

**Toad plc**

**Report and Financial Statements**

31 December 2002

 ERNST & YOUNG



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Toad plc

Registered No: 2974642

**Directors**

**Executive Chairman**

P T Ward

**Non-executive directors**

M F Cornwell CIM

D A H Voss

**Executive directors**

N Grimond (Chief Operating Officer)

W W Jennings BA, FCA (Finance Director)

S A Gall BA, MIDM (Marketing Director)

**Company secretary**

W W Jennings BA, FCA

**Auditors**

Ernst & Young LLP

Rolls House

7 Rolls Buildings

Fetter Lane

London

EC4A 1NH

**Bankers**

NatWest Bank Plc

Carlyle House

Carlyle Road

Cambridge

CB4 3DH

**Brokers and financial advisers**

Seymour Pierce

29-30 Cornhill

London

EC3V 3NF

**Solicitors**

Ashurst Morris Crisp

Broadwalk House

5 Appold Street

London

EC2A 2HA

**Registrars**

Capita IRG plc

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390/398 High Road

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Essex

IG1 1NG

**Registered Office**

National Control Centre

Drake Road

Mitcham

Surrey

CR4 4HQ

 ERNST & YOUNG

## Chairman's statement

I am pleased to present our results for the year ended 31 December 2002. In particular, I am very pleased to report a return to net profit after the £1m loss of the previous year. Over the same period we have generated £3.7m (2001: £2.0m) in cash from operations and have reduced the net debt by £2.4m to £6.1m.

	2002	2001
	<i>£m</i>	<i>£m</i>
Turnover	34.1	34.3
Gross profit	13.7	13.7
Operating profit	1.0	(0.2)
Net profit/(loss)	0.2	(1.0)
Net debt	6.1	8.5

The relocation of our vehicle security business to our head office facility in Mitcham combined, with the increased contribution from Datatool, another solid performance from our Services division and tight working capital management, have been key in achieving this turnaround. Through careful management of our costs we have generated higher profit from slightly lower sales and, having consolidated our position, our next target is to exploit the growth potential within the portfolio of businesses within the group.

We have organised ourselves to focus our resources on our growth markets within insurance services, Datatool and Actra, while at the same time cutting costs in the mature businesses in which we operate. Our strategy with these mature businesses has generated the cash both to invest in new projects and reduce our overall indebtedness.

The group's success is dependent upon the commitment of our employees and I would like to record the Board's appreciation to all those individuals and teams who have contributed to the excellent progress made by the group over the past year in what was a challenging trading environment.

Having returned the group to profitability we are now looking to build upon this platform in the current year. Current trading is in line with our forecasts and the board is looking forward to making further progress in 2003.

Peter Ward  
Chairman

## Operating review

Our business is made up of three interrelated divisions – Services, Distribution and Telematics.

### Services

The principal activity of our Services Division is the provision of claims handling services and fulfilment for the UK's major insurance companies. Behind this sits a 70 seat call centre, 70 mobile installation engineers and 4000 m2 of warehousing. Our focus has been on the reinstatement of in-car audio equipment and we have been the leading player in this market for some time. Turnover in this division in 2002 grew slightly to £14.3m (2001: £14.2m). As the dominant player we have found further growth potential in the car audio sector limited and so our focus has shifted to looking at other opportunities to leverage our excellent working relationships within the insurance industry. Toward the end of the year we expanded our insurance claims handling service so that we now offer replacement of lost or damaged cameras and computers. While it remains early days we are encouraged by the willingness of several insurance companies to use us in this new area.

Once we have established our existing model in this new market we will look for other opportunities to broaden the range of our insurance claims handling portfolio.

### Distribution

Our Distribution Division consists of the following businesses:

Toad Audio Express (TAE)	Vehicle audio and mobile multi-media (M3)
Toad VTD	Vehicle alarms
Datatool (UK) Limited	Motorcycle alarms and accessories
Integrated Technologies (International) Limited (ITI)	Audio interface cables (51% controlling stake)

TAE and VTD saw sales fall from £18.2m in 2001 to £16.1m this year. While our security OE business remains strong, the car security aftermarket is very mature and market conditions in 2002 for in-car entertainment products were very competitive. We were, however, able to operate on a significantly reduced overhead base following the relocation of the VTD business to share the head office facility with TAE in Mitcham. Consequently, the profit contribution from the VTD business has improved.

The group benefited from a full year's contribution from Datatool in 2002 having acquired this company in June 2001. This business achieved sales of £2.4m in 2002 (2001 from date of acquisition: £1.1m). The Datatool motorcycle alarm is a leading aftermarket brand in the UK and is the OE fit for Triumph Motorcycles. Since acquisition several accessory products have been added to the portfolio to leverage the excellent Datatool brand name. In addition, manufacturing costs have been reduced and we are looking to exploit the export market in 2003.

ITI, in which we own a 51% controlling stake, achieved breakeven in the year (2001: loss £0.1m) on sales of £0.9m (2001: £0.8m), and we have also benefited from a contribution to turnover within Toad Audio Express, which distributes ITI's products.

### Telematics

In Actra we have developed a competitive and robust web-based fleet management system and have sold over 1,400 units which are also generating on-going revenue for the business. Since entering the telematics market we have spent over £1m on the Actra project, of which £324,000 represents development costs which have been capitalised. Having made the investment in this start-up we have been able to reduce the ongoing fixed costs by redirecting the sales effort from our own direct sales force into reseller agreements with third parties. In parallel with this we are selling the system into new niche markets outside vehicle fleet management.

## Operating review

### Looking forward

Over the last year we have re-organised our operations to reduce overhead costs and improve efficiency throughout the operation. We have improved cash generation from our mature businesses and reduced the indebtedness of the group. We have developed new initiatives so that we are well placed to build on these growth opportunities to deliver sustainable returns.

Nick Grimond  
Chief Operating Officer

## Directors' biographical details

### Executive directors

#### **Peter Ward, Executive Chairman**

Peter Ward, 57, joined Toad on 1 November 2001 as Non-executive Chairman and was appointed Executive Chairman in February 2002. Peter has spent most of his career in the motor industry, previously working for Rolls-Royce Motor Cars Ltd where he was appointed Chief Executive in 1987 and Chairman and Chief Executive from 1991 to 1995. He was one of the main architects of the rescue of Rolls-Royce Motor Cars from the early 1990's recession. In 1993 he also became Managing Director Operations of Vickers plc. In 1995 he joined the board of Trafalgar House plc and became Chairman and Chief Executive of Cunard Line Ltd. From 1997 he became CEO of Hong Kong listed Jardine International Motor Holdings. He is currently a non-executive director of Ricardo plc and a member of the European Advisory Board for Harley Davidson Inc.

#### **Nicholas Grimond, Chief Operating Officer**

Nick Grimond, 37, was Group Operations Director of Sextons, which he joined in 1984, until it was acquired by Toad. He joined the board of Toad on 14 April 1998 as Operations Director and was made Chief Operating Officer in February 2002.

#### **Wilson Jennings, Finance Director and Company Secretary**

Wilson Jennings, 42, joined Toad from Isis Research plc, a multi-national market research company where he was Finance Director for five years. In addition to the international experience gained with Isis, Wilson has extensive corporate finance experience with PricewaterhouseCoopers. Wilson joined the board in March 2000.

#### **Stuart Gall, Marketing Director**

Stuart Gall, 40, joined the company in June 1994 as Head of Marketing. He previously held management positions with The Anvil Consultancy Ltd and The Promotions Partnership Ltd, a marketing, advertising and promotions agency, of which he was a founder member. Prior to that he worked for British Airways. He joined the board of Toad in April 1998.

### Non-executive directors

#### **Michael Cornwell, Non-executive Director**

Michael Cornwell, 63, joined us in August 1999 from Belron International (the owners of Autoglass and Carglass) where he was their International Sales Director. He set up the original Carglass operation in France and has extensive contacts with all of Europe's major insurance and fleet companies.

#### **David Voss, Senior Non-executive Director**

David Voss, 53, who joined the Toad board in March 2002, was formerly Managing Director of PHH Services and PHH Leasing in the UK and a director of Hertz Europe. He was also founder and Managing Director of VELO Ltd, a subsidiary of Dresdner Kleinwort Benson and a director of Kleinwort Benson Limited. He is currently Chairman of Provecta Car Plan Limited.

## Corporate governance

The company is committed to high standards of corporate governance. The board is accountable to the company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the company and the company's compliance with the Code provisions set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel.

### **Statement by the directors on compliance with the provisions of the combined code**

The company has been in full compliance with the provisions set out in Section 1 of the Combined Code throughout the year except as noted below:

D.3.1 - "The board should establish an audit committee of at least three directors, all non-executive, with written terms of reference which deal clearly with its authority and duties".

From 28 February 2002, the date of appointment of Peter Ward as executive chairman, the audit committee had two members.

Due to the small size of the board, the directors feel that two independent non-executive directors are sufficient.

A statement of the directors' responsibilities in respect of the financial statements is provided after the directors' report. Below is a brief description of the role of the board and its committees followed by a statement regarding the group's system of internal control.

### **The workings of the board and its committees**

#### **The Board**

The board currently comprises two non-executive directors and four executive directors and is responsible for the management of the group. Both non-executive directors are considered by the board to be independent. The board meets at least 10 times a year, setting and monitoring group strategy, reviewing trading performance and formulating policy on key issues. Key issues reserved for the board include the consideration of potential acquisitions, share issues and fund raising, the setting of group strategy, City public relations and the review and evaluation of significant risks facing the business. Briefing papers are distributed by the Company Secretary to all directors in advance of board meetings. All directors have access to the advice and services of the Company Secretary who is responsible for ensuring that board procedures are followed and that applicable rules and regulations are complied with. The appointment and removal of the Company Secretary is a matter for the board as a whole. In addition procedures are in place to enable directors to obtain independent professional advice in the furtherance of their duties if necessary, at the company's expense.

#### **The Audit Committee**

The audit committee comprises both of the non-executive directors and is chaired by David Voss. It is scheduled to meet at least twice a year and assists the board in ensuring that the group's published financial statements give a true and fair view. The committee meets as necessary with and receives reports from, the external auditors.

#### **The Remuneration Committee**

The remuneration committee comprises both of the non-executive directors and is chaired by Michael Cornwell. It meets as necessary, at least once a year, and is responsible for making recommendations to the board on the remuneration of senior executives and all directors.

