (2010: £589,000).

With a tax charge of £65,000 (2010: credit of £75,000) the profit for the year was £335,000 (2010: loss of £383,000) representing basic earnings per share of 2.93p (2010: loss of 3.35p).

Balance sheet

At the end of the year shareholders' funds were £4.29m (2010: £3.96m) giving a net asset value per ordinary share of 37.5p (2010: 34.6p). The tangible net asset value per share, calculated excluding intangible assets and the net pension liability from the calculation, was 25.9p (2010: 24.7p).

Property, plant and equipment at 30 September was £1.66m (2010: £1.79m) of which property made up £0.80m and plant and equipment £0.86m. Net additions, which remain focused in the areas of production and engineering, were £143,000 (2010: £83,000) and the depreciation charge for the year was £276,000 (2010: £323,000). The carrying value of the Group's freehold properties does not reflect any redevelopment upside.

Net trading assets (defined as inventories plus trade and other receivables, less trade and other payables, provisions and current tax) decreased to £2.43m (2010: £2.84m), benefitting from lower project related inventories at the year end.

Net debt fell £0.72m over the year to £1.16m and gearing was significantly improved at 27.1% (2010: 47.5%).

Intangible assets which total £1.32m (2010: £1.33m) comprise goodwill and capitalised development costs. Goodwill was unchanged at £1.23m (2010: £1.23m) and largely relates to the Group's investment in Excil Electronics: there was no impairment charge in the year (2010: £nil). Capitalised development costs at the end of the year were £89,000 (2010: £96,000) and relate to the development of LED lighting products.

The pension liability included in the balance sheet at the end of the previous year of £276,000 reduced to £nil. The change comprised an actuarial gain of £804,000 (2010: loss of £148,000) recognised in the statement of comprehensive income, an income statement credit of £43,000 (2010: £7,000) together with contributions received of £100,000 (2010: £nil): this gave rise to an actuarial surplus of £671,000 which, not being considered recoverable, was restricted to £nil with the £671,000 restriction being taken through the statement of comprehensive income.

The actuarial gain of £804,000 (2010: loss of £148,000) principally resulted from changes in the financial assumptions adopted of £1,132,000 (2010: loss of £798,000), less a worse than expected asset return of £323,000 (2010: gain of £432,000) and an experience loss on liabilities of £5,000 (2010: gain of £218,000). The financial assumption changes and resultant actuarial gains of £1,132,000 comprised increased mortality at £574,000, lower inflation at £388,000 and an increase in the discount rate at £170,000.

Cash flow

The much improved trading performance combined with lower levels of working capital at the year end resulted in £1,140,000 of cash generated from operations (2010: cash absorption of £185,000). With tax receipts of £18,000 (2010: paid £36,000) and pension contributions of £100,000 (2010: £nil) net cash absorbed from operating activities was £1,058,000 (2010: absorption of £221,000).

Capital expenditure increased to £144,000 (2010: £83,000), asset disposal proceeds were £6,000 (2010: £1,000) and development expenditure capitalised in the year amounted to £31,000 (2010: £42,000).

Debt repayments were in line with last year at £408,000 (2010: £408,000), interest payments on borrowings fell to £77,000 (2010: £86,000) but dividend payments, following the reinstatement of the interim dividend, were higher at £92,000 (2010: £46,000).

Overall there was a net increase in the cash position of £312,000 (2010: decrease of £885,000).

Net debt

An analysis of the change in net debt is shown below:

	Bank loan	Finance lease obliga-tions	Cash & cash equiva-lents	Net debt
	£'000	£'000	£'000	£'000
At 1 October 2010	655	253	976	1,884
Cash generated	-	-	(720)	(720)
Repayment of borrowings	(291)	(117)	408	-
At 30 September 2011	364	136	664	1,164

The bank loan is repayable in 5 quarterly instalments of £73,000 the last being in October 2012, the finance lease obligations are repayable over the next two years, and the bank overdraft of £0.67m (2010: £0.98m) is repayable on demand. At the year-end the Group was holding minimal cash and had £1.84m (2010: £1.02m) of un-drawn overdraft facilities available to it.

Subsequent to the year end the Group has re-negotiated its working capital facilities through to the end of January 2013. These total £2.7m (previously £3.2m) and provide for an overdraft limit of £2.0m (previously: £2.5m) and unchanged guarantee and forward exchange contract facility limits of £0.6m and £0.1m respectively. Interest payable on the overdraft facility is unchanged at 2.5% over the prevailing base rate.

In addition term loan finance has been negotiated which would allow, subject to the satisfactory outcome of due diligence, the Group to purchase alternative premises in Saffron Walden.

Treasury

The Group's treasury policy operates within approved Board guidelines and has not changed since 2010. It seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its foreign currency, interest rate, liquidity and credit risks. Further details on the Group's borrowings, financial instruments, and its approach to financial risk management are given in notes 14 and 15.

Stephen Brett
Finance Director
19 January 2012

DIRECTORS' REPORT

The directors present their annual report together with the audited financial statements for the year ended 30 September 2011.

Results and dividends

The profit for the year amounted to £335,000 (2010: loss of £383,000). The directors recommend the payment of a final ordinary dividend of 0.50p (2010: 0.40p), which together with the interim dividend of 0.40p (2010: nil) makes a total for the year of 0.90p per share (2010: 0.40p

Business review

The principal activities of the Group continue to be the design, manufacture and marketing of industrial electrical and electronic accessories. Descriptions of the Group's development and performance during the year, position at the year end and likely future prospects are reviewed in the Chairman's Statement, the Chief Executive's Review and the Financial Review on pages 3 to 7. The information in all of these sections are incorporated by reference and form part of this business review.

The business review and other content of this annual report have been prepared solely for the shareholders of the Company as a body. To the extent permitted by law the Company, its directors, officers and employees disclaim liability to any other persons in respect of the information contained in this annual report. Sections may include statements containing risks and uncertainties facing the Group, and other forward-looking statements, which by their nature involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The Company undertakes no obligation to update any forward-looking statements.

Key performance indicators

The Group uses the below key performance indicators to assess the progression in its business: factors affecting them are discussed in the Chief Executive's Review and the Financial Review on pages 4 to 7.

- Orders to sales (orders for the year expressed as a multiple of sales) as a measure of prospective growth being 0.86 in the current year (2010: 0.90, 2009: 1.66);
- Sales growth (the increase in year-on-year sales as a percentage of prior year sales) as a measure of current growth being 17.7% for the current year (2010: 7.3%; 2009: -9.1%);
- Gross margin (gross profit as a percentage of turnover) as a measure of profitability being 23.4% in the current year (2010: 23.1%, 2009: 26.2%); and
- Net cash flow (net increase in cash before the repayment of borrowings and issue of equity) as a measure of cash generation being £720,000 for the current year (2010: -£477,000, 2009: £454,000).

Principal risks and uncertainties

The Group's approach to risk management is detailed within the Corporate Governance Report. The principal risks confronting the Group, where adverse changes could impact results, are summarised below:

- The Group's sales dependence upon the rail sector in general, and UK rail in particular. The Group: monitors the rail market for advance warning of negative developments; has expanded into selected export markets; derives revenues from both new-build and the aftermarket; and benefits from the diverse nature of its non-rail products, customers and markets served, which help mitigate the impact of this dependence.
- Certain activities benefit from long standing commercial relationships with key customers and suppliers. The Group devotes resource to ensure that good customer relationships are maintained while continuing to build relationships with new customers across different business sectors and geographies. The Group monitors supply-chain risks and endeavors to develop contingency plans to mitigate the impact of supplier failure.

- Group activities variously operate in competitive markets which are subject to product innovation, technical advances and intensive price competition. The Group invests in research and development to develop new technologies and products in order to sustain or improve its competitive position. The Group keeps its structure under review and takes appropriate action to ensure that its cost base remains competitive.
- The Group is exposed to a number of financial market risks including liquidity and credit risk, and through movements in foreign exchange and interest rates. A description of these risks and the Group's approach to managing them is described in note 15 to the financial statements.
- Poor investment returns and longer life expectancy may result in an increased cost of funding the Group's defined benefit pension arrangement. The Group and the trustees of the scheme review these risks with actuarial and investment advice as appropriate and take action to mitigate the risks where possible. The scheme was closed to future accrual in September 2009.

Going concern

A statement regarding the going concern of the business is set out in accounting policies on page 24.

Substantial shareholdings

As far as the directors are aware the only shareholders with a beneficial interest as at 31 December 2011 representing 3 per cent or more of the issued share capital were:

	No. of shares	%
Mr Andrew Perloff	1,760,000	15.37%
Mr Michael Rusch (director)	808,000	7.06%
Mrs Ellen Rusch	804,044	7.02%
Mr Peter Pollock (director)	650,000	5.68%
Mrs Marilyn Porter	531,053	4.64%
Mrs Susan Thynne	426,674	3.73%
HSBC Global Custody Nominee (UK)	425,000	3.71%

Research and development

The Group is committed to research and development activities to ensure its position as a market leader in the manufacture of electrical components in its market sectors.

Employment policies

The importance of promoting and maintaining good communications with the Group's employees is recognised and its policy is to keep employees regularly informed on matters relating to their employment through circulars and team briefings.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Health, safety and the environment

It is Group policy to maintain healthy and safe working conditions and to operate in a responsible manner with regard to the environment.

Charitable contributions

Contributions for charitable purposes during the year amounted to £1,102 (2010: £1,351).

Payment policy

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not have a formal standard which deals specifically with payment to suppliers. The Group had 46 days (2010: 68 days) purchases outstanding at 30 September 2011. The Company has minimal third party creditors.

DIRECTORS' REPORT (CONTINUED)

Directors and their interests

The current directors of the Company and brief biographical details are given on page 2. All directors served throughout the year. A statement of their remuneration and interests in the ordinary shares of the Company and share options are set out in the Remuneration Report. No director had any material interest in any contract with the Group. In accordance with the articles of association Peter Pollock and Stephen Brett retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' responsibilities statement

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

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

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

In so far as each of the directors is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Annual general meeting

The annual general meeting is to be held at the offices of College Hill Associates Limited, The Registry, Royal Mint Court, London, EC3N 4QN at 12 noon on Thursday 1 March 2012. The Notice of Meeting is set out on pages 65 and 66. Other business includes three resolutions which relate to share capital:

- The first is an ordinary resolution to renew the authority of the directors to allot shares generally;
- The second is a special resolution to give power to the directors to allot equity securities for cash without first offering them to existing shareholders; and
- The third is a special resolution to permit the Company to make market purchases of its own shares.

These authorities, which are the same as those sought and approved at last year's annual general meeting, are part of the portfolio of powers commonly granted to directors to ensure flexibility, should appropriate circumstances arise, to either allot shares, or make purchases of the Company's own shares in the best interests of shareholders. Each authority will run through until the next annual general meeting. The directors have no present intention of using such authorities.

Auditors

Grant Thornton UK LLP are willing to continue in office and a resolution to reappoint them as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board
Stephen Brett
Secretary
19 January 2012

LPA Group plc is registered in England No 686429

CORPORATE GOVERNANCE REPORT

Whilst it is not a requirement for AIM listed companies to comply with the corporate governance principles contained in the UK Corporate Governance Code (June 2010) (the 'new Code'), the Board has regard to those principles and its activities in the area of corporate governance are set out in the below report and in its Remuneration Report on pages 14 to 17.

There are areas where the Company is not in compliance with the new Code, particularly in relation to the number and independence of non-executive directors, but the Board considers its present composition, and that of its standing committees, to be appropriate to its circumstances, and that the cost of further non-executive directors at this time would be disproportionate to the potential benefits. The Board is committed to reviewing compliance with the new Code regularly.