#### **The Nomination Committee**

The nomination committee comprises both of the non-executive directors and is chaired by the executive chairman, Peter Ward. It meets as necessary and is responsible for making recommendations to the board on the appointments of executive and non executive directors.

## Corporate governance

### Relations with shareholders

Key members of the executive board regularly visit institutional shareholders and the full board makes itself available to questions at all shareholder meetings it holds. The board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the Chairmen of the audit, remuneration and nomination committees are available at Annual General Meetings to answer questions.

### Internal controls

The directors acknowledge that they are responsible for the group's system of internal control and for reviewing its effectiveness. Internal control systems are designed to meet the particular needs of the group and the risks to which it is exposed. In accordance with the guidance of the Turnbull Committee on internal control, the procedures are regularly reviewed in the light of an ongoing process to identify, evaluate and manage the significant risks faced by the group. The procedures are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The process has been in place for the full year under review and up to the date of approval of the annual report and accounts.

The key procedures which the directors have established with a view to providing effective internal control are as follows:

#### Management Structure

The board has overall responsibility for the group and there is a formal schedule of matters specifically reserved for decision by the board. Each executive director has been given responsibility for specific aspects of the group's affairs. The executive directors, together with key senior executives, constitute the management committee, which meets weekly, to discuss day-to-day operational matters.

#### Control environment

The group's control environment is the responsibility of the group's directors and managers at all levels. The effectiveness of the group's internal controls was last reviewed in January 2003. During the year the board reviewed and updated its internal control arrangements to ensure they remained appropriate.

#### Main control procedures

The directors have established control procedures in response to key risks. Standard financial control procedures operate throughout the group to ensure the integrity of the group's financial statements. The board has established procedures for authorisation of capital and revenue expenditure.

#### Monitoring system used by the board

The board reviews the group's performance against budgets on a monthly basis. The group's cash flow is monitored monthly by the board.

#### Internal audit

The group does not have an independent internal audit function, as the board does not consider the current scale of operations warrants such a function. However, as the group continues to grow, the board will keep this under review, with a view to creating an internal audit function when it is warranted.

#### Going concern

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

## Report on directors' remuneration

### *Information not subject to audit*

This remuneration report sets out the company's policy on the remuneration of executive and non-executive directors together with detail of directors' remuneration packages and service contracts.

### **Remuneration committee**

For the financial year ended 31 December 2002, remuneration policy for executive and non-executive directors and the determination of individual executive directors' remuneration packages have been delegated to the board's remuneration committee which consists of independent non-executive directors. The remuneration committee is comprised exclusively of non-executive directors. They are as follows:

M F Cornwell (Chairman of the remuneration committee)  
D A H Voss

In setting the remuneration policy the remuneration committee considers a number of factors including:

- (a) the basic salaries and benefits available to executive directors of comparable companies;
- (b) the need to attract and retain directors of an appropriate calibre; and
- (c) the need to ensure executive directors' commitment to the continued success of the company by means of incentive schemes; and
- (d) the need for the remuneration awarded to reflect performance.

### **Remuneration of non-executive directors**

The non-executive directors each receive a fee for their services, which is agreed by the board following recommendation by the chairman with a view to rates paid in comparable organisations and appointments.

The non-executive directors do not receive any pension or other benefits from the company, nor do they participate in any bonus or incentive schemes other than share options.

The non-executive directors do not have service contracts with the company. They are all appointed by letters of agreement with 12 months notice which are reviewed annually.

### **Remuneration policy for executive directors**

The company's remuneration policy for executive directors is to:

- (a) have regard to the directors' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality;
- (b) link individual remuneration packages to the group's long-term performance through the award of share options and incentive schemes;
- (c) provide employment-related benefits including the provision of a company car, life assurance, insurance relating to the director's duties and medical insurance.

### **Salaries and benefits**

The remuneration committee meets at least once a year in order to consider and set the annual salaries for executive directors having regard to personal performance and information regarding the remuneration practices of companies of similar size and of industry competitors. Executive directors' salaries were last reviewed in January 2003.

## Report on directors' remuneration

### Directors' service contracts

The company's policy is to have rolling 6 month service contracts for all executive directors. The non-executive directors do not have service contracts.

The service contracts of the executive directors, with the exception of Peter Ward, provide for six months notice of termination. Peter Ward's service contract provides for twelve months notice. Other than the notice periods afforded to the executive directors, there are no special provisions for compensation in the event of loss of office. The remuneration committee considers the circumstances of individual cases of early termination and determines compensation payments accordingly.

Details of individual directors' service contracts are as follows:

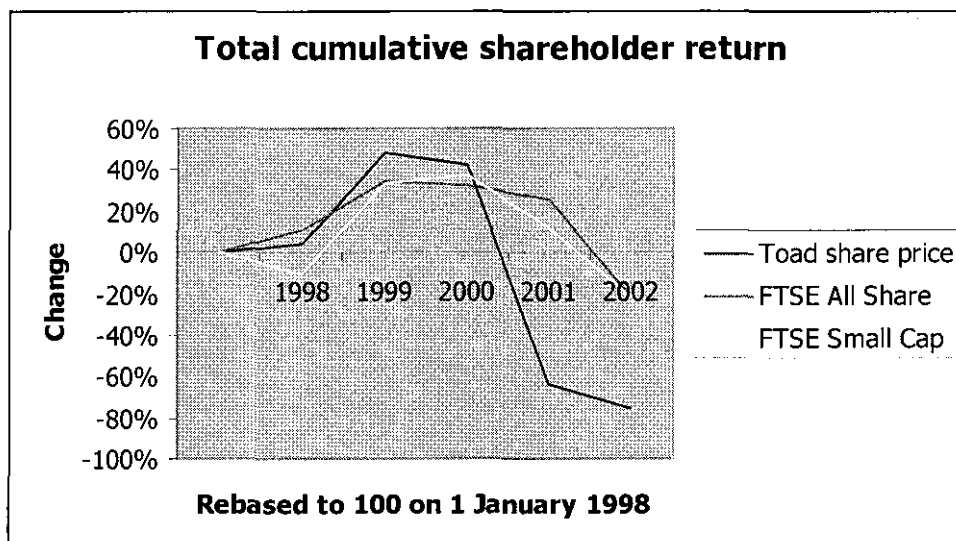
	<i>Contract date</i>	<i>Unexpired term</i>	<i>Notice period</i>
<i>Executive</i>			
P Ward (Chairman)	28 March 2002	3 months	12 months
S E Wheatley	28 November 2000	None	12 months
W W Jennings	1 January 2001	None	6 months
N Grimond	1 January 2001	None	6 months
S A Gall	1 January 2001	None	6 months

Details are given below in Directors' Emoluments of an award made to S E Wheatley by way of compensation for loss of office.

### Total shareholder return

The following line graph shows for the financial year ended 31 December 2002 and for each of the previous four financial years, the total cumulative shareholder return on a holding of the company's ordinary shares compared with a hypothetical holding of shares made up of companies in the FTSE All Share Index and the FTSE Small Cap Index. These indices were chosen as comparators because the directors believe they reflect the most appropriate benchmark for the company's performance.

The company has never paid a dividend and so the total shareholder return has been calculated as the movement in the share price at each year end by reference to a base point of 1 January 1998.



## Report on directors' remuneration

### Non-executive directorships

With the permission of the board the executive directors may accept appointments as non-executive directors. Any fees related to such employment may be retained by the director concerned.

#### Information subject to audit:

### Directors' detailed emoluments

Details of individual directors' emoluments for the year are as follows:

		Compensation			Total	Total
	Salary and fees	Bonuses	for loss of office	Benefits	2002	2001
	£	£	£	£	£	£
<i>Executive</i>						
P Ward (Chairman) <sup>1</sup>	138,749	–	–	1,426	140,175	9,167
S E Wheatley <sup>2</sup>	21,014	–	163,000	17,810	201,824	157,702
W W Jennings (a)	98,962	7,500	–	13,618	120,080	96,013
N Grimond (b)	126,749	35,000	–	1,363	163,112	148,209
S A Gall (c)	97,337	7,500	–	13,413	118,250	105,785
<i>Non-executive</i>						
Sir C T Evans <sup>3</sup> (d)	–	–	–	–	–	20,000
P C R C Rogers <sup>4</sup> (e)	5,906	–	–	–	5,906	12,000
M F Cornwell (f)	15,500	–	–	–	15,500	12,000
D Voss	16,500	–	–	–	16,500	–
	<u>520,717</u>	<u>50,000</u>	<u>163,000</u>	<u>47,630</u>	<u>781,347</u>	<u>560,876</u>

The bonus payments were based on the individual performance of the directors concerned.

<sup>1</sup> Appointed on 20 November 2001 as a non-executive director and appointed Executive Chairman on 28 February 2002.

<sup>2</sup> Resigned on 28 February 2002

<sup>3</sup> Resigned on 21 May 2001

<sup>4</sup> Resigned on 15 February 2002

(a) Includes an amount of £7,500 (2001: £nil) paid as bonuses in the year.

(b) Includes an amount of £35,000 (2001: £20,833) paid as bonuses in the year.

(c) Includes an amount of £7,500 (2001: £nil) paid as bonuses in the year and £8,500 (2001: £8,500) paid in pension contributions.

(d) Includes an amount of £nil (2001: £20,000) payable to Merlin Scientific Services Limited in respect of making available the services of Sir C T Evans to the company.

(e) Includes an amount of £5,906 (2001: £12,000) payable to Island Jet in respect of making available the services of P C R C Rogers to the company.

(f) Includes an amount of £15,500 (2001: £12,000) payable to Sports and Classics Solutions in respect of making available the services of M F Cornwell to the company.

The value of benefits received during the year relates principally to pension contributions, the provision of company cars and medical expenses cover.



## Report on directors' remuneration

### Share options

At 31 December 2002 the company had three employee share option schemes: the 1994 scheme, the 1995 scheme and the 1997 scheme and eight director schemes.

The 1994 scheme is administered by the directors and may only be granted to employees and directors of the company at the board's discretion. No further options are to be granted under this scheme.

The 1995 scheme has terms substantially similar to those of the 1994 scheme. Options are only granted at the discretion of the remuneration committee to employees of the group, but exclude the company's executive and non-executive directors. No new options have been issued under this scheme during the year.

The 1997 scheme was approved by shareholders of the company on 6 January 1997. The scheme is administered by the remuneration committee and options may only be granted to employees and directors of the group at the discretion of the committee. Options may only be granted:

1. Within 42 days of the announcement of the company's annual or half yearly results, or
2. Within 14 days of a new executive joining the scheme.

The 1997 scheme was established by the company on 20 October 1997, and approved by the Inland Revenue under Schedule 9 of the Income and Corporation Taxes Act 1988.

The non-executive director schemes were established on the following dates; the Michael Cornwell scheme, 14 September 1999 and the David Voss scheme, 22 March 2002.

The executive director schemes were established on 8 September 2000, with the exception of the Peter Ward Schemes which were established on 20 November 2001 and 22 March 2002.

### Directors' interests in share options

Details of options held by directors over the company's ordinary shares of 10p are set out below:

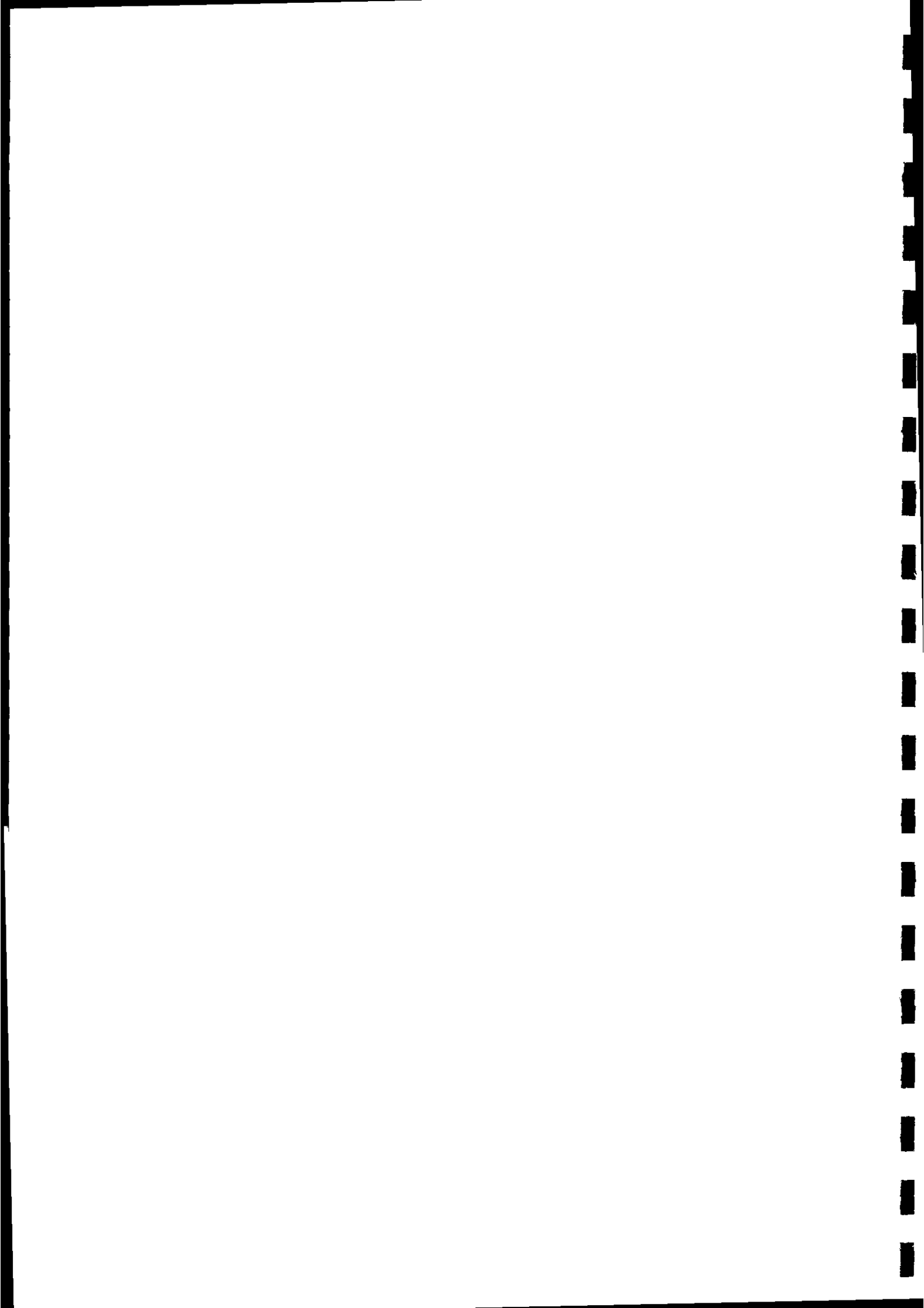
	Number of options			Exercise price	Date from which exercisable	Expiry date
	As at 31 December 2001	(lapsed)/ Granted in the year	As at 31 December 2002			
<i>The 1994 scheme</i>						
S A Gall	156,176	–	156,176	10p	12.12.96	11.12.04
<i>The Employee Scheme</i>						
N Grimond	127,660	–	127,660	23.5p	17.07.01	17.07.08
S A Gall	127,660	–	127,660	23.5p	17.07.01	17.07.08
W W Jennings	63,830	–	63,830	47p	08.09.03	08.09.10
S E Wheatley	95,238	(95,238)	–	31.5p	27.11.03	27.11.10
<i>Non-executive Schemes</i>						
M F Cornwell	100,000	–	100,000	28.5p	14.09.02	11.09.09
P C R C Rogers	100,000	(100,000)	–	28.5p	15.09.02	12.09.09
D Voss (note 1)	–	100,000	100,000	10p	22.03.02	22.03.12
<i>Executive Schemes</i>						
N Grimond	500,000	–	500,000	47p	08.09.03	08.09.07
S A Gall	500,000	–	500,000	47p	08.09.03	08.09.07
W W Jennings	436,170	–	436,170	47p	08.09.03	08.09.07
S E Wheatley	100,000	(100,000)	–	30.5p	01.11.02	01.11.09
S E Wheatley	404,762	(404,762)	–	31.5p	28.11.03	28.11.07
P Ward (note 2)	500,000	–	500,000	10p	20.11.01	20.11.11
P Ward (note 3)	–	500,000	500,000	10p	22.03.02	22.03.12

## Report on directors' remuneration

### Directors' interests in share options (continued)

The market price of the company's shares at the end of the financial year was 5.5p (2001: 8.25p) and the range of market prices during the year was 5p to 12p (2001: 6.75p to 46.75p).

1. The David Voss share options will vest only when the closing mid market value of the shares has equalled or exceeded 15p.
2. The first 500,000 Peter Ward share options, issued on 20 November 2001, vest in four equal tranches of 125,000 ordinary shares but only once the closing mid-market value of Toad ordinary shares has equalled or exceeded four target prices for each tranche of 14p, 21p, 28p and 35p respectively for five consecutive business days. Once a tranche has vested, that tranche shall remain exercisable irrespective of any future fluctuations in the value of the shares.
3. The second 500,000 Peter Ward share options, issued on 22 March 2002, vest in four equal tranches of 125,000 ordinary shares but only once the closing mid-market value of Toad ordinary shares has equalled or exceeded four target prices for each tranche of 15p, 22.5p, 30p and 37.5p respectively for five consecutive business days. Once a tranche has vested, that tranche shall remain exercisable irrespective of any future fluctuations in the value of the shares.



## Directors' report

The directors present their report and the group financial statements for the year ended 31 December 2002.

### Results and dividend

Group profit for the year after taxation and minority interests amounted to £0.2 million (2001, loss: £1.0 million).

The directors do not recommend the payment of a dividend.

### Principal activity

The principal activity of the group is the inception, development, marketing, sale and installation of highly effective and innovative vehicle technology products, including vehicle security, audio, cellular and navigation products.

### Review of business

The directors' report should be read in conjunction with the Chairman's Statement and the Review of Operations.

### Financial risk management

The group's principal financial instruments, other than derivatives, comprise bank loans, preference shares, finance leases and hire purchase contracts, and cash. The main purpose of these financial instruments is to raise finance for the group's operations. The group has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations.

The main risks from the group's financial instruments are liquidity, interest rate and foreign exchange risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

#### Liquidity and interest rate risk

The group's policy on funding capacity is to ensure that we always have sufficient long term funding and committed facilities in place to meet foreseeable peak borrowing requirements. The company has a Sterling term loan facility of £4,000,000 and Sterling revolving overdraft facility of £5,000,000. Both these facilities, which are from NatWest Bank, are at floating rates of interest linked to LIBOR. The group's policy is to ensure that sufficient resources are always available to service all debt by forecasting its operating and similar cash flows prudently. At the beginning of the year the company entered into an interest rate swap arrangement to hedge against possible unfavourable movements in LIBOR.

#### Foreign currency risk

The group uses forward exchange contracts to hedge foreign exchange exposures arising on forecast payments in foreign currencies.

## Directors' report

### Directors' interests in shares

The directors at 31 December 2002 (or date of appointment if later), and their interests in the share capital of the company, other than in respect of options to acquire ordinary shares (which are detailed in the analysis of options included in the report on directors' remuneration) were as follows:

	24 February 2003	31 December 2002	31 December 2001 or subsequent date of appointment
<b>The company - ordinary 10p shares</b>			
P Ward	434,333	434,333	-
S A Gall	12,347	12,347	12,347
N Grimond	2,021,739	2,021,739	2,021,739
W W Jennings	50,000	50,000	-
M F Cornwell	-	-	-
D Voss	245,000	245,000	-

The share interests at 24 February 2003, 31 December 2002 and 31 December 2001 take into account the interest of S A Gall in 4,347 ordinary shares registered in the name of J M Gall. The share interests at 31 December 2002 and 24 February 2003 include the interest of D Voss in the 125,000 shares registered in the name of Insinger de Beaufort International Limited.

Apart from the interests disclosed above no directors were interested at any time in the year in the share capital or loan stock of the company or other group companies.

### Research and development activities

The group maintains sufficient research and development resource in-house to ensure its market leading security products remain cutting edge.

The group does not conduct any pure research into new technologies, but does constantly review the market place for any new technologies which might make a profitable contribution to the business. The group has capitalised development costs which are disclosed in note 12 to the financial statements.

### Disabled employees

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled persons wherever appropriate.

### Employee involvement

The group's policy is to consult and discuss with employees, through meetings, matters likely to affect employees' interests. The meetings seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

All employees are eligible to receive share options. Membership of the share option scheme is reviewed annually and options are issued to staff who have joined in the year. The number of options granted vary according to seniority and experience.