Board composition and responsibility

The Board comprises two non-executive directors, including the Chairman, and two executive directors.

There is a clear division of responsibility between the non-executive Chairman and the Chief Executive.

Of the non-executive directors only Per Staehr is regarded as independent; Michael Rusch was an executive director before he became non-executive Chairman in June 2000. The non-executive directors are from varied backgrounds and bring with them a range of skills and experience in commerce and industry.

The Board meets at least six times during the year, with additional meetings being convened as necessary. The principal responsibilities of the Board are to agree overall strategy and investment policy, to approve the annual budget, to monitor the performance of the senior management, and to ensure that there are proper internal financial controls in place. There is a formal schedule of matters reserved for Board approval. The nature and size of the Group ensures that the Board considers all major decisions.

Directors are subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years.

All directors have access to the advice and services of the company secretary, who is also responsible for ensuring that Board procedures are followed. There is also a procedure in place for any director to take independent professional advice if necessary, at the Company's expense.

Board committees

The Board has two standing committees, the Audit Committee and the Remuneration Committee. These comprise the Board's non-executive directors, Per Staehr (who is Chairman of both) and Michael Rusch.

The Audit Committee has written terms of reference and meets at least twice a year. It is responsible for reviewing a range of financial matters including the interim and final accounts, monitoring the controls which ensure the integrity of the financial information reported to the shareholders, making recommendations to the Board in relation to the appointment of the external auditor, and approving the remuneration and terms of reference for the external auditor. It also meets with the external auditor who attends its meetings when required.

The Remuneration Committee meets at least twice a year and its principal function is to determine executive remuneration policy on behalf of the Board. In addition the committee is responsible for supervising the various share option schemes and for the granting of options under them.

Internal control

The Board has overall responsibility for the Group's system of internal control, which is designed to provide reasonable but not absolute assurance against material misstatement or loss. The Board confirms that the system of internal control accords with the Turnbull Committee Guidance.

The Board has considered the establishment of procedures to implement the Turnbull Committee Guidance on internal control and in response assigned day-to-day responsibility for the continuous review of risk management to the executive directors. The Board received a report on risk issues and reviewed the effectiveness of the Group's systems of internal controls in relation to financial, operational and compliance controls and risk management. Risk management is discussed formally at each Board meeting.

In addition the Board reviewed the requirement for an internal audit function and having regard to the size of the Group, the costs of such a function versus the likely benefit, sufficient assurance as to the functioning of the system of internal control, and that the circumstances confronting the Group remain unchanged, considered there was no such requirement at this time.

In relation to business risk a continuous process of risk assessment and reporting has been adopted. Executive directors report regularly to the Board on major business risks faced by individual operating units and by the Group and how it is proposed that those risks be managed. Through this, business risks are assessed according to their nature and urgency and the Board considers what would be an appropriate response.

The Board has defined a formal schedule of matters specifically reserved for decision by it and the delegated authorities of its committees and the executive directors.

The Group has a clear organisation structure and reporting framework. Whilst the management of operating units exercise autonomy in the day-to-day running of their businesses, given the size of the Group, the executive directors remain close to the decisions made at each operating unit.

The Group has a system of budgeting, forecasting and reporting which enables the Board to set objectives and monitor performance. Each operating unit prepares a budget annually, which includes projections for the next two years. These budgets are reviewed in detail by the executive directors and consolidated for review by the Board. Forecasts are updated twice annually. The Group's performance against budget and forecast is continuously monitored by the executive directors, reviewed formally by the executive directors who regularly attend local management meetings, and by the Board at least quarterly.

The Group operates an investment approval process. Board approval is required for all acquisitions and divestments.

Through the procedures outlined above the Board has considered all significant aspects of internal control for the year to September 2011 and up to the date of this annual report.

Shareholder relationships

The Board regards the annual general meeting as an important opportunity to meet and communicate with shareholders in general and private investors in particular. Directors make themselves available to shareholders both before and after the annual general meeting and on an ad hoc basis during the year subject to normal disclosure rules. In addition to the annual report, the Company also issues an interim report to shareholders and has its own website at 'www.lpa-group.com'.

By order of the Board
Stephen Brett
Secretary
19 January 2012

REMUNERATION REPORT

This report has not been prepared in accordance with the Companies Act 2006 because as an AIM listed company LPA Group plc does not fall within the scope of the Regulations.

Unaudited information

Remuneration policy

The Company's policy is to design executive remuneration packages to attract, motivate and retain directors of a high calibre and to reward them for enhancing value to shareholders. The performance measurement of the executive directors and the determination of their annual remuneration package are undertaken by the Remuneration Committee (the composition of which is described in the corporate governance report on page 12).

There are four main elements of the remuneration packages of the executive directors:

- basic annual salary and benefits;
- annual bonus payments;
- share option incentives; and
- pension arrangements

The Company's policy is that a proportion of the remuneration of the executive directors should be performance related. Executive directors may earn annual incentive payments, based on achievement of projections for the financial year, together with the benefits of participation in share option schemes. The Company does not operate any long-term incentive schemes other than the share option schemes noted.

Executive directors are entitled to accept appointments outside the Company providing that the Chairman's permission is sought.

Executive directors' remuneration and terms of appointment

Executive directors' basic salaries are reviewed by the Remuneration Committee annually, usually in December for implementation in January, and are set to reflect the directors' responsibilities, experience and marketability. Regard is also given to the level of rewards made in the year to staff. The objectives that must be met for the financial year if a bonus is to be paid are confirmed at the same time.

Peter Pollock has a service contract dated 19 January 2007, with a rolling notice period of one year and with an entitlement to twelve months compensation in the event of early termination by the Company. This service contract was amended during the year and now provides that employment under the agreement will automatically terminate on his 70th birthday (formerly 65th birthday) and that entitlement to compensation in the event of early termination by the Company will reduce to six months from September 2014. As at 1 January 2012 Peter Pollock's annual salary was £158,340 (unchanged since January 2009) and he is entitled to the provision of a car or allowance and private health insurance. In addition he may also be granted options under the various Group share schemes and, subject to the achievement of the Group's growth objectives, be entitled to payments under the Company's discretionary bonus scheme. The Company will make a contribution of 23.4% (2011: 12%) of salary to his personal pension arrangement in this financial year: pension contribution payments will cease as of March 2012.

Stephen Brett has a service contract dated 19 January 2007, with a rolling notice period of one year, with an entitlement to twelve months compensation in the event of early termination by the Company, and which provides that employment under the agreement will automatically terminate on his 60th birthday. As at 1 January 2012 his annual salary was £120,000 (2011: £107,890) and he is entitled to the provision of a car or allowance and private health insurance. In addition he may also be granted options under the various Group share schemes and, subject to the achievement of the Group's growth objectives, be entitled to payments under the Company's discretionary bonus scheme. The Company makes a contribution of 12% of salary to his personal pension arrangement.

Non-executive directors' remuneration and terms of appointment

The remuneration of the non-executive directors is determined by the Board as a whole and the policy is to pay an appropriate level of remuneration for their work on the Board and its committees. Non-executive directors are normally appointed for an initial period of three years. Appointments are made under a letter of appointment subject to retirement by rotation or removal under the Company's articles of association. Non-executive directors do not participate in the Group's share option arrangements.

Michael Rusch (non-executive chairman) has a three-year term of office, as set out in his letter of re-appointment dated 28 January 2010, which expires at the conclusion of the Company's annual general meeting to be held in the spring of 2013. As at 1 January 2012 he received fees of £24,760 per annum (2011: £22,510) and he is entitled to the provision of a car or allowance and private health insurance.

Per Staehr (non-executive director) has a term of office, as set out in his letter of re-appointment dated 26 January 2011, which expires at the conclusion of the Company's annual general meeting to be held in the spring of 2014. As at 1 January 2012 he received fees of £21,460 per annum (2011: £19,510).

Information subject to audit

Directors' remuneration

Directors' remuneration for the year was as follows:

	Salaries and fees £'000	Bonus £'000	Benefits £'000	Money purchase pension contribution £'000	Total 2011 £'000	Total 2010 £'000
Peter G Pollock	158	16	23	20	217	197
Stephen K Brett	108	11	13	15	147	134
	266	27	36	35	364	331
Michael Rusch	22	-	20	-	42	40
Per F Staehr	20	-	-	-	20	20
	308	27	56	35	426	391

REMUNERATION REPORT (CONTINUED)

Pension entitlement

The pension scheme entitlements under the defined benefit scheme are as follows:

	Accrued pension at 30 September		Transfer value of accrued pension at 30 September		Increase in transfer value over the year
	2011	2010	2011	2010	
	£'000	£'000	£'000	£'000	£'000
Stephen K Brett	32	32	628	563	65

The entitlement shown is that which would be paid annually on retirement, based on service to, and final pensionable salary at September 2009, the point at which the scheme was closed to future accrual. Transfer values are calculated on the basis used by the Scheme Trustees having taken advice from the Scheme Actuary.

Directors' shareholdings

Shareholdings of those serving at the year end were:

	Number of ordinary shares		
	1 October 2010	30 September 2011	31 December 2011
Michael Rusch	808,000	808,000	808,000
Peter G Pollock	650,000	650,000	650,000
Stephen K Brett	97,500	97,500	97,500
Per F Staehr	115,000	125,000	125,000

In the period Per Staehr purchased 10,000 shares at a price of 34.5p.

Directors' interests in share options

	At 1 October 2010	At 30 September 2011	Option price	Earliest exercise date	Latest exercise date
Peter G Pollock					
1997 Unapproved Share Option Scheme	100,000	-	59p	29 Mar 2004	28 Mar 2011
1997 Unapproved Share Option Scheme	75,000	75,000	32p	31 Jan 2005	30 Jan 2012
1997 Unapproved Share Option Scheme	35,000	35,000	39p	8 Mar 2010	7 Mar 2017
2007 Employee Share Option Scheme	540,000	540,000	36p	31 Jul 2010	30 Jul 2017
2007 Employee Share Option Scheme	-	100,000	32p	1 Apr 2014	31 Mar 2021
	750,000	750,000			
Stephen K Brett					
1997 Unapproved Share Option Scheme	100,000	-	59p	29 Mar 2004	28 Mar 2011
1997 Unapproved Share Option Scheme	75,000	75,000	32p	31 Jan 2005	30 Jan 2012
1997 Unapproved Share Option Scheme	15,000	15,000	39p	8 Mar 2010	7 Mar 2017
2007 Employee Share Option Scheme	235,000	235,000	32p	31 Jul 2010	30 Jul 2017
2007 Employee Share Option Scheme	-	100,000	32p	1 Apr 2014	31 Mar 2021
	425,000	425,000			

During the year both Peter Pollock and Stephen Brett were granted options over 100,000 shares under the 2007 Employee Share Option Scheme at an option price of 32p and options over 100,000 shares held under the 1997 Unapproved Share Option Scheme at an option price of 59p lapsed.

Details of the share option schemes in operation during the year are given in note 19.