## Directors' report

### Major interest in shares

As at 24 February 2003, according to the company's register, the following shareholders each held 3% or more of the company's issued share capital.

<i>Name</i>	<i>Ordinary 10p shares</i>	<i>% Holding</i>
Sir C T Evans	9,069,628	12.15
Carglass Luxembourg Sarl NV	3,639,949	4.88
T D Waterhouse	2,470,962	3.31

### Creditor payment policy

The company's policy is to:

- (a) settle the terms of payment with those suppliers when agreeing the terms of each transaction,
- (b) ensure that those suppliers are aware of the terms of payment by inclusion of the relevant terms in contracts, and
- (c) pay in accordance with contractual and other legal obligations.

The group's average creditor payment period at 31 December 2002 was 42 days (2001: 42 days) and that of the company was nil days.

### Auditors

A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

By order of the board



W W Jennings  
Secretary

## Statement of directors' responsibilities in respect of the financial statements

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

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



# Independent auditors' report

to the members of Toad plc

We have audited the group's financial statements for the year ended 31 December 2002 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses, and the related notes 1 to 31. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

## Respective responsibilities of directors and auditors

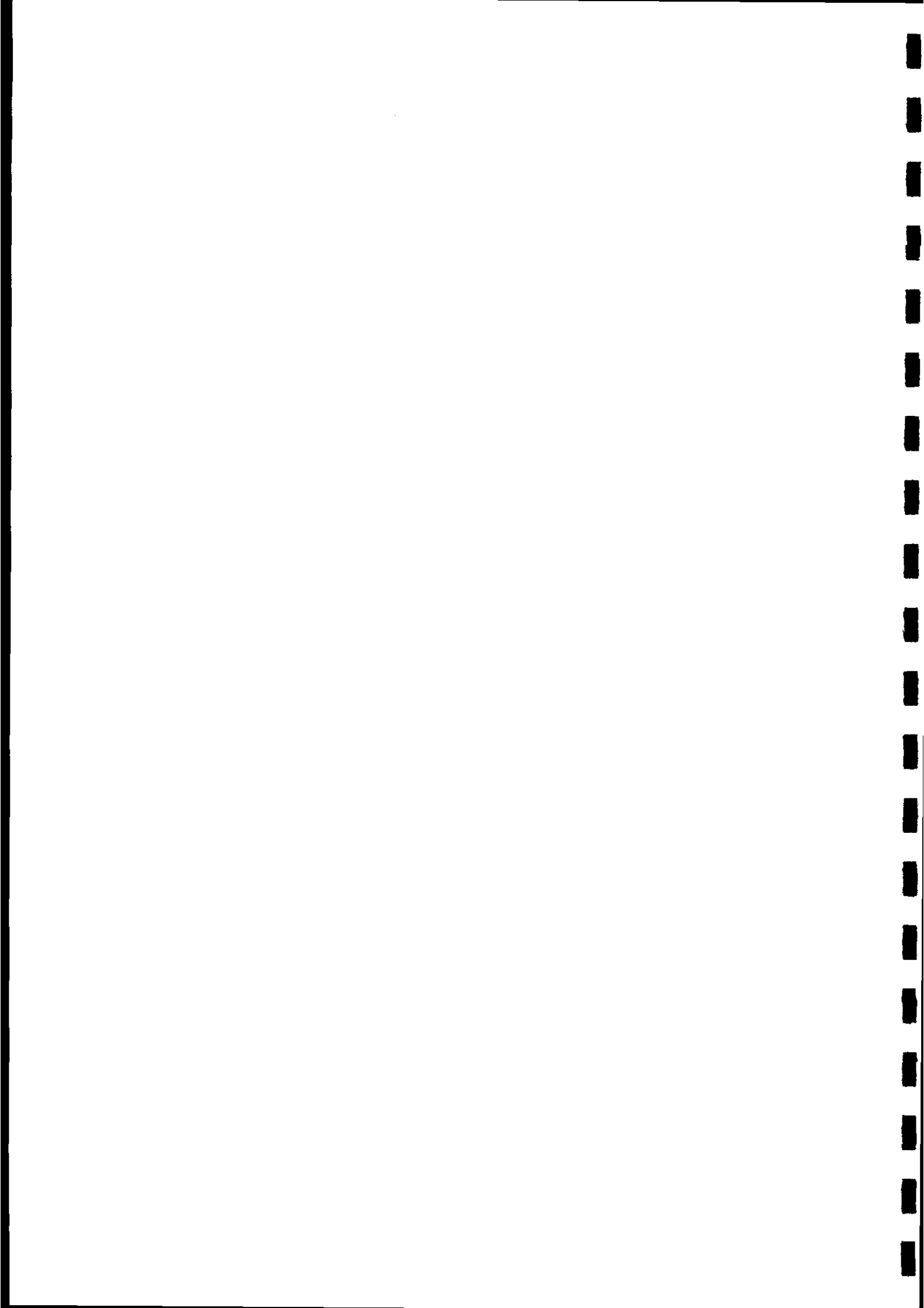
The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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



# Independent auditors' report

to the members of Toad plc

## Basis of audit opinion

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

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

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2002 and of the profit of the group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*

Ernst & Young LLP  
Registered Auditor  
London

Date *18 March 2003* .

## Consolidated profit and loss account

for the year ended 31 December 2002

		<i>Before amortisation of intangibles, exceptionals and non recurring items</i>	<i>Amortisation of intangibles, exceptionals and non recurring items</i>	2002 £'000	2001 £'000
	Notes	£'000	£'000		
<b>Turnover</b>	2	34,138	-	34,138	34,311
<b>Cost of sales</b>		(20,445)	-	(20,445)	(20,564)
<b>Gross profit</b>		13,693	-	13,693	13,747
Other operating expenses	3, 4	(12,228)	(480)	(12,708)	(13,994)
<b>Operating profit/(loss)</b>		1,465	(480)	985	(247)
Interest payable and similar charges	7	(765)	-	(765)	(821)
<b>Profit/(loss) on ordinary activities before taxation</b>	8	700	(480)	220	(1,068)
Taxation	9	11	-	11	-
<b>Profit/(loss) on ordinary activities after taxation</b>		711	(480)	231	(1,068)
Minority interests		8	-	8	35
<b>Profit/(loss) for the year attributable to members of the parent company</b>	24	719	(480)	239	(1,033)
Earnings per share - basic	11	0.97p		0.32p	(1.43)p
- diluted	11	0.97p		0.32p	(1.43)p

ERNST & YOUNG

## Consolidated statement of total recognised gains and losses


There are no recognised gains and losses other than £239,000 profit (2001, loss: £1,033,000) included in the profit and loss account above.

## Balance sheets

at 31 December 2002

		Group		Company	
		2002	2001	2002	2001
	Notes	£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Intangible assets	12	1,616	1,992	–	–
Tangible assets	13	2,693	3,017	–	–
Investments	14	–	–	16,115	16,351
		<u>4,309</u>	<u>5,009</u>	<u>16,115</u>	<u>16,351</u>
<b>Current assets</b>					
Stocks	15	4,105	4,931	–	–
Debtors	16	4,568	6,655	5,039	6,472
Cash at bank and in hand		842	1,326	384	390
		<u>9,515</u>	<u>12,912</u>	<u>5,423</u>	<u>6,862</u>
<b>Creditors:</b> amounts falling due within one year	17	(7,441)	(10,567)	(1,012)	(1,397)
<b>Net current assets</b>		<u>2,074</u>	<u>2,345</u>	<u>4,411</u>	<u>5,465</u>
<b>Total assets less current liabilities</b>		<u>6,383</u>	<u>7,354</u>	<u>20,526</u>	<u>21,816</u>
<b>Creditors:</b> amounts falling due after more than one year	18	(2,831)	(3,797)	(2,805)	(3,720)
Minority interests - equity		86	78	–	–
<b>Net assets</b>		<u>3,638</u>	<u>3,635</u>	<u>17,721</u>	<u>18,096</u>
<b>Capital and reserves</b>					
Called up share capital	22	7,775	7,689	7,775	7,689
Share premium account	24	11,788	11,638	11,788	11,638
Share capital to be issued	22, 24	43	515	43	515
Merger reserve	24	–	–	1,001	1,001
Profit and loss account	24	(15,968)	(16,207)	(2,886)	(2,747)
<b>Shareholders' funds</b>	25	<u>2,859</u>	<u>2,856</u>	<u>16,942</u>	<u>17,317</u>
Equity		<u>779</u>	<u>779</u>	<u>779</u>	<u>779</u>
Non-equity		<u>3,638</u>	<u>3,635</u>	<u>17,721</u>	<u>18,096</u>

The financial statements were approved by the board of directors on 18 March 2003 and were signed on its behalf by:

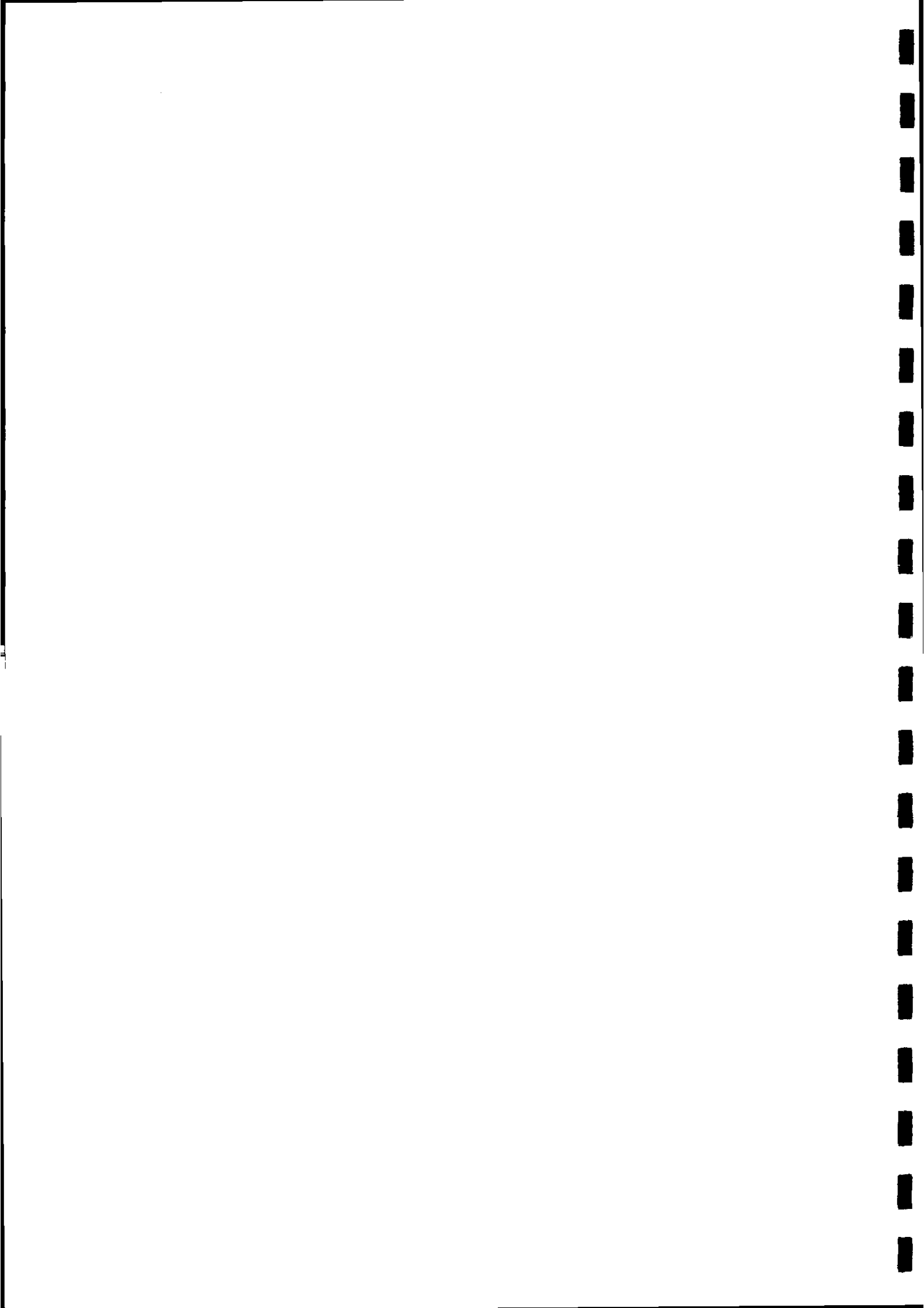
  
Chairman

  
Finance Director

## Consolidated statement of cash flows

for the year ended 31 December 2002

	Notes	2002 £'000	2001 £'000
<b>Net cash inflow from operating activities</b>	28	<b>3,700</b>	2,007
<b>Returns on investments and servicing of finance</b>			
Issue costs of new loans		–	(173)
Interest paid		(666)	(679)
Interest paid on finance leases		(10)	(10)
		<b>(676)</b>	(862)
<b>Taxation</b>			
UK corporation tax paid		(60)	(358)
<b>Capital expenditure</b>			
Purchase of intangible fixed assets		(115)	(209)
Purchase of tangible fixed assets		(239)	(598)
Sale of tangible fixed assets		153	15
		<b>(201)</b>	(792)
<b>Acquisitions</b>			
Purchase of subsidiary	22	(250)	(795)
Cash acquired		–	283
		<b>(250)</b>	(512)
<b>Cash inflow/(outflow) before financing</b>		<b>2,513</b>	(517)
<b>Financing</b>			
Issue of shares		–	178
Movement in short term borrowings		–	(1,476)
Drawdown of long term borrowings		–	2,785
Repayment of long term borrowings		(1,000)	–
Repayment of principal under finance leases		(40)	(103)
		<b>(1,040)</b>	1,384
<b>Increase in cash in the year</b>	29	<b>1,473</b>	867



## Notes to the financial statements

at 31 December 2002

### 1. Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

#### *Basis of preparation and change in accounting policy*

The financial statements are prepared in accordance with the historical cost convention.

In preparing the financial statements for the current year, the group has adopted FRS 19 'Deferred Tax'. The adoption of FRS 19 has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below. Adoption of FRS 19 has not resulted in a prior year adjustment for the group.

#### *Basis of consolidation*

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2002. The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

#### *Goodwill*

Goodwill arising on acquisitions prior to 22 December 1998 was written off immediately against reserves. Goodwill previously eliminated has not been reinstated on implementation of FRS 10.

Goodwill arising on acquisitions since 23 December 1998 is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

#### *Turnover*

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods sold.

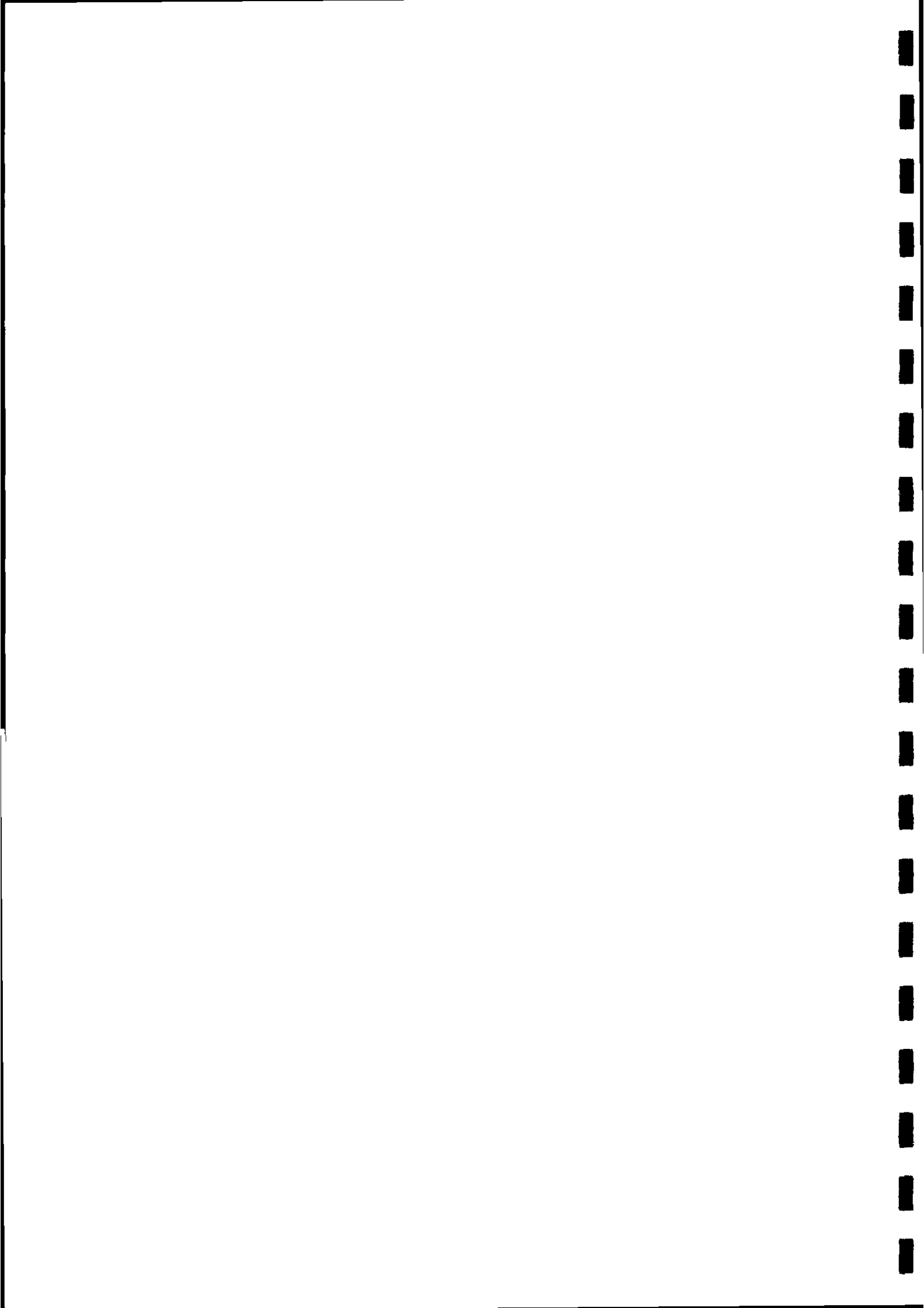
#### *Deferred taxation*

Deferred taxation is recognised in respect of all timing differences 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 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, or 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.



## Notes to the financial statements

at 31 December 2002

### 1. Principal accounting policies (continued)

#### *Fixed asset investments*

The carrying values of fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### *Patents*

Patent costs are capitalised and written off over the shorter of the expected market life of the products concerned and the legal life of the patent.

The carrying values of patents are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### *Tangible fixed assets*

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Freehold land and buildings	2
Leasehold improvements	10% or over the term of the lease if shorter
Motor vehicles	25
Plant and equipment	25-33