Per Staehr
Chairman of the Remuneration Committee
19 January 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LPA GROUP PLC

We have audited the financial statements of LPA Group Plc for the year ended 30 September 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LPA GROUP PLC

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
19 January 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 30 September 2011

	Note	2011 £'000	2010 £'000
Revenue	2	17,322	14,716
Cost of sales		(13,265)	(11,315)
Gross profit		4,057	3,401
Distribution costs		(1,374)	(1,488)
Administrative expenses		(2,249)	(2,284)
Operating profit / (loss)		434	(371)
Finance costs	4	(639)	(676)
Finance income	5	605	589
Profit / (loss) before tax	6	400	(458)
Taxation	7	(65)	75
Profit / (loss) for the year		335	(383)
Earnings / (loss) per share	8		
Basic		2.93p	(3.35p)
Diluted		2.92p	(3.35p)

All activities are continuing.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2011

	Note	2011 £'000	2010 £'000
Profit / (loss) for the year		335	(383)
Cash flow hedges:			
Losses taken to equity		(5)	(10)
Transferred to profit / (loss) for the year		15	(13)
Tax on cash flow hedges		(3)	8
Actuarial gain / (loss) on pension scheme	20	133	(148)
Tax on actuarial gain / (loss)	17	(58)	41
Other comprehensive income / (expense) net of tax		82	(122)
Total comprehensive income / (expense) for the year		417	(505)
Attributable to:			
-Equity holders of the parent		417	(505)

CONSOLIDATED BALANCE SHEET

At 30 September 2011

	Note	2011 £'000	2010 £'000
Non-current assets			
Intangible assets	9	1,323	1,330
Property, plant and equipment	10	1,658	1,791
Deferred tax assets	17	46	218
		3,027	3,339
Current assets			
Inventories	11	2,157	2,473
Trade and other receivables	12	3,049	3,405
Current tax receivable		-	18
Cash and cash equivalents		6	5
		5,212	5,901
Total assets		8,239	9,240
Current liabilities			
Bank overdraft	14	(670)	(981)
Bank loans and other borrowings	14	(392)	(407)
Current tax payable		(8)	-
Trade and other payables	13	(2,740)	(3,027)
		(3,810)	(4,415)
Non-current liabilities			
Bank loans and other borrowings	14	(108)	(501)
Provisions	16	(5)	(5)
Retirement benefits	20	-	(276)
Deferred tax liabilities	17	-	(54)
Other payables	13	(24)	(25)
		(137)	(861)
Total liabilities		(3,947)	(5,276)
Net assets		4,292	3,964
Equity	18		
Share capital		1,145	1,145
Share premium account		365	365
Un-issued shares reserve		195	192
Revaluation reserve		307	308
Merger reserve		230	230
Retained earnings		2,050	1,724
Equity attributable to shareholders of the parent		4,292	3,964

The financial statements were approved by the Board on 19 January 2012 and signed on its behalf by:

S K BRETT Director

P G POLLOCK Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2011

2011	Share capital £'000	Share premium account £'000	Un-issued shares reserve £'000	Revaluation reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2010	1,145	365	192	308	230	1,724	3,964
Profit for the year	-	-	-	-	-	335	335
Cash flow hedges	-	-	-	-	-	7	7
Actuarial gain on pension scheme	-	-	-	-	-	75	75
Total comprehensive income	-	-	-	-	-	417	417
Dividends	-	-	-	-	-	(92)	(92)
Share-based payments	-	-	3	-	-	-	3
Transfer	-	-	-	(1)	-	1	-
Transactions with owners	-	-	3	(1)	-	(91)	(89)
At 30 September 2011	1,145	365	195	307	230	2,050	4,292

2010	Share capital £'000	Share premium account £'000	Un-issued shares reserve £'000	Revaluation reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2009	1,145	365	145	309	230	2,274	4,468
Loss for the year	-	-	-	-	-	(383)	(383)
Cash flow hedges	-	-	-	-	-	(15)	(15)
Actuarial loss on pension scheme	-	-	-	-	-	(107)	(107)
Total comprehensive expense	-	-	-	-	-	(505)	(505)
Dividends	-	-	-	-	-	(46)	(46)
Share-based payments	-	-	47	-	-	-	47
Transfer	-	-	-	(1)	-	1	-
Transactions with owners	-	-	47	(1)	-	(45)	1
At 30 September 2010	1,145	365	192	308	230	1,724	3,964

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 September 2011

	2011 £'000	2010 £'000
Profit / (loss) for the year	335	(383)
Finance costs	639	676
Finance income	(605)	(589)
Income tax	65	(75)
Operating profit / (loss)	434	(371)
Adjustments for:		
Depreciation	276	323
Amortisation of intangible assets	38	5
Gain on sale of property, plant and equipment	(5)	(1)
Non-cash charge for equity-settled share-based payments	3	47
	746	3
Movements in working capital:		
Change in inventories	316	22
Change in trade and other receivables	356	(610)
Change in trade and other payables	(278)	400
Cash generated from operations	1,140	(185)
Income tax received / (paid)	18	(36)
Retirement benefits (pension contributions)	(100)	-
Net cash from operating activities	1,058	(221)
Purchase of property, plant and equipment	(144)	(83)
Proceeds from sale of property, plant and equipment	6	1
Capitalised development expenditure	(31)	(42)
Net cash from investing activities	(169)	(124)
Repayment of bank loans	(291)	(291)
Repayment of obligations under finance leases	(117)	(117)
Interest paid	(77)	(86)
Dividends paid	(92)	(46)
Net cash from financing activities	(577)	(540)
Net increase / (decrease) in cash and cash equivalents	312	(885)
Cash and cash equivalents at start of year	(976)	(91)
Cash and cash equivalents at end of year	(664)	(976)

Reconciliation of cash and cash equivalents	2011 £'000	2010 £'000
Cash and cash equivalents in current assets	6	5
Bank overdraft in current liabilities	(670)	(981)
Cash and cash equivalents at end of year	(664)	(976)

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

A. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and applicable law (IFRS). The financial statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value, as disclosed in the accounting policies below. The measurement bases and principal accounting policies of the Group are set out below.

B. Going concern

The Group's business activities and the factors likely to affect its future performance are set out in the Directors' Report on pages 8 to 11 and in the Chairman's Statement and the Chief Executive's Review on pages 3 to 5. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 6 to 7. In addition the Group's treasury policy, its approach to the management of financial risk, and in particular its exposure to liquidity and credit risks are outlined in note 15.

In assessing going concern the directors note that whilst current economic conditions create uncertainty as the Group has: (i) achieved an improved trading performance in the current year; (ii) recently renewed its working capital facilities until the end of January 2013; (iii) a strong order book; (iv) significant opportunities within its market place; and (v) proven adaptable in past periods of adversity, the directors believe that it is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

C. Changes in accounting policies

Accounting policies adopted by the Group are unchanged In the current financial year. Amendments and interpretations that became effective for the first time in the current period but have had no impact on the results or financial position of the Group.

D. New standards and interpretations not applied

The following new standards, amendments to standards and interpretations have been issued but are not effective for the year to September 2011 and have not been adopted early:

- IFRS9 - Financial Instruments (effective 1 January 2015)
- IFRS10 - Consolidated Financial Statements (effective 1 January 2013)
- IFRS11 - Joint Arrangements (effective 1 January 2013)
- IFRS12 - Disclosure of Interests in Other Entities (effective 1 January 2013)
- IFRS13 - Fair Value Measurement (effective 1 January 2013)
- IAS24 (Revised 2009) - Related Party Disclosures (effective 1 January 2011)
- IAS19 (Revised June 2011) - Employee Benefits (effective 1 January 2013)
- IAS27 (Revised) - Separate Financial Statements (effective 1 January 2013)
- IAS28 (Revised) - Investments in Associates and Joint Ventures (effective 1 January 2013)
- Amendments to IFRIC14 - Prepayments of a Minimum Funding Requirement (effective 1 January 2011)

1. Accounting Policies (continued)

D. New standards and interpretations not applied (continued)

- Improvements to IFRS issued May 2010 (Note: some changes are effective 1 July 2010, though not yet EU-adopted; others effective 1 January 2011)
- Amendments to IFRS7 - Disclosures - Transfers of Financial Assets (effective 1 July 2011)
- Amendments to IAS12 - Income Taxes - Deferred Tax: Recovery of Underlying Assets (effective 1 January 2012)
- Amendments to IAS1 - Presentation of Items of Other Comprehensive Income (effective 1 July 2012)

The adoption of the above will not have a significant impact on the financial statements.

E. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (together the "Group"). Subsidiaries are those entities over which the Company has the power to control the financial and operating policies so as to obtain benefits from its activities. The Company obtains and exercises control through voting rights. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases.

Intragroup balances and transactions, and any unrealised gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of the fair value of the consideration transferred over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

F. Intangible assets

Goodwill

Goodwill representing the excess of the fair value of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses.

Goodwill on acquisitions prior to 1 January 1998 was deducted from reserves in the year of acquisition. Such goodwill continues as a deduction from reserves and is not recognised in the income statement in the event of disposal.

Goodwill arising on acquisitions after 1 January 1998 was previously capitalised as an intangible asset and amortised on a straight-line basis over a maximum 20 years. The un-amortised goodwill under UK GAAP at 30 September 2006 became the opening goodwill under the Group's transition to IFRS on 1 October 2006.

On transition to IFRS the Group took advantage of exemptions from the requirement to record separately identifiable intangible assets.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies (continued)

F. Intangible assets (continued)

Research and development

Research expenditure is expensed in the income statement as incurred.

Development expenditure on a project is written off as incurred unless it can be demonstrated that the following conditions for capitalisation, in accordance with IAS38 "Intangible assets", are met:

- the intention is to complete the development of the intangible asset and use or sell it;
- the development costs are separately identifiable and can be measured reliably;
- management are satisfied as to the ultimate technical and commercial viability of the project; so that it will be available for use or sale;
- management are satisfied with the availability of technical, financial and other resources to complete the development and use or sell the intangible asset; and
- it is probable that the asset will generate future economic benefit.

Any subsequent development costs are capitalised and are amortised, within cost of sales, from the date the product or process is available for use, on a straight line basis over its estimated useful life. The useful life for the development costs capitalised at the current year-end is 5 years.

G. Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment.

On first adoption of IFRS the carrying value of freehold land and buildings that had previously been revalued is shown as deemed cost, and not subsequently revalued. The revaluation surplus that had been previously recognised is retained in the revaluation reserve and transferred to distributable reserves on impairment, depreciation or disposal of the relevant properties.

Depreciation is calculated to write down the cost or valuation, less estimated residual value, of all property, plant and equipment, other than freehold land, by equal annual instalments over their estimated useful economic lives. The rates generally applicable are:

Freehold buildings	2%
Plant, machinery and equipment	7% - 15%
Motor vehicles	20%
Furniture, fittings and office equipment	10% - 15%
Computers	20% - 33%

Residual values are reviewed annually.

A profit or loss on disposal is recognised in the income statement at the surplus or deficit of disposal proceeds over net carrying amount of the asset at the time of disposal.

H. Leased assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases are capitalised and included in property, plant and equipment at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, and then depreciated over their useful economic lives. Obligations related to finance leases, net of finance charges in respect of future periods, are included within liabilities on the balance sheet. Lease payments are apportioned between finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

All other leases are classified as operating leases and the payments made under them are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives are spread over the term of the lease.

1. Accounting Policies (continued)

I. Impairment of assets

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The recoverable amount of the cash-generating unit to which goodwill relates is tested annually for impairment or when events or changes in circumstances indicate that it might be impaired. The carrying values of property, plant and equipment and intangible assets other than goodwill are reviewed for impairment only when events indicate the carrying value may be impaired.

In an impairment test, the recoverable amount of the cash generating unit or asset is estimated to determine the extent of any impairment loss. The recoverable amount is the higher of fair value less costs to sell and the value in use to the Group. An impairment loss is recognised in the income statement to the extent that the carrying value exceeds the recoverable amount.

In determining a cash-generating unit's or asset's value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the cash-generating unit or asset that have not already been included in the estimate of future cash flows.

A previously recognised impairment loss, other than goodwill, is reversed only if there has been a change in the previous indicator used to determine the assets recoverable amount since the last impairment loss was recognised. The reinstated carrying amount cannot exceed the carrying amount that would have been determined, net of amortisation, had no impairment loss been recognised for the asset in prior years.

J. Inventories

Inventories are stated at the lower of cost and net realisable value. The costs of ordinarily interchangeable items are based on a first-in, first-out basis. Cost includes direct materials, direct labour and an appropriate proportion of production overheads based on normal levels of activity.

K. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

L. Financial instruments

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. The Group's financial liabilities comprise trade payables and borrowings.

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

Borrowings are recognised initially at fair value, net of direct issue costs. Subsequently they are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

A financial liability is derecognised only when the obligation is discharged, cancelled or expires.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies (continued)

L. Financial instruments (continued)

Financial assets

The Group's classification of financial assets is determined by management at initial recognition, and is dependent upon the purpose for which the financial assets were acquired. The Group's financial assets have been classified as loans and receivables and comprise trade receivables, and cash and cash equivalents. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. A financial asset is recognised when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

An impairment provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. This assessment is made at each reporting date. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

A financial asset is de-recognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for de-recognition. A financial asset that is transferred qualifies for de-recognition if the Group transfers substantially all the risks and rewards of ownership of the asset.

Derivative financial instruments and hedging activities

Derivative financial instruments, comprising foreign exchange contracts, are used by the Group in the management of its foreign currency exposures.

Derivatives are initially recognised at fair value on the date a contract is entered into and are subsequently re-measured at fair value at the balance sheet date. The gain or loss on re-measurement is taken to the income statement except where the derivative is part of a designated cash flow hedge.

To qualify for hedge accounting the cash flow hedge must be formally designated and documented as such at inception, be expected to be highly effective, have its effectiveness regularly tested, and the forecast transaction to which it relates must be highly probable. The effective portion of changes in the fair value of derivatives that qualify as a cash flow hedge are recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion of a cash flow hedge is recognised in the income statement. Amounts accumulated in equity are reclassified from equity to the income statement in the periods when the hedged item affects the profit or loss. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss recognised in other income is reclassified from equity to profit or loss.

M. Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange gains and losses arising are credited or charged to the income statement within net operating costs in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies (continued)

N. Taxation

Current tax represents the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and taking into account any adjustments in respect of prior years.

Deferred tax is calculated using the balance sheet liability method on temporary differences, and provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. Deferred tax is measured at the tax rates that are expected to apply when the temporary differences reverse, based on the tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilised.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

O. Revenue

Revenue comprises the invoiced value of the design, manufacture and supply of products by the Group excluding value added tax, trade and volume discounts.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer of the goods, generally upon delivery, and reliable measurement is possible. Revenue is not recognised where recovery of the consideration is not probable or there are significant uncertainties regarding associated costs, or the possible return of goods.

Where a project combines the design with the manufacture and supply of products, the revenue from the project is recognised on the achievement of milestones in accordance with specific contractual agreements.

P. Employee benefits

Equity-settled share-based payments

Share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 October 2006 are recognised in the financial statements.

The cost of share-based employee compensation arrangements, whereby employees receive remuneration in the form of share options, is recognised as an employee benefit expense in the income statement, with a corresponding credit to the un-issued shares reserve.

The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value of the share options awarded (at the date of grant) and the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest, and recognises the impact of any revision to original estimates in the income statement.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Defined contribution pension plans

The cost of defined contribution pension plans is charged to the income statement as incurred.

1. Accounting Policies (continued)

P. Employee benefits (continued)

Defined benefit pension scheme

The Group's defined benefit pension scheme is closed to future accrual. The ongoing net liability or asset is calculated by estimating the amount of future benefit that employees earned in return for their service in prior periods; that benefit is discounted to determine its present value and then deducted from the fair value of plan assets. The discount rate is the yield on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed annually by an independent actuary using the projected unit method. A retirement benefit liability is shown within non-current liabilities and the related deferred tax asset within non-current assets on the balance sheet. A retirement benefit asset is only recognised to the extent that the Group can benefit from a reduction in future contributions and is shown within non-current assets and the related deferred tax liability within non-current liabilities on the balance sheet.

The interest cost resulting from the increase in the present value of the defined benefit obligation over time is included within finance costs, and the expected return on plan assets is recognised in finance income.

Past service cost is recognised immediately to the extent that benefits have already vested, or is otherwise expensed on a straight-line basis over the average period until the benefits vest.

Actuarial gains and losses arising from experience adjustments or changes in actuarial assumptions are charged or credited in other comprehensive income in the period in which they arise.

Short-term compensated absences

A liability for short-term compensated absences, such as holiday, is recognised for the amount the Group may be required to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

Q. Use of judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements on the application of the Group's accounting policies and make estimates about the future. Actual results may differ from these assumptions. The critical judgements made in arriving at the amounts included in these financial statements and the key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below:

Impairment of goodwill

The determination of whether goodwill has been impaired requires an estimate of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires management to make an estimate of the expected future cash flows of the cash-generating units and to choose an appropriate discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill and the key assumptions used in the value in use calculations are disclosed in note 9.

Defined benefit pension scheme

The retirement benefit position shown in the balance sheet is sensitive to changes in the assumptions used in the calculation of the defined benefit obligation (in particular assumptions about the discount rate, inflation, mortality and future pension increases) and in the case of a defined benefit asset assumptions about its subsequent recoverability. The carrying amount of assets and liabilities relating to the defined benefit pension plan together with the key assumptions used in the calculation of the defined benefit obligation are disclosed in note 20.

2. Operating Segments

All of the Group's operations and activities are based in, and its assets located in, the United Kingdom and for management purposes comprise a single operating segment: it is on this basis that the Chief Executive assesses Group performance.

Internal management accounts information reported to the Chief Executive is prepared on a modified UK GAAP as opposed to an IFRS basis. In the year to September 2011 the profit before tax on a UK GAAP basis was £408,000 (2010: loss of £488,000) as compared to a profit of £400,000 (2010: loss of £458,000) on an IFRS basis. The difference between the two bases was £8,000 (2010: £30,000) and principally relates to the capitalising and subsequent amortisation of research and development expenditure under IFRS: this represented £7,000 of the difference in 2011 and £37,000 in 2010.

All revenue originates in the United Kingdom: an analysis by geographical market is given below:

	2011 £'000	2010 £'000
United Kingdom	11,933	10,429
Rest of Europe	2,845	1,624
Australia	2,006	1,729
Rest of World	538	934
	17,322	14,716

Two individual customers each represent more than 10% of Group revenue. Revenue of £3.15m (2010: £1.72m) is derived from the first of these with £2.97m (2010: £1.56m) included within the United Kingdom and £0.18m (2010: £0.16m) within the Rest of Europe geographical markets. Revenue of £1.82m (2010: £1.51m) is derived from the second, all of which is included in the Australian geographical market.

3. Employee Information

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

	2011 No	2010 No
Production	118	114
Sales and distribution	23	27
Administration	24	24
	165	165

The employee benefit expense for the year amounted to:

	2011 £'000	2010 £'000
Wages and salaries	4,391	4,235
Social security costs	455	429
Pension costs (note 20)	166	157
Share-based payments (note 19)	3	47
	5,015	4,868

Detailed information concerning directors' emoluments, shareholdings and options is shown in the Remuneration Report.

NOTES TO THE FINANCIAL STATEMENTS

4. Finance Costs

	2011 £'000	2010 £'000
Bank loans and overdrafts	62	62
Hire purchase contracts	15	24
Amortisation of bank loan issue costs	-	8
Interest costs on pension scheme liabilities (note 20)	562	582
Finance costs	639	676

5. Finance Income

	2011 £'000	2010 £'000
Return on pension scheme assets (note 20)	605	589

6. Profit / (Loss) Before Tax

The following items have been charged / (credited) in arriving at profit / (loss) before tax:

	2011 £'000	2010 £'000
Depreciation	276	323
Amortisation of intangible assets	38	5
Gain on sale of property, plant and equipment	(5)	(1)
Operating lease rentals - plant and equipment	128	144
Operating lease rentals - property	178	178
Foreign exchange losses	61	9
Research and development expenditure	434	327
Fees payable to the Company's auditor for the audit of the Company's annual accounts	10	12
Fees payable to the Company's auditor and its associates for other services:		
- the audit of the Company's subsidiaries pursuant to legislation	34	33
- tax services	15	10

7. Taxation

A. Recognised in the income statement	2011 £'000	2010 £'000
Current tax expense		
UK coporation tax	8	-
UK corporation tax - adjustment in respect of previous years	-	(22)
Deferrred taxation		
Net origination and reversal of temporary differences	57	(53)
Total income tax expense / (credit)	65	(75)

B. Reconciliation of effective tax rate	2011 £'000	2010 £'000
Profit / (loss) before tax	400	(458)
Tax at the UK corporation tax rate of 27% (2010: 28%)	108	(128)
Effects of:		
- (Utilised) / unrelieved tax losses	(37)	13
- Retirement benefits	(20)	-
- Disallowed expenditure	17	9
- Share costs	1	13
- Other differences	(2)	10
- Tax rate adjustment	(2)	8
Total income tax expense / (credit)	65	(75)

C. Deferred tax recognised in other comprehensive income	2011 £'000	2010 £'000
On cash flow hedges	3	(8)
On actuarial gains	58	(41)
	61	(49)

8. Earnings / (Loss) Per Share

The calculation of earnings per share is based upon the profit for the year of £335,000 (2010: loss of £383,000) and the weighted average number of ordinary shares in issue during the year of 11.448m (2010: 11.448m). The weighted average number of ordinary shares diluted for the effect of outstanding share options was 11.457m. Due to losses in the previous year no dilution arose and diluted earnings per share was therefore shown as the same as basic earnings per share.

	2011 Earnings £'000	2011 Weighted average number of shares Million	2011 Earnings per share Pence	2010 Earnings £'000	2010 Weighted average number of shares Million	2010 Earnings per share Pence
Basic earnings per share	335	11.448	2.93	(383)	11.448	(3.35)
Effect of share options	-	0.009	(0.01)	-	-	-
Diluted earnings per share	335	11.457	2.92	(383)	11.448	(3.35)

9. Intangible Assets

	Goodwill			Capitalised development costs			
	Cost £'000	Accumulated impairment losses £'000	Carrying amount £'000	Cost £'000	Amortisation £'000	Carrying amount £'000	Total carrying amount £'000
At 1 October 2009	1,234	-	1,234	60	1	59	1,293
Additions	-	-	-	42	-	42	42
Amortisation for year	-	-	-	-	5	(5)	(5)
At 1 October 2010	1,234	-	1,234	102	6	96	1,330
Additions	-	-	-	31	-	31	31
Amortisation for year	-	-	-	-	38	(38)	(38)
At 30 September 2011	1,234	-	1,234	133	44	89	1,323

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating unit that is expected to benefit. The Group's goodwill relates to investments in two of its subsidiaries, Excil Electronics where the carrying amount is £1,148,000 (2010: £1,148,000) and Haswell Engineers where the carrying amount is £86,000 (2010: £86,000).

The recoverable amount of the cash-generating unit to which the goodwill relates is tested annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the cash-generating units were determined from value in use calculations, and the key assumptions in these calculations were the assessment of initial cash flows, the long-term growth rate of those cash flows, and the discount rate applied.