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

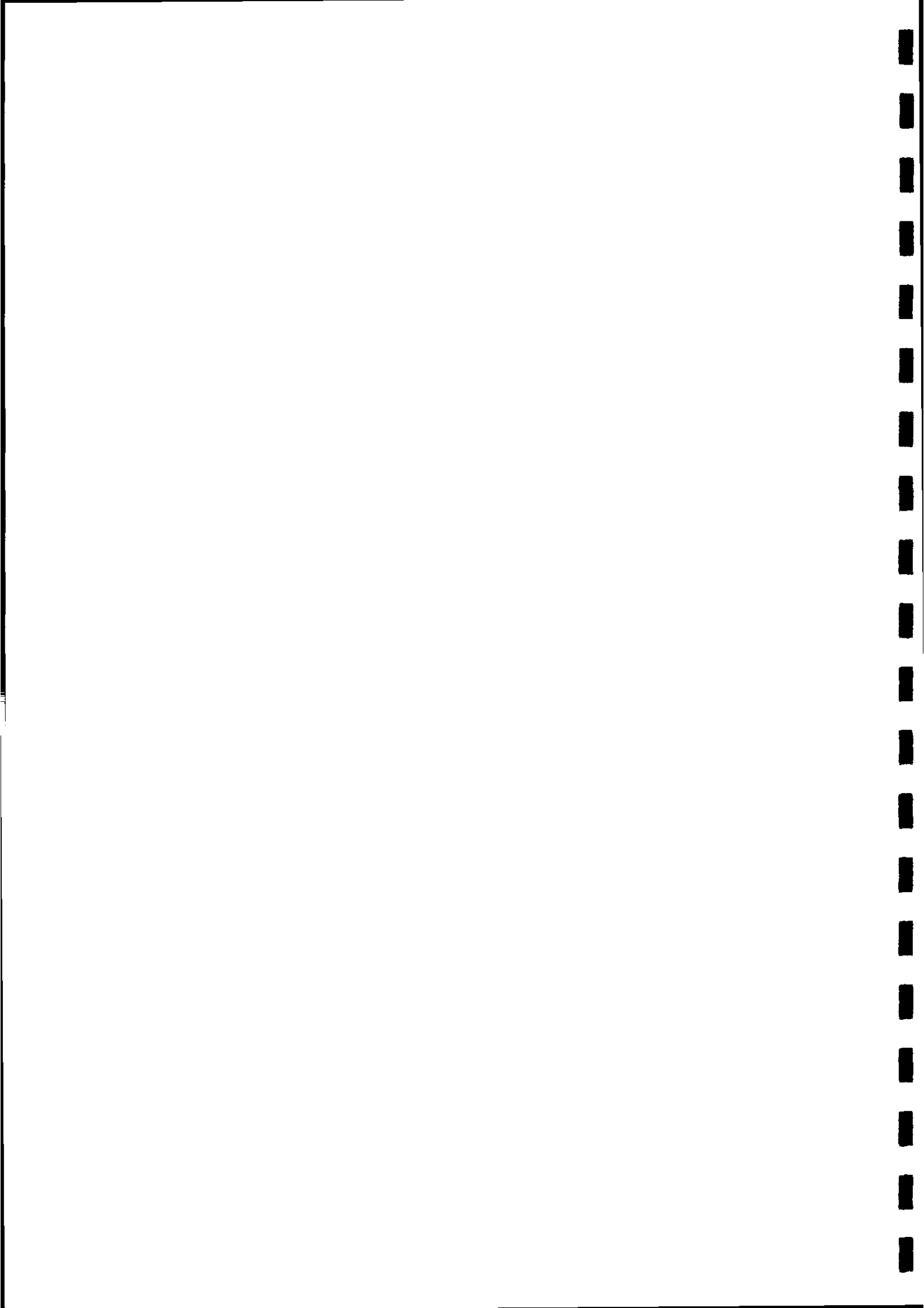
#### *Intangible assets*

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if their fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, their fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value. In general, cost is determined on an average cost basis. Where necessary, provision is made for obsolete, slow moving and defective stocks.



## Notes to the financial statements

at 31 December 2002

### 1. Principal accounting policies (continued)

#### *Leasing and hire purchase commitments*

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset are passed to the group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the duration of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

#### *Pensions*

The group operates a defined contribution scheme. The pension cost charge to the profit and loss account is the contributions payable to the pension scheme for the period.

#### *Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

#### *Research and development*

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

#### *Financial instruments*

The group uses forward currency contracts and interest rate swaps to manage the financial risks associated with the group's underlying business activities and the financing of those activities. The group's policy is not to undertake any trading activity in financial instruments.

A discussion of how the group manages its financial risks is included in the Directors' Report.

The criteria for using hedge accounting for forward foreign currency contracts are:

- the instrument must be related to a foreign currency asset or liability that is probable and whose characteristics have been identified;
- it must involve the same currency as the hedged item; and
- it must reduce the risk of foreign currency exchange movements on the group's operations.

Forward exchange contracts are used to hedge foreign exchange exposures arising on payments in foreign currencies. The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed, or probable, future transaction, are deferred until the transaction occurs.

Interest rate swaps are used to hedge against exposure to fluctuations in interest rate. Gains and losses on such contracts are accounted for in the same period as the hedged item.

## Notes to the financial statements

at 31 December 2002

### 1. Principal accounting policies (continued)

#### *Capital Instruments*

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

### 2. Turnover

Turnover consists primarily of sales made in the United Kingdom from the group's main continuing activity. Export sales are not material.

### 3. Other operating expenses

	<i>Before amortisation of intangibles, exceptionals and non recurring items £'000</i>	<i>Amortisation of intangibles, exceptionals and non recurring items £'000</i>	2002 Total £'000	2001 Total £'000
Administrative	4,079	480	4,559	5,961
Distribution	7,699	–	7,699	7,552
Technical	450	–	450	481
	<u>12,228</u>	<u>480</u>	<u>12,708</u>	<u>13,994</u>

### 4. Amortisation of intangibles, exceptional and non recurring items

	2002 £'000	2001 £'000
Amortisation/write down of goodwill and other intangibles	255	412
Compensation for loss of office (see below)	163	–
Reorganisation costs	34	459
Aborted deal costs	–	140
Stock write down following loss of the Laserline distribution agreement	–	198
Change in estimation technique	–	173
ACTRA product research costs written off	–	122
Other	28	38
	<u>480</u>	<u>1,542</u>

#### *Compensation for loss of office*

The compensation for loss of office was paid to the former Chief Executive, Stephen Wheatley.

### 5. Directors' emoluments

Details of directors' remuneration for each director, and share options are included in the Report on Directors' Remuneration.

## Notes to the financial statements

at 31 December 2002

### 6. Employee information

The average monthly number of persons (including executive directors) employed by the group during the year was:

	2002 <i>Number</i>	2001 <i>Number</i>
By activity:		
Administration	81	50
Technical	7	15
Operations	183	217
	<u>271</u>	<u>282</u>

	2002 <i>£'000</i>	2001 <i>£'000</i>
Staff costs (for the above persons):		
Wages and salaries	5,215	5,320
Social security costs	454	472
	<u>5,669</u>	<u>5,792</u>

### 7. Interest payable and similar charges

	2002 <i>£'000</i>	2001 <i>£'000</i>
Bank loans and overdrafts	657	741
Finance leases	10	10
Other finance costs	98	70
	<u>765</u>	<u>821</u>

### 8. Profit/(loss) on ordinary activities before taxation

This is stated after charging:

	2002 <i>£'000</i>	2001 <i>£'000</i>
Auditors' remuneration for audit services (company £nil; 2001: £nil)	77	82
Auditors' remuneration for non-audit services	20	54
Operating lease rentals:		
Rent of land and buildings	289	307
Hire of plant and machinery	556	645
Amortisation of goodwill and other intangible fixed assets	255	182
Impairment of intangible fixed assets	-	230
Depreciation:		
Tangible fixed assets owned	375	321
Tangible fixed assets held under finance leases	83	94

## Notes to the financial statements

at 31 December 2002

### 9. Taxation

(a) Analysis of credit in year:

	2002 £000	2001 £000
<i>Current tax</i>		
UK corporation tax on the profit for the year	-	-
Over provision in prior years	(11)	-
	<u>(11)</u>	<u>-</u>
Foreign tax	-	-
	<u>-</u>	<u>-</u>
Total tax credit for the year (note 9(b))	<u>(11)</u>	<u>-</u>

(b) Factors affecting tax credit for the year:

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £000	2001 £000
Profit/(loss) on ordinary activities before tax	220	(1,068)
	<u>220</u>	<u>(1,068)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	66	(320)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	55	26
Amortisation of intangibles	76	48
Depreciation in advance/(arrear) of capital allowances	17	(12)
(Utilisation)/incidence of tax losses	(214)	259
Adjustments to tax charge in respect of previous years	(11)	-
Other	-	(1)
	<u>(11)</u>	<u>-</u>
Current tax credit for the year (note 9(a))	<u>(11)</u>	<u>-</u>

#### **Factors that may affect future tax charges**

The group has estimated tax losses of £5,428,000 (2001: £6,142,000) that are available indefinitely for offset against future taxable profits of those companies in which the losses arose. Deferred tax assets of £1,628,000 (2001: £1,843,000) have not been recognised in respect of those losses since the benefit of the losses will only accrue when future taxable profits are generated.

### 10. Loss for the year of the parent company

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss for the year was £139,000 (2001: £2,114,000).

## Notes to the financial statements

at 31 December 2002

### 11. Earnings per ordinary share

The calculation of basic earnings per share is based on the profit on ordinary activities after taxation, namely £239,000 (2001, loss: £1,033,000) and on 74,043,392 (2001: 72,103,384) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The diluted earnings per share is calculated under the provisions laid out in FRS 14 and is based on the profit for the year of £239,000 (2001, loss: £1,033,000), and on 74,043,392 (2001: 72,103,384) ordinary shares, calculated as follows:

	2002 £'000	2001 £'000
Basic weighted average number of shares	74,043	72,103
Dilutive potential ordinary shares	-	-
	<u>74,043</u>	<u>72,103</u>

There is no dilution of the earnings per share because the exercise price of all share options is higher than the year end share price.

Alternative earnings per share before exceptional items are provided to facilitate evaluation of the underlying performance of the group. The calculation of basic earnings per share before amortisation of intangible items, exceptional and non-recurring items is based on the profit on ordinary activities after taxation, namely £719,000 (2001: £490,000), and on 74,043,392 (2001: 72,103,384) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

### 12. Intangible fixed assets

<i>Group</i>	<i>Spacetrac distribution agreement £'000</i>	<i>Metvale goodwill £'000</i>	<i>Datatool goodwill £'000</i>	<i>Patents £'000</i>	<i>Actra £'000</i>	<i>Total £'000</i>
Cost:						
At 31 December 2001	230	802	1,216	110	209	2,567
Additions	-	-	-	-	115	115
Adjustment (see below)	-	-	(236)	-	-	(236)
At 31 December 2002	<u>230</u>	<u>802</u>	<u>980</u>	<u>110</u>	<u>324</u>	<u>2,446</u>
Amortisation:						
At 31 December 2001	230	243	80	22	-	575
Provided during the year	-	80	96	22	57	255
At 31 December 2002	<u>230</u>	<u>323</u>	<u>176</u>	<u>44</u>	<u>57</u>	<u>830</u>
Net book value:						
At 31 December 2002	<u>-</u>	<u>479</u>	<u>804</u>	<u>66</u>	<u>267</u>	<u>1,616</u>
At 31 December 2001	<u>-</u>	<u>559</u>	<u>1,136</u>	<u>88</u>	<u>209</u>	<u>1,992</u>

## Notes to the financial statements

at 31 December 2002

### 12. Intangible fixed assets (continued)

#### *Spacetrac distribution agreement*

On 26 September 1997, Toad entered into an agreement with Spacetrac Limited for the exclusive rights to distribute in certain markets, a miniature satellite based wireless location device.

Under the terms of this agreement, 1,818,182 ordinary shares of 10p each, with an aggregate value of £500,000, will be allotted immediately following the date of delivery of the first Spacetrac product. In addition to this, costs of £230,000 were capitalised as an intangible asset. At the end of 2001 the directors reviewed the carrying value of the intangible asset and adjusted the cost of the investment in that year, on the basis that they do not believe the product will be delivered. In addition to this, the remaining £230,000 was recognised as an impairment in 2001.