Initial cash flows reflect the most recent plans approved by management. They are based on past experience and take into account management expectations of future developments in markets and operations. The initial cash flows covered the first three years of the projections: thereafter cash flow projections were extrapolated into perpetuity at a growth rate of 2.0% (2011: 2.0%) which is considered to be consistent with the long term average growth rate for the businesses concerned. The discount rate applied was 12.0% (2011: 12.0%), a pre-tax rate that reflects an assessment of the time value of money and the risks specific to the cash-generating units concerned.

The recoverable amounts of the cash-generating units were in excess of their carrying value and no impairment arose in the year.

Management believe that the key assumptions on which the recoverable amount is based are appropriate and that any reasonable change in these assumptions would not lead to a materially different conclusion.

Goodwill on acquisitions prior to January 1998

The aggregate amount of goodwill arising on acquisitions prior to January 1998 which had been deducted from retained earnings and incorporated into the IFRS transitional balance sheet as at 1 October 2006 amounted to £3,092,000.

10. Property, Plant and Equipment

	Freehold land & buildings £'000	Plant, vehicles & equipment £'000	Total £'000
Cost			
At 1 October 2009	1,014	6,321	7,335
Additions	-	83	83
Disposals	-	(45)	(45)
At 1 October 2010	1,014	6,359	7,373
Additions	-	144	144
Disposals	-	(33)	(33)
At 30 September 2011	1,014	6,470	7,484
Depreciation			
At 1 October 2009	188	5,116	5,304
Charge for the year	11	312	323
Disposals	-	(45)	(45)
At 1 October 2010	199	5,383	5,582
Charge for the year	11	265	276
Disposals	-	(32)	(32)
At 30 September 2011	210	5,616	5,826
Net carrying amount			
At 30 September 2011	804	854	1,658
At 30 September 2010	815	976	1,791

Included within plant, vehicles and equipment is £379,000 (2010: £442,000) in respect of assets acquired under finance leases. Depreciation for the year in respect of these assets was £52,000 (2010: £52,000).

NOTES TO THE FINANCIAL STATEMENTS

11. Inventories

	2011 £'000	2010 £'000
Raw materials and consumables	819	756
Work in progress	807	872
Finished goods and goods for resale	531	845
	2,157	2,473

In 2011 the cost of inventories recognised as an expense within cost of sales amounted to £13,232,000 (2010: £11,309,000). This included the write-down of inventories to net realisable value of £118,000 (2010: £113,000), and write-down utilisation of £153,000 (2010: £131,000).

12. Trade and Other Receivables

	2011 £'000	2010 £'000
Trade receivables	2,844	3,178
Other receivables	1	28
Prepayments and accrued income	204	199
	3,049	3,405

The directors estimate that the carrying value of financial assets within trade and other receivables approximate their fair value. Details of the Group's exposure to credit and market risk related to trade and other receivables are disclosed in note 15.

13. Trade and Other Payables

	2011 £'000	2010 £'000
Current		
Trade payables	1,666	2,150
Social security and other taxes	361	337
Other payables	76	129
Accruals and deferred income	632	396
Other financial liabilities	5	15
	2,740	3,027
Non-current		
Other payables	24	25

The directors estimate that the carrying value of trade and other payables approximate their fair value.

14. Borrowings

	2011 £'000	2010 £'000
Current		
Bank overdraft	670	981
Bank loan	291	291
Finance lease obligations	101	116
Bank loans and other borrowings	392	407
Non-current		
Bank loan	73	364
Finance lease obligations	35	137
Bank loans and other borrowings	108	501
Total borrowings	1,170	1,889

This note provides information about the contractual terms of the Group's borrowings: further information is given in note 15. The new facility arrangements are detailed in the Financial Review.

NOTES TO THE FINANCIAL STATEMENTS

14. Borrowings (continued)

Bank loan

The £0.36 million bank loan is repayable in 5 quarterly instalments of £73,000 commencing in October 2011. In the year interest was payable at 1.5% over base rate. The following security is provided to the bank: (i) first and only legal charge over each freehold and leasehold property owned by the Group; (ii) first debenture from each Group company; (iii) a composite Guarantee by each Group company (as guarantor) in favour of the Bank; and (iv) an assignment of Key-man Insurance on the life of Peter Pollock of £250,000.

Bank overdraft

The overdraft is secured by a fixed and floating charge on the Group's assets. In the year interest was payable at 2.5% over base rate.

Finance lease obligations

Finance leases typically have a five year term and bear interest fixed at the time of the commitment. The Group's obligations under finance leases are secured by the lessor's title to the leased assets. The minimum lease payments under finance leases, and their present value, fall due as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Within one year	108	132	101	116
Within two to five years	36	144	35	137
	144	276	136	253
Future finance charges	(8)	(23)		
Present value of finance lease obligations	136	253		

15. Financial Instruments

A. Financial risk management

The Group's treasury policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its foreign currency, interest rate, liquidity and credit risks. The Group's principal financial instruments comprise bank loans and overdrafts, finance lease obligations, cash and cash equivalents, together with trade and other receivables and trade and other payables that arise directly from its operations. The main risks arising from the Group's financial instruments and the approaches to them are detailed below.

B. Capital management

The Group's policy is to minimise its cost of capital, by optimising the balance between equity and debt, whilst ensuring its ability to continue as a going concern, to provide returns to shareholders and benefits for other stakeholders. The Group uses a number of measures to monitor the efficiency of its capital structure, including net debt as a % of equity, net debt to EBITDA and EBITDA to interest on borrowings. There were no changes in the Group's approach to capital management during the year. The Group's capital structure is as follows:

	2011 £'000	2010 £'000
Equity	4,292	3,964
Net debt	1,164	1,884
Overall financing	5,456	5,848

C. Currency risk

Currency exposure arises on sale or purchase transactions in currencies other than sterling, the functional currency of the companies within the Group. It is the Group's policy to minimise risk to exchange rate movements affecting sales and purchases by hedging or netting currency exposures at the time of commitment, or when there is a high probability of future commitment arising, using forward exchange contracts. A proportion of forecast exposures are also hedged. The Group does not trade in derivatives or make speculative hedges.

Currency exposures

The table below shows the Group's currency exposure after taking into account the effect of any currency hedges entered into:

	2011			2010		
	Cash and cash equivalents £'000	Other net monetary assets and liabilities £'000	Total net monetary assets and liabilities £'000	Cash and cash equivalents £'000	Other net monetary assets and liabilities £'000	Total net monetary assets and liabilities £'000
Euro	145	(145)	-	439	45	484
US Dollar	18	(4)	14	43	-	43
Other	-	-	-	-	11	11
	163	(149)	14	482	56	538

NOTES TO THE FINANCIAL STATEMENTS

15. Financial Instruments (continued)

C. Currency risk (continued)

Derivative financial instruments

The following table shows the value of derivative financial instruments recognised as separate assets and liabilities within trade and other receivables and trade and other payables at 30 September.

	2011		2010	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward exchange contracts - cash flow hedges	-	5	-	15

At 30 September 2011 the Group had commitments under non-cancellable forward exchange contracts totalling £702,000 (2010: £253,000) taken out to hedge foreign currency sales and purchases. The cash flows associated with these hedges and any impact upon income is expected to occur within the next financial year.

Sensitivity

At 30 September 2011 if sterling had weakened / strengthened by 10% against the euro with all other variables held constant the effect would have been to increase / (decrease) pre-tax profit and equity as a result of foreign exchange gains / (losses) on translation by:

	2011		2010	
	Effect on profit before tax £'000	Effect on equity £'000	Effect on profit before tax £'000	Effect on equity £'000
Sterling weakens by 10% against the euro	(12)	72	54	24
Sterling strengthens by 10% against the euro	9	(59)	(44)	(20)

D. Interest rate risk

The Group is exposed to risk from the effect of changes in floating interest rates on the level of interest it pays on its borrowings and receives on its cash deposits.

The only financial liabilities of the Group which are subject to interest charges are bank loans, overdrafts and finance lease obligations. The directors monitor the overall level of borrowings and interest costs to limit any adverse effects on financial performance of the Group.

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15. Financial Instruments (continued)

D. Interest rate risk (continued)

Interest rate risk profile

Interest rates are managed by using fixed and floating rate borrowings. Floating rate liabilities comprise bank loans and overdrafts which in the year were subject to interest rates in the range 1.5% to 2.5% over base rate. Fixed rate liabilities comprise finance leases which bear interest at the negotiated market rate prevailing at the time the commitment is made. In the year the weighted average interest rate of the fixed rate financial liabilities was 7.0% (2010: 7.0%).

Cash surpluses are invested for short periods and are considered as floating rate investments.

The interest rate profile of the Group's financial assets and liabilities at 30 September was:

	2011 £'000	2010 £'000
Floating rate		
Cash and cash equivalents	6	5
Bank overdraft	(670)	(981)
Bank loan	(364)	(655)
	(1,028)	(1,631)
Fixed rate		
Finance lease obligations	(136)	(253)

Sensitivity

If market interest rates on floating rate borrowings and cash deposits had been 1% (100 basis points) higher during the year to 30 September 2011 and 2010, with all other variables held constant the pre-tax profit would have been lower by £22,000 (2010: £23,000).

E. Liquidity risk

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

The Group's approach is to ensure that, as far as possible, it will have adequate resources to meet its foreseeable financing requirements, with headroom to cope with adverse market conditions. The Group's operations are funded through a combination of its medium-term bank loan, finance leases and overdraft facilities.

Un-drawn committed facilities

The Group's only un-drawn committed borrowing facility at 30 September 2011 and 30 September 2010 was its bank overdraft expiring in one year or less. The un-drawn amount at 30 September 2011 was £1.84 million (2010: £1.02 million).

15. Financial Instruments (continued)

E. Liquidity risk (continued)

Maturity profile of the Group's financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

2011	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 4 years £'000	Between 4 and 5 years £'000	Over 5 years £'000	Total £'000
Bank overdraft	670	-	-	-	-	-	670
Bank loan	291	73	-	-	-	-	364
Finance lease obligations	108	36	-	-	-	-	144
Borrowings	1,069	109	-	-	-	-	1,178
Trade and other payables	2,298	-	-	-	-	-	2,298
	3,367	109	-	-	-	-	3,476

2010	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 4 years £'000	Between 4 and 5 years £'000	Over 5 years £'000	Total £'000
Bank overdraft	981	-	-	-	-	-	981
Bank loan	291	291	73	-	-	-	655
Finance lease obligations	132	107	37	-	-	-	276
Borrowings	1,404	398	110	-	-	-	1,912
Trade and other payables	2,546	-	-	-	-	-	2,546
	3,950	398	110	-	-	-	4,458

F. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from trade receivables, but also from cash and cash equivalents, and other financial assets.

Trade receivables

The Group's exposure to credit risk is principally influenced by the individual characteristics of each customer as opposed to a more general demographic of the customer base. Credit risk is managed on an ongoing basis by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. Credit risk is minimised through cash flow management and the use of documentary credits where appropriate.

15. Financial Instruments (continued)

F. Credit risk (continued)

Cash and cash equivalents

The Group monitors counterparties with whom it deposits cash and transacts other financial instruments so as to control exposure to any one institution.

Exposure to credit risk

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. At the end of 2011 these totalled £2.84m (2010: £3.18m). The Group held no collateral as security against trade receivables.

The concentration of credit risk is sensitive to the timing of larger projects. The Group's most significant customer accounted for 18.6% of trade receivables at September 2011 (2010: 14.5%).