However, a possibility exists that, should the product be delivered within the term of the agreement, which ends on 13 May 2007, shares to a value of £500,000 will be issued.

#### *Metvale goodwill*

On 7 January 1999 the company acquired Metvale Limited ("Metvale") which owned the UK audio reinstatement business of Autoglass Limited. The asset is being amortised over its expected life of ten years.

#### *Datatool goodwill*

Datatool goodwill represents the goodwill arising on the acquisition of Datatool (UK) Limited on 1 June 2001 and is being amortised over 10 years. The adjustment of £236,000 reflects the reduction in the contingent consideration payable (see note 22b).

#### *Patents*

Patents are in respect of the Intellectual Property Rights (IPR) for several mobile audio interface products and are being amortised over 5 years.

#### *ACTRA*

ACTRA costs included in intangible fixed assets are in respect of development costs including the product licences acquired as part of the group's web-based fleet management product. These costs are being amortised over 5 years.

<i>Company</i>	<i>Spacetrac distribution agreement £'000</i>
Cost and net book value:	
At 31 December 2001 and 31 December 2002	230
Amortisation - amounts provided:	
At 31 December 2001 and 31 December 2002	230
Net book value:	
At 31 December 2001 and 31 December 2002	—

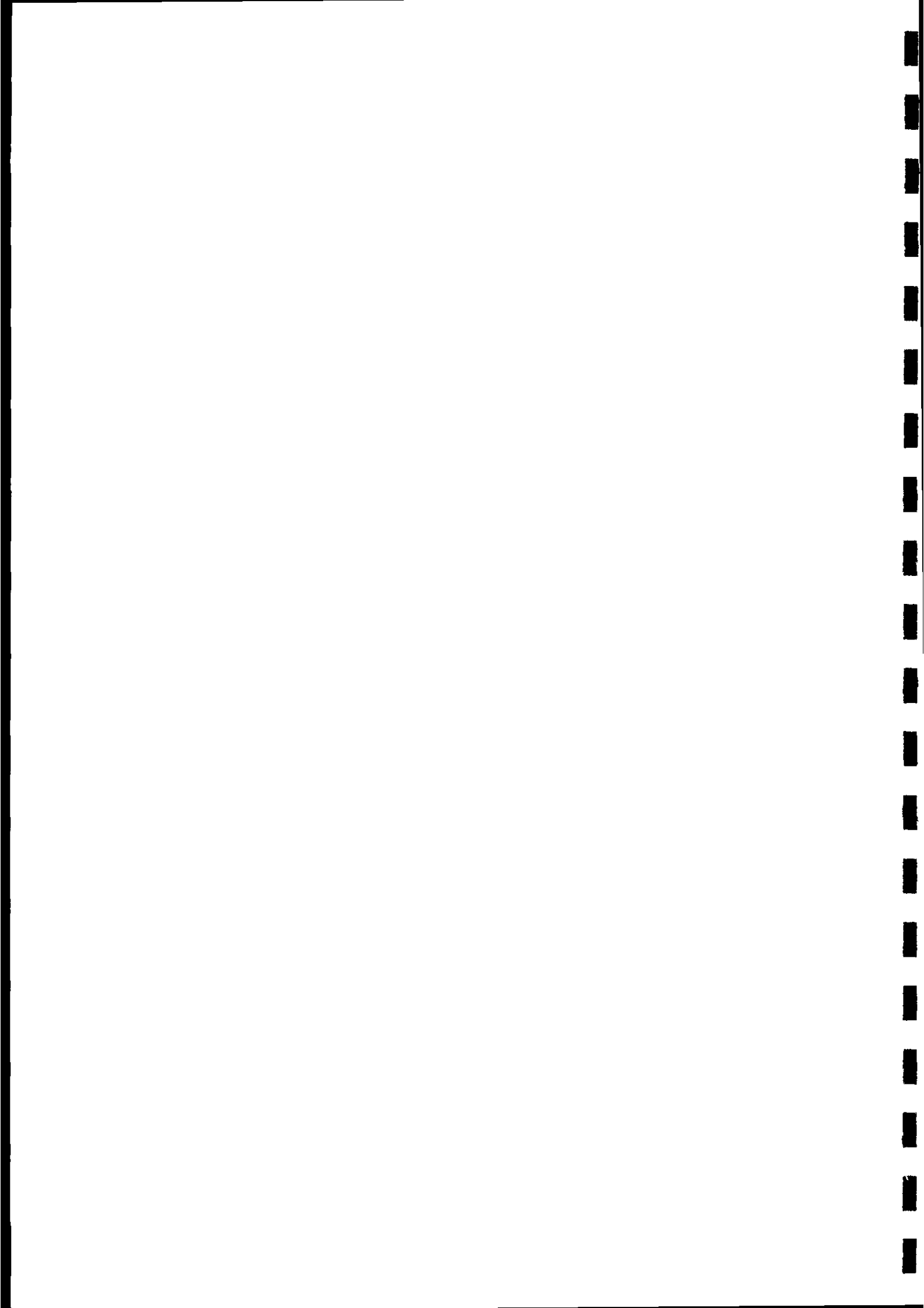
## Notes to the financial statements

at 31 December 2002

### 13. Tangible fixed assets

The company has no tangible fixed assets. Details of those relating to the group are:

	<i>Freehold land and buildings</i>	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Plant and equipment</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cost:					
At 31 December 2001	2,299	117	41	1,459	3,916
Additions	11	-	23	205	239
Disposals	(120)	-	-	(5)	(125)
At 31 December 2002	2,190	117	64	1,659	4,030
Depreciation:					
At 31 December 2001	143	78	11	667	899
Provided during the year	50	15	10	383	458
Disposals	(18)	-	-	(2)	(20)
At 31 December 2002	175	93	21	1,048	1,337
Net book value:					
At 31 December 2002	2,015	24	43	611	2,693
At 31 December 2001	2,156	39	30	792	3,017
Net book value of assets held under finance leases:					
At 31 December 2002	-	-	-	34	34
At 31 December 2001	-	-	-	117	117



## Notes to the financial statements

at 31 December 2002

### 14. Fixed asset investments

Details of the company's investments are:

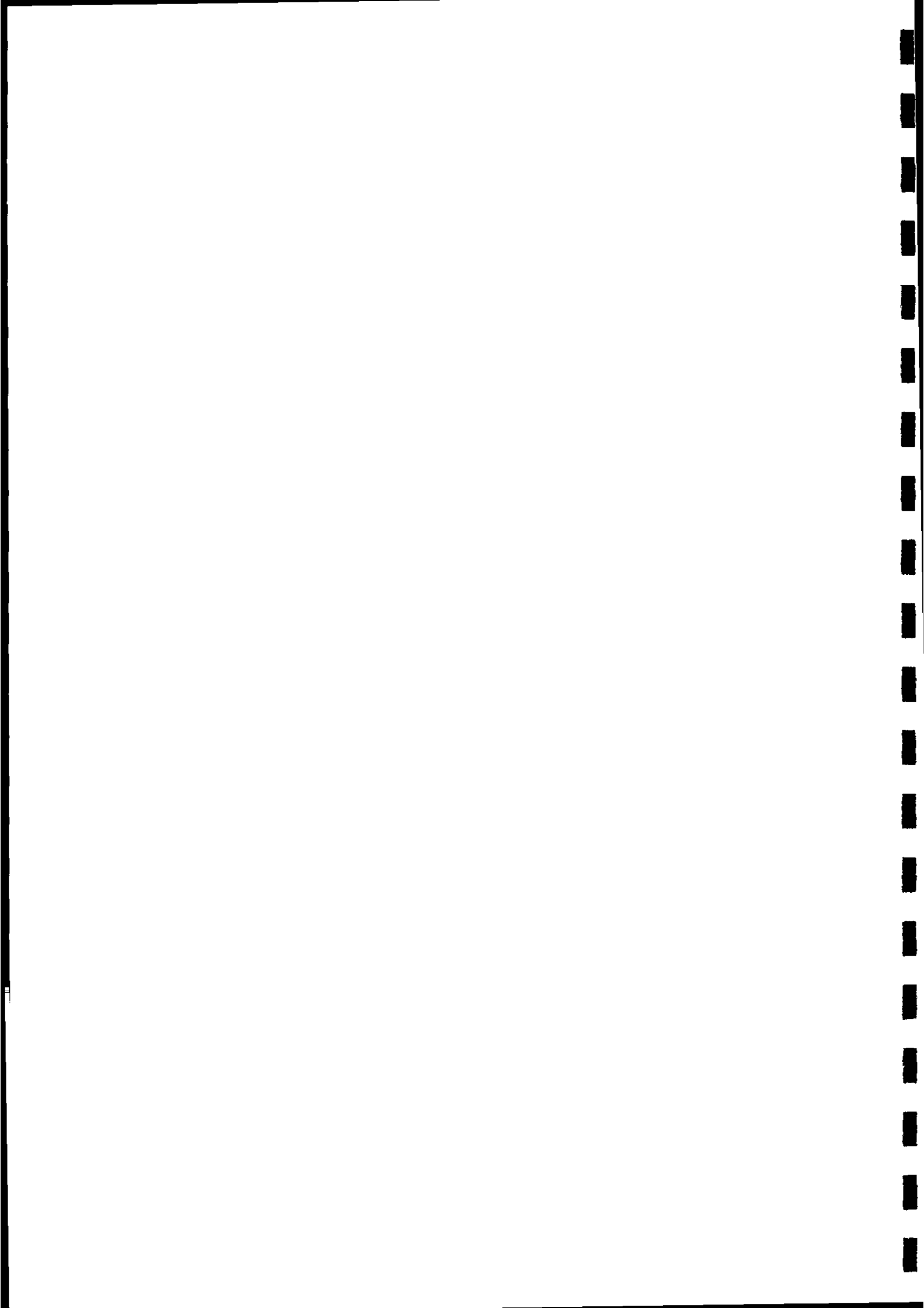
	<i>Interests in group undertakings £'000</i>
Cost:	
At 31 December 2001	19,167
Adjustment to cost (see note 22b)	(236)
At 31 December 2002	<u>18,931</u>
Amounts provided:	
At 31 December 2001	2,816
Impairment	-
At 31 December 2002	<u>2,816</u>
Net book value:	
At 31 December 2002	<u>16,115</u>
At 31 December 2001	<u><u>16,351</u></u>