Impairment losses

In determining the recoverability of trade receivables the Group considers the ageing of each debtor and any change in the circumstances of the individual customer. The ageing of trade receivables at the reporting date was:

	2011		2010	
	Gross	**Impairment**	**Gross**	**Impairment**
	£'000	**£'000**	**£'000**	**£'000**
Not past due	2,198	(5)	2,026	(5)
Past due 1-30 days	485	(5)	898	(5)
Past due 31-90 days	157	(1)	193	(2)
Past due 91 days to less than a year	15	-	80	(7)
	2,855	(11)	3,197	(19)

The movement in the allowance for impairment in respect of trade receivables during the year was:

	2011	**2010**
	£'000	**£'000**
Balance at start of the year	19	32
Impairment gain recognised	(8)	(13)
Balance at end of the year	11	19

The impairment gain recognised of £8,000 relates to the movement in the Group's assessment of the risk of non-recovery from a range of customers.

15. Financial Instruments (continued)

G. Classification and fair values of financial assets and liabilities

The table below sets out the Group's accounting classification of each class of financial asset and financial liability. The directors consider that the carrying value of financial assets and liabilities approximate their fair values.

For cash and cash equivalents and floating rate borrowings the fair values are the same as the carrying value. For forward currency contracts fair values have been calculated by discounting the cash flows at prevailing appropriate market rates.

2011	Derivatives at fair value	Amortised cost	Total carrying value	Fair value
	£'000	£'000	£'000	£'000
Financial assets				
Trade and other receivables	-	2,844	2,844	2,844
Cash and cash equivalents	-	6	6	6
	-	2,850	2,850	2,850
Financial liabilities				
Bank overdraft	-	(670)	(670)	(670)
Bank loan	-	(364)	(364)	(364)
Borrowings	-	(1,034)	(1,034)	(1,034)
Trade and other payables	-	(2,298)	(2,298)	(2,298)
Derivative financial instruments	(5)	-	(5)	(5)
	(5)	(3,332)	(3,337)	(3,337)
Net financial liabilities	(5)	(482)	(487)	(487)

2010	Derivatives at fair value	Amortised cost	Total carrying value	Fair value
	£'000	£'000	£'000	£'000
Financial assets				
Trade and other receivables	-	3,178	3,178	3,178
Cash and cash equivalents	-	5	5	5
	-	3,183	3,183	3,183
Financial liabilities				
Bank overdraft	-	(981)	(981)	(981)
Bank loan	-	(655)	(655)	(655)
Borrowings	-	(1,636)	(1,636)	(1,636)
Trade and other payables	-	(2,546)	(2,546)	(2,546)
Derivative financial instruments	(15)	-	(15)	(15)
	(15)	(4,182)	(4,197)	(4,197)
Net financial liabilities	(15)	(999)	(1,014)	(1,014)

15. Financial Instruments (continued)

H. Fair value hierarchy

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

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

All of the Group's derivative financial instruments are valued by Level 2 techniques.

16. Provisions

	2011 £'000	**2010 £'000**
Non-current		
At 1 October 2010 and 30 September 2011	5	5

The dilapidations provision arises out of contractual obligations in relation to leasehold premises out of which the Group operates.

17. Deferred Tax

	Property, plant and equipment £'000	**Retirement benefits £'000**	**Tax losses £'000**	**Other £'000**	**Total £'000**
At 1 October 2009	(23)	38	34	13	62
Recognised in income	56	(2)	12	(13)	53
Recognised in other comprehensive income	-	41	-	8	49
At 1 October 2010	33	77	46	8	164
Recognised in income	(72)	(19)	33	1	(57)
Recognised in other comprehensive income	-	(58)	-	(3)	(61)
At 30 September 2011	(39)	-	79	6	46

Deferred tax assets of £202,000 (2010: £187,000) have not been recognised in respect of unrelieved tax losses of £777,000 (2010: £693,000) because of uncertainty over the timing of their recoverability. The tax losses have no expiry date.

NOTES TO THE FINANCIAL STATEMENTS

17. Deferred Tax (continued)

An analysis of the deferred tax balances for reporting purposes is given below:

	Property, plant and equipment £'000	Retirement benefits £'000	Tax losses £'000	Other £'000	Total £'000
At 30 September 2011					
Deferred tax assets	11	-	79	30	120
Deferred tax liabilities	(50)	-	-	(24)	(74)
	(39)	-	79	6	46
At 30 September 2010					
Deferred tax assets	60	77	46	35	218
Deferred tax liabilities	(27)	-	-	(27)	(54)
	33	77	46	8	164

18. Equity

Share capital

	2011		2010	
	Number	£'000	Number	£'000
Authorised	15,000,000	1,500	15,000,000	1,500
Issued and fully paid				
In issue at the start and end of the year	11,448,229	1,145	11,448,229	1,145

The market price of the Company's shares on 30 September 2011 was 33.5p per share (2010: 32.0p per share) and the price range during the year was 26.0p to 36.6p (2010: 22.5p to 40.0p).

18. Equity (continued)

Proposed dividends

The directors proposed the below dividends after the balance sheet date: they have not been recognised as a liability in the accounts.

	2011 £'000	2010 £'000
Proposed - final 0.50p per share (2010: 0.40p)	57	46

Dividends

The following dividends were declared and paid by the Group during the year:

	2011 £'000	2010 £'000
Final - in respect of preceding year 0.40p per share (2010: 0.40p)	46	46
Interim - in respect of current year 0.40p per share (2010: nil)	46	-
	92	46

Share premium account

This reserve records the premium for shares issued at a value that exceeds their nominal value.

Un-issued shares reserve

This reserve records the recognised costs of share-based employee payment arrangements.

Revaluation reserve

This reserve records the difference between the net carrying amount of freehold land and buildings and the corresponding value calculated on an historic cost basis.

Merger reserve

This reserve records the premium for shares issued, as part consideration on the acquisition of Haswell Engineers, at a value that exceeded their nominal value and which qualified for merger relief.

19. Share Based Payments

The Group operated two equity-settled share-based payment arrangements in the year and a summary of each of the schemes is given below. The schemes are open to executive directors and selected senior managers within the Group.

The 1997 Unapproved Share Option scheme: The option price for grants under this scheme is the average of the market price on the three consecutive dealing days preceding the date of the grant. Options will normally be exercisable between three and ten years following grant: no performance criteria apply. No further options may be granted under this scheme.

The 2007 Employee Share Option scheme: The option price for grants under this scheme is the mid market price on the dealing day preceding the date of the grant. Options will normally be exercisable between three and ten years following grant: no performance criteria apply.

Options to subscribe for ordinary shares of 10p each under the various schemes are as follows:

Scheme	Date of grant	Price	Dates when exercisable	Number of options 2011	2010
1997 Unapproved Share Option Scheme	Mar 2001	59p	29 Mar 2004 to 28 Mar 2011	-	200,000
	Jan 2002	32p	31 Jan 2005 to 30 Jan 2012	152,000	152,000
	Feb 2003	13p	20 Feb 2006 to 19 Feb 2013	5,000	5,000
	Mar 2003	15p	14 Mar 2006 to 13 Mar 2013	5,000	5,000
	Feb 2006	19p	20 Feb 2009 to 19 Feb 2016	5,000	5,000
	Mar 2007	39p	08 Mar 2010 to 07 Mar 2017	233,000	288,000
2007 Employee Share Option Scheme	Jul 2007	36p	31 Jul 2010 to 30 Jul 2017	990,000	1,085,000
	Feb 2009	32p	26 Feb 2012 to 25 Feb 2019	5,000	5,000
	Apr 2011	32p	1 Apr 2014 to 31 Mar 2021	200,000	-

19. Share Based Payments (continued)

A reconciliation of the movement in the number of share options is given below:

	2011		2010	
	Weighted average exercise price (p)	Number of options	Weighted average exercise price (p)	Number of options
Outstanding at the beginning of the year	38.6	1,745,000	38.6	1,830,000
Granted during the year	32.0	200,000	-	-
Exercised during the year		-	-	-
Lapsed during the year	49.6	(350,000)	38.4	(85,000)
Outstanding at the end of the year	35.4	1,595,000	38.6	1,745,000
Exercisable at the end of the year	35.8	1,390,000	38.6	1,740,000

The options outstanding at the end of the year have an exercise price in the range of 13p to 39p and a weighted average contractual life of 5.7 years (2010: 5.5 years).

The fair value of share options granted in 2011 and the assumptions used in the calculation of their fair value at the date of grant are as follows.

Date of grant	1 April 2011
Options granted	200,000
Share price on date of grant	32p
Exercise price	32p
Expected life	3 years
Volatility	38%
Risk free interest rate	2.1%
Dividend yield	2.5%
Fair value of option	7.5p

The volatility rate was determined using the historical value of the Company's share price over a period commensurate with the expected life of the option.

Options have been valued using the Black-Scholes pricing model.

The Group recognised a share-based remuneration expense in the year of £3,000 (2010: £47,000).

20. Employee Benefits

A. Defined contribution schemes

The Group makes contributions to several defined contribution arrangements. The pension cost charged to the income statement for the year in respect of these schemes was £137,000 (2010: £131,000).

B. Defined benefit scheme

The Group also operates a defined benefit pension arrangement which ceased to accrue benefits from 30 September 2009. A full actuarial valuation was carried out as at 1 April 2009 and this has been updated to 30 September 2011 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown on page 52.

Total contributions made by the employer over the year were £100,000 (2010: £nil) excluding the contribution of £29,000 (2010: £26,000) in respect of death in service insurance premiums.

Present value of defined benefit obligations, fair value of assets and surplus

	2011 £'000	2010 £'000	2009 £'000
Fair value of scheme assets	10,902	10,979	10,577
Present value of defined benefit obligations	(10,231)	(11,255)	(10,712)
Surplus / (deficit) in scheme	671	(276)	(135)
Unrecognised surplus	(671)	-	-
Asset / (liability) to be recognised	-	(276)	(135)

Reconciliation of opening and closing balances of the present value of the defined benefit obligations

	2011 £'000	2010 £'000
Defined benefit obligation at start of the year	11,255	10,712
Interest cost	562	582
Actuarial (gains) / losses	(1,127)	580
Benefits paid, death in service insurance premiums and expenses	(459)	(619)
Defined benefit obligation at end of the year	10,231	11,255

20. Employee Benefits (continued)

Reconciliation of opening and closing balances of the fair value of scheme assets

	2011 £'000	2010 £'000
Fair value of scheme assets at start of the year	10,979	10,577
Expected return on scheme assets	605	589
Actuarial (losses) / gains	(323)	432
Contributions by employer	100	-
Benefits paid, death in service insurance premiums and expenses	(459)	(619)
Fair value of scheme assets at end of the year	10,902	10,979

The actual return on the scheme assets over the year was £282,000 (2010: £1,021,000).

Total income recognised in the income statement

	2011 £'000	2010 £'000
Within finance income: expected return on scheme assets	605	589
Within finance costs: interest cost on scheme liabilities	(562)	(582)
Net credit	43	7

Profits / (losses) recognised in other comprehensive income

	2011 £'000	2010 £'000
Actual return less expected return on scheme assets	(323)	432
Experience gains and losses arising on the defined benefit obligations	(5)	218
Effect of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligations	1,132	(798)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable)	804	(148)
Effect of limit on amount of surplus recognised due to some of the surplus not being recognisable	(671)	-
Gain / (loss) recognised in other comprehensive income	133	(148)

The cumulative amount of actuarial gains and losses recognised in other comprehensive income since adoption of IAS19 is £3,009,000.

NOTES TO THE FINANCIAL STATEMENTS

20. Employee benefits (continued)

Profits / (losses) recognised in other comprehensive income (continued)

Changes in the demographic and financial assumptions underlying the present value of the defined benefit obligations of £1,132,000 comprise increased mortality at £574,000, lower inflation at £388,000 (of which the decision to apply the Consumer Prices Index (CPI) in place of the Retail Price Index (RPI) for the revaluation of deferred pensions accounted for £301,000) and an increase in the discount rate at £170,000.

Government legislation relating to the use of CPI rather than RPI came into effect through the Pensions Act (2011). The Group's pension scheme rules provide that pension revaluation be in line with overriding legislation and the Group has therefore moved to CPI for the ongoing revaluation of a deferred pension prior to payment. Given that the scheme rules do not link future revaluation specifically to RPI, the Group has concluded that this is a change in actuarial assumption and the resulting gain of £301,000 has been recognised in other comprehensive income.

Assumptions

	2011 % per annum	2010 % per annum	2009 % per annum
Inflation	3.2	3.3	3.2
Rate of discount	5.2	5.1	5.6
Allowance for pension in payment increases of RPI or 5.0% pa if less	3.2	3.3	3.2
Allowance for pension in payment increases of RPI or 3.0% pa if less	3.0	3.0	3.0
Allowance for pension in payment increases of RPI or 2.5% pa if less	2.5	2.5	2.5
Allowance for revaluation of deferred pensions of RPI or 5.0% pa if less	n/a	3.3	3.2
Allowance for revaluation of deferred pensions of CPI or 5.0% pa if less	2.5	n/a	n/a
Allowance for commutation of pension for cash at retirement	80% of post A Day	80% of post A Day	Nil

The mortality assumptions adopted at 30 September 2011 imply the following life expectancies:

	Years
Male retiring at age 65 in 2011:	22.1
Female retiring at age 65 in 2011:	24.2
Male retiring at age 65 in 2031:	23.9
Female retiring at age 65 in 2031:	26.1

Expected long term rates of return

The long-term expected rate of return on cash is determined by reference to short term gilt yields. The long-term expected rates of return on bonds and index-linked gilts are determined by reference to UK long dated government and corporate bond yields at the balance sheet date. The long-term expected rate of return on equities is based on the rate of return on bonds with an allowance for out-performance. The expected long-term rates of return applicable at the start of each period are as follows:

20. Employee benefits (continued)

	01/10/11 % per annum	01/10/10 % per annum	01/10/09 % per annum
Equities	6.30	6.80	7.00
Bonds	5.20	5.00	5.00
Index-linked gilts	3.30	3.80	4.10
Cash	3.30	3.50	3.90
Overall for the scheme	5.00	5.58	5.75

Assets

	2011 £'000	2010 £'000	2009 £'000
Equities	4,693	5,142	4,959
Bonds	3,561	3,480	3,398
Index-linked gilts	2,573	2,323	2,221
Cash and net current assets	75	34	(1)
Total assets	10,902	10,979	10,577

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group.

Amounts for the current and previous four periods

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Fair value of assets	10,902	10,979	10,577	9,971	11,432
Present value of defined benefit obligations	(10,231)	(11,255)	(10,712)	(9,446)	(8,158)
Surplus / (deficit) in the scheme	671	(276)	(135)	525	3,274
Unrecoverable surplus	(671)	-	-	-	(1,545)
Asset / (liability) to be recognised	-	(276)	(135)	525	1,729
Experience adjustment on scheme assets	(323)	432	410	(1,834)	30
Experience adjustment on defined benefit obligation	(5)	218	(765)	54	(83)
Effect of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligation	1,132	(798)	(347)	(1,134)	675
Effect of the limit on amount of surplus recognised due to part of surplus being unrecoverable	(671)	-	-	1,545	(1,545)
Total amount recognised in consolidated statement of comprehensive income	133	(148)	(702)	(1,369)	(923)

20. Employee Benefits (continued)

The best estimate of contributions to be paid to the Scheme for the period beginning 1 October 2011 is £100,000.

A deficit funding plan was agreed on the basis of the actuarial valuation as at 1 April 2009 which required the payment of employer contributions of £50,000 in the period to March 2011 and £100,000 per annum in the subsequent eight years. The scheme actuary has calculated that this recovery plan will eliminate the continuing deficit within 10 years.

21. Financial Commitments

Operating lease commitments

The Group has entered into commercial leases on certain land and buildings, motor vehicles and items of plant and equipment. The land and buildings lease is subject to periodic rent reviews.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Property		**Plant and equipment**	
	2011 £'000	**2010 £'000**	**2011 £'000**	**2010 £'000**
Within one year	178	178	81	100
Within two to five years	519	697	54	50
	697	875	135	150

Capital expenditure commitments

Contracted for but not provided in the accounts amounted to £Nil (2010: £Nil).

22. Related Party Transactions

Remuneration of key management personnel

The remuneration of the directors, who are considered to be the key management personnel of the Group, is set out below in aggregate for each of the categories required by IAS24 "Related Party Disclosures". Detailed information about the remuneration of individual directors is disclosed in the Remuneration Report.

	2011 £'000	**2010 £'000**
Short-term employee benefits	448	399
Post employment benefits	38	32
Share-based payments	3	29
Dividends	13	6
	502	466

Other related party transactions

The transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. There are no other related party transactions (2010: none).

COMPANY BALANCE SHEET

At 30 September 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Tangible assets	C3	477	482
Investments	C4	6,091	6,091
		6,568	6,573
Current assets			
Debtors	C5	805	900
Cash at bank and in hand		3	2
		808	902
Creditors: Amounts falling due within one year	C6	(2,279)	(1,360)
Net current liabilities		(1,471)	(458)
Total assets less current liabilities		5,097	6,115
Creditors: Amounts falling due after more than one year	C7	(773)	(1,064)
Net assets		4,324	5,051
Capital and reserves	C10		
Called up share capital		1,145	1,145
Share premium account		365	365
Un-issued shares reserve		195	192
Revaluation reserve		307	308
Merger reserve		784	784
Profit and loss reserve		1,528	2,257
Total equity shareholders' funds		4,324	5,051

The financial statements were approved by the Board on 19 January 2012 and signed on its behalf by:

S K BRETT
Director

P G POLLOCK
Director

COMPANY NOTES TO THE FINANCIAL STATEMENTS

C1. Accounting Policies

A. Basis of preparation

The following are the principal accounting policies of the Company which have been applied consistently throughout the year and the preceding year.

The Company financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold property, and in accordance with applicable UK accounting standards (United Kingdom Generally Accepted Accounting Practice).

The loss dealt with in the accounts of the Company is £638,000 (2010: £866,000). The Company has not presented a separate profit and loss account as permitted by Section 408 of the Companies Act 2006.

B. Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is calculated to write down the cost or valuation, less estimated residual value, of all tangible fixed assets, other than freehold land, by equal annual instalments over their estimated useful economic lives. The rates generally applicable are:

Freehold buildings	2%

The part of the annual depreciation charge of revalued assets which relates to the surplus over cost is transferred from the revaluation reserve to the profit and loss reserve.

C. Investments

Investments in subsidiaries are shown at cost less any provision for impairment.

D. Current tax

The current tax charge is based on the profit for the year and is measured at the amounts expected to be paid based on the tax rates and laws substantively enacted by the balance sheet date. Current and deferred tax is recognised in the profit and loss account for the period except to the extent that it is attributable to a gain or loss that is or has been recognised directly in the statement of total recognised gains and losses.

The Company and its subsidiary undertakings are able to relieve their taxable losses by surrendering them to other group companies where capacity to utilise those losses exists. There is an agreement between members of this Group that such losses will be paid for by the recipient company. Where there is reasonable certainty that taxable losses can be relieved the group relief receivable or payable is included in the taxation charge or credit for the period.

C1. Accounting Policies (continued)

E. Deferred taxation

Deferred tax is recognised in respect of all timing differences (which arise because of differences between the treatment of certain items for accounting and taxation purposes) that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- 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 tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

F. Defined contribution pension schemes

The pension costs charged against operating profits are the contributions payable in respect of the accounting period.

G. Equity-settled share-based payments

Share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 October 2006 are recognised in the financial statements.

The cost of share-based employee compensation arrangements, whereby employees receive remuneration in the form of share options, is recognised as an employee benefit expense in the income statement, with a corresponding credit to the un-issued shares reserve.

The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value of the share options awarded (at the date of grant) and the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest, and recognises the impact of any revision to original estimates in the income statement.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

COMPANY NOTES TO THE FINANCIAL STATEMENTS

C2. Employee Information

With the exception of the directors the number of people employed by the Company was Nil (2010: Nil). Detailed information concerning directors' emoluments, shareholdings and options is shown in the Remuneration Report.

C3. Tangible Fixed Assets

Freehold land & buildings	**£'000**
Cost or valuation	
At 1 October 2010 and 30 September 2011 (represented by 1996 valuation)	544
Depreciation	
At 1 October 2010	62
Charged in year	5
At 30 September 2011	67
Net book value	
At 30 September 2011	477
At 1 October 2010	482

Freehold properties

On an historical cost basis freehold land and buildings would have been included at the following amounts:

	2011 £'000	**2010 £'000**
Cost	276	276
Accumulated depreciation	(106)	(102)
	170	174

C4. Investments

Investments in subsidiary undertakings

	Cost £'000	Provision for impairment £'000	Carrying amount £'000
At 1 October 2010 and 30 September 2011	6,459	(368)	6,091

Details of the investments, which are all registered in England and Wales, in which the Group holds directly and indirectly 20% or more of the nominal value of any class of share capital are as follows:

Name of company	Holding	Proportion of voting rights & shares held	Nature of business
Subsidiary undertakings			
Channel Electric Equipment Holdings Ltd	Ordinary shares	100%	Holding company
Channel Electric Equipment Ltd	Ordinary shares	100%	Electrical components
LPA Industries Ltd	Ordinary shares	100%	Electrical components
Haswell Engineers Ltd	Ordinary shares	100%	Metal fabrication
Excil Electronics Ltd	Ordinary shares	100%	Electrical components

The Group also holds 100% of the ordinary share capital of the following dormant companies: Niphan Limited, Light and Power Accessories Company Limited, W M Engineering (Ramsden) Limited and Lazell Bros. Engineers Limited.

All of the above investments are held directly by LPA Group plc with the exception of Channel Electric Equipment Limited (which is held by Channel Electric Equipment Holdings Limited) and Lazell Bros. Engineers Limited (which is held by Light and Power Accessories Company Limited).

LPA Group plc is the sole member of LPA Industries Pension Trustees Limited, a company limited by guarantee, which acts as trustee to two pension schemes operated within the Group.

C5. Debtors

	2011 £'000	2010 £'000
Amounts due from subsidiary undertakings	779	879
Other debtors	3	3
Prepayments and accrued income	23	18
	805	900

COMPANY NOTES TO THE FINANCIAL STATEMENTS

C6. Creditors: Amounts Falling Due Within One Year

	2011 £'000	2010 £'000
Bank overdraft	1,815	961
Bank loans	291	291
Debt	2,106	1,252
Trade creditors	21	27
Amounts owed to subsidiary undertakings	31	26
Other creditors	3	2
Accruals	118	53
	2,279	1,360

C7. Creditors: Amounts Falling Due After More Than One Year

	2011 £'000	2010 £'000
Debt - bank loans	73	364
Amounts owed to subsidiary undertakings	700	700
	773	1,064

C8. Borrowings

	2011 £'000	2010 £'000
Due within one year		
Bank overdraft	1,815	961
Bank loan	291	291
	2,106	1,252
Non-current		
Bank loan	73	364
Total borrowings	2,179	1,616
Repayable		
Within one year	2,106	1,252
Between one and two years	73	291
Between two and five years	-	73
	2,179	1,616

Bank loan and overdraft

The £0.36 million bank loan is repayable in 5 quarterly instalments of £73,000 commencing in October 2011. In the year interest was payable at 1.50% over base rate.

The overdraft is secured by a fixed and floating charge on the Company's assets. In the year interest was payable at 2.5% over base rate.

Further information about the contractual terms of the Company's borrowings is given in note 14 to the Group Financial Statements.

COMPANY NOTES TO THE FINANCIAL STATEMENTS

C9. Provisions for Liabilities

Recognised deferred tax assets and liabilities

Deferred taxation provided in the accounts is as follows:

	2011 £'000	2010 £'000
Capital allowances in advance of depreciation	5	7
Unutilised management expenses	(5)	(7)
	-	-

Unrecognised deferred tax assets

A deferred tax asset of £200,000 (2010: £38,000) has not been recognised in respect of unrelieved management expenses of £768,000 (2010: £142,000). The unrelieved management expenses have no expiry date, and have not been recognised because of uncertainty over the timing of their recoverability.

C10. Share Capital and Reserves

	Share capital £'000	Share premium account £'000	Un-issued shares reserve £'000	Revaluation reserve £'000	Merger reserve £'000	Profit and loss reserve £'000	Total £'000
At 1 October 2009	1,145	365	145	309	784	3,168	5,916
Loss for the year	-	-	-	-	-	(866)	(866)
Dividends	-	-	-	-	-	(46)	(46)
Share-based payments	-	-	47	-	-	-	47
Transfer	-	-	-	(1)	-	1	-
At 1 October 2010	1,145	365	192	308	784	2,257	5,051
Loss for the year	-	-	-	-	-	(638)	(638)
Dividends	-	-	-	-	-	(92)	(92)
Share-based payments	-	-	3	-	-	-	3
Transfer	-	-	-	(1)	-	1	-
At 30 September 2011	1,145	365	195	307	784	1,528	4,324

C10. Share Capital and Reserves (continued)

Share capital

	2011		2010	
	Number	**£'000**	**Number**	**£'000**
Authorised	15,000,000	1,500	15,000,000	1,500
Issued and fully paid				
In issue at the start and end of the year	11,448,229	1,145	11,448,229	1,145

Dividends

Details of dividends paid and proposed in the year are given in note 18 to the Group Financial Statements.

C11. Share Based Payments

Details of the Company's share option schemes, a reconciliation of movements therein and options granted in the year are given in note 19 to the Group Financial Statements.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured using the Black-Scholes pricing model.

The Company recognised a share-based remuneration expense in the year of £3,000 (2010: £47,000).

C12. Financial Commitments

Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	2011 £'000	2010 £'000
Operating leases which expire:		
Within one year	-	4
Within two to five years	9	-
	9	4

FIVE YEAR SUMMARY

Unaudited information

Summary income statement	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000
Revenue	16,650	15,082	13,715	14,716	17,322
Operating profit / (loss) before amortisation	366	273	206	(366)	472
Amortisation of intangibles	-	-	(1)	(5)	(38)
Operating profit / (loss)	366	273	205	(371)	434
Net finance income / (costs)	97	109	(18)	(87)	(34)
Profit / (loss) before taxation	463	382	187	(458)	400
Taxation	(97)	(11)	(45)	75	(65)
Profit / (loss) for the year	366	371	142	(383)	335

Summary balance sheet	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000
Property, plant and equipment	2,256	2,191	2,031	1,791	1,658
Net trading assets	2,861	2,878	2,616	2,839	2,429
Net operating assets	5,117	5,069	4,647	4,630	4,087
Net debt	(2,091)	(1,842)	(1,399)	(1,884)	(1,164)
Deferred taxation	4	21	24	87	46
Net assets before pension and intangibles	3,030	3,248	3,272	2,833	2,969
Intangible assets - goodwill / dev costs	1,234	1,234	1,293	1,330	1,323
Pension asset /(liability) - net of deferred tax	1,245	378	(97)	(199)	-
Net assets	5,509	4,860	4,468	3,964	4,292

Ratios	2007	2008	2009	2010	2011
Operating profit, before goodwill, to sales	2.2%	1.8%	1.5%	(2.5%)	2.7%
Net assets per ordinary share	48.5p	42.5p	39.0p	34.6p	37.5p
Dividends per ordinary share	0.60p	0.65p	0.90p	0.40p	0.90p
Basic earnings per share	3.29p	3.25p	1.24p	(3.35p)	2.93p
Gearing (net debt as a % of total equity)	38.0%	37.9%	31.3%	47.5%	27.1%

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Fiftieth Annual General Meeting of LPA Group plc ("the Company") will be held at the offices of College Hill Associates Limited, The Registry, Royal Mint Court, London EC3N 4QN on Thursday 1 March 2012 at 12.00 noon for the following purposes:

Routine business

1. To receive the accounts for the year ended 30 September 2011, together with the reports of the directors and the auditors thereon.
2. To declare a final dividend of 0.50p per ordinary share of 10p each ("Ordinary Share") for the year ended 30 September 2011, payable on 23 March 2012 to shareholders on the register at the close of business on 2 March 2012.
3. To re-elect as a director Peter Pollock, who retires by rotation, in accordance with the Company's Articles of Association.
4. To re-elect as a director Stephen Brett, who retires by rotation, in accordance with the Company's Articles of Association.
5. To re-appoint the auditors and to authorise the directors to fix the auditors' remuneration.

Other business

Share capital

To consider and if thought fit pass resolution 6 as an ordinary resolution:

6. That the directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £355,000 provided that this authority shall expire on the date of the next annual general meeting save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such an offer or arrangement as if the authority conferred hereby had not expired.

To consider and if thought fit pass resolution 7 as a special resolution:

7. That subject to the passing of resolution 6 above, the directors be given power pursuant to section 570 of the Companies Act 2006 to allot equity securities (as defined in section 560 of the said Act) for cash pursuant to the authority conferred by resolution 6 above as if section 561(1) of the said Act did not apply to any such allotment provided that this power shall be limited:
   a. to the allotment of equity securities in connection with a rights issue in favour of shareholders where the equity securities respectively attributable to the interests of all shareholders are proportionate (as nearly as may be) to the respective numbers of shares held by them; and
   b. to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £114,400 (representing 10% of the present issued share capital),

and shall expire on the date of the next annual general meeting save 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 an offer or arrangement as if the power conferred hereby had not expired.

NOTICE OF MEETING (CONTINUED)

Share capital (continued)

To consider and if thought fit pass resolution 8 as a special resolution:

8. That, subject to and in accordance with the Company's Articles of Association, the Company is hereby generally and unconditionally authorised to make market purchases (as defined in section 693(4) of the Companies Act 2006) of any of its Ordinary Shares provided that:

   a. The maximum number of Ordinary Shares hereby authorised to be purchased is 1,144,000 representing 10% of the issued share capital;

   b. The minimum price (excluding expenses) which may be paid for an Ordinary Share is 10p;

   c. The maximum price (excluding expenses) 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 as derived from the AIM appendix to London Stock Exchange Daily Official List at the end of each of the five business days immediately preceding the day on which the Ordinary Shares are contracted to be purchased;

   d. The authority hereby conferred shall, unless renewed prior to such time, expire on the date of the next annual general meeting.

By order of the Board	Registered office:
Stephen Brett	Tudor Works,
Secretary	Debden Road
19 January 2012	Saffron Walden, CB11 4AN

Notes:

1. A member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and vote instead of him/her. A proxy need not be a member of the Company. Any instrument appointing a proxy must be received at Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU, not less than forty-eight hours before the time fixed for the meeting. A Form of Proxy is attached.
2. The register of the interests of the directors and their families in the share capital of the Company, together with the service contracts of directors, will be available for inspection at the venue of the annual general meeting from 11.45 am until the meeting is concluded. The same documents are available for inspection at the Company's registered office during normal business hours from the date of despatch of this document until the date of the annual general meeting.
3. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representatives in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.
4. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders entered in the register of members of the Company as at 6:00pm on 28 February 2012 or, if the meeting is adjourned, in the register of members at 6:00pm on the second day prior to the day of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 6:00pm on 28 February 2012 or, if the meeting is adjourned, in the register of members after 6:00pm on the second day prior to the day of the adjourned meeting, shall be disregarded in determining the rights of any person to attend, speak or vote at the meeting or at any such adjournment.

LPA GROUP PLC - FORM OF PROXY

For use at the annual general meeting to be held at 12.00 noon on Thursday 1 March 2012 at the offices of College Hill Associates Limited, The Registry, Royal Mint Court, London EC3N 4QN.

I/We……

of……

being a member/members of LPA Group plc hereby appoint (note 1) ……………………………………………………

or failing him the Chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the above mentioned meeting and at any adjournment thereof. I/We wish this proxy to be used as shown below:

Signed ………………………………………………………… Dated ……………………………………………2012

Please indicate with an "X" in the spaces below how you wish your votes to be cast. This proxy will be used only in the event of a poll being directed or demanded. If the form is returned without any indication as to how the proxy shall vote on any particular matter, the proxy will vote or abstain as he thinks fit. The "Vote withheld" option is provided to enable you to abstain on any particular resolution. However, it should be noted that a "Vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution. If you select "Discretionary", your proxy can vote as he or she chooses or can decide not to vote. Your proxy can also do this on any other resolution that is put to the meeting.

Resolution		For	Against	Vote witheld	Discreti-onary
1.	To receive the accounts for the year ended 30 September 2011.				
2.	To declare a final dividend of 0.50p per Ordinary Share for the year ended 30 September 2011.				
3.	To re-appoint Peter Pollock as a director of the Company.				
4.	To re-appoint Stephen Brett as a director of the Company.				
5.	To re-appoint the auditors and to authorise the directors to fix the auditor's remuneration.				
6.	To authorise the directors to allot shares (as defined in section 551 of the Companies Act 2006) in the Company.				
7.	To authorise the directors (pursuant to section 570 of the Companies Act 2006) to allot shares in the Company for cash.				
8.	To authorise the Company to make market purchases (as defined in section 693(4) of the Companies Act 2006) of its own shares.				

Notes:

1. If you wish to appoint as your proxy any person(s) other than the Chairman of the meeting, please insert the full name(s) of the proxy or proxies (in block capitals) in the space above. A proxy need not be a member of the Company and may attend the meeting in person and vote on a show of hands and on a poll.
2. To be effective a form of proxy must be in writing and signed by the member or his duly authorised attorney or, if the member is a corporation under its common seal or signed by a duly authorised officer or attorney. A corporation may appoint a representative to attend and vote at the meeting.
3. To be valid this proxy, together with any power of attorney under which it is signed, must be received at Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU not less than 48 hours before the time fixed for the meeting.
4. In the case of joint holdings the vote of the first-named holder in the register will be accepted to the exclusion of the other joint holders.
5. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
6. All members are entitled to attend and vote at the meeting, whether or not they have returned a form of proxy.
7. If two or more valid forms of proxy are delivered in respect of the same share, the one which was delivered last (regardless of its date or the date of its execution) will be valid.
8. Appointment of a proxy will not preclude a member from attending and voting in person should he subsequently decide to do so.
9. Any alterations made in this form of proxy should be initialled.

THIRD FOLD AND TUCK IN OPPOSITE

Business Reply
Licence Number
RSBH-UXKS-LRBC

1

PXS
34 Beckenham Road
BECKENHAM
BR3 4TU

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