#### *Interests in group undertakings*

Details of the company's principal subsidiary undertakings (all of which have been consolidated in the group financial statements) are as follows:

<i>Name of undertaking</i>	<i>Description of shares held</i>	<i>Proportion of voting rights shares held %</i>	<i>Nature of business</i>
*Toad (UK) Limited	Ordinary £1 shares	100	Sale and installation of vehicle audio and security products
Toad Innovations Limited	Ordinary 1p shares	100	Sale and installation of vehicle audio and security products
Datatool (UK) Limited	Ordinary £1 shares	100	Sale of motorcycle Security and accessory Products
Integrated Technologies (International) Limited	Ordinary £1 shares	51	Sale of vehicle audio and related products

\*Wholly or partly held by a subsidiary undertaking



## Notes to the financial statements

at 31 December 2002

### 15. Stocks

The company has no stock. Details of that relating to the group are:

	2002 £'000	2001 £'000
Finished goods and goods for resale	3,603	4,594
Work in progress and raw materials	502	337
	<u>4,105</u>	<u>4,931</u>

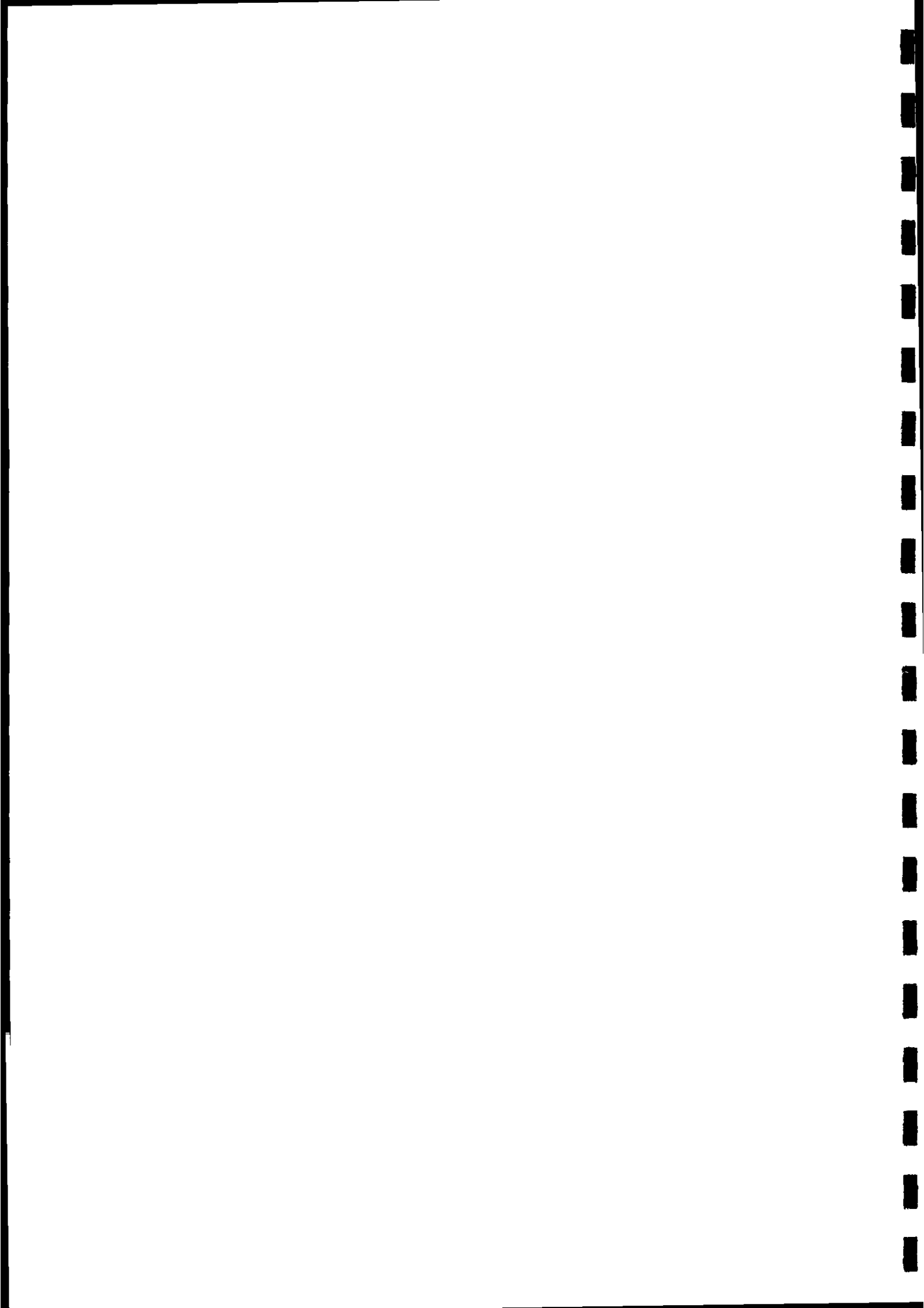
### 16. Debtors

	<i>Group</i>		<i>Company</i>	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Amounts falling due after one year:				
Amounts owed by group undertakings	-	-	5,015	6,468
Amounts falling due within one year:				
Trade debtors	3,916	5,893	-	-
Other debtors and prepayments	497	679	24	4
Corporation tax recoverable	155	83	-	-
	<u>4,568</u>	<u>6,655</u>	<u>5,039</u>	<u>6,472</u>

### 17. Creditors: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Bank overdrafts	3,007	4,964	-	-
Current instalment due on bank loan	1,000	1,000	1,000	1,000
Obligations under finance leases	92	81	-	-
Trade creditors	2,547	2,892	-	-
Other taxation and social security	410	353	-	-
Other creditors	14	696	-	372
Accruals and deferred income	371	581	12	25
	<u>7,441</u>	<u>10,567</u>	<u>1,012</u>	<u>1,397</u>

The bank loan and overdrafts are secured by fixed and floating charges over all assets of the group.



## Notes to the financial statements

at 31 December 2002

### 18. Creditors: amounts falling due after more than one year

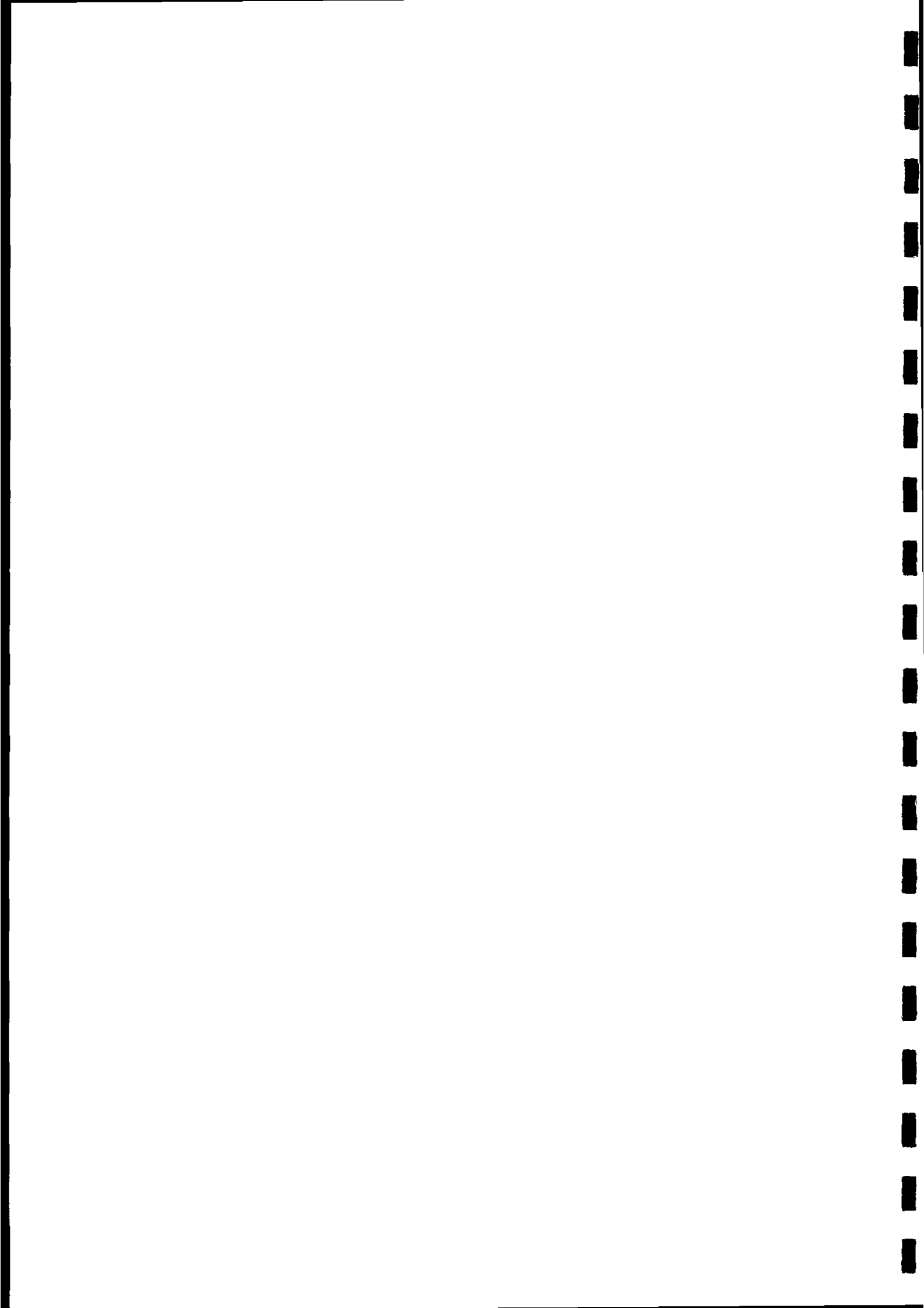
	<i>Group</i>		<i>Company</i>	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Bank loan	2,805	3,720	2,805	3,720
Obligations under finance leases	26	77	-	-
	<u>2,831</u>	<u>3,797</u>	<u>2,805</u>	<u>3,720</u>

The net finance lease obligations to which the group is committed are:

	2002 £'000	2001 £'000
In one year or less	92	81
Between one and five years	26	77
	<u>118</u>	<u>158</u>

### 19. Loans

<i>Group and Company</i>	2002 £'000	2001 £'000
Amounts falling due:		
in one year or less or on demand	1,000	1,000
in more than one year but not more than two years	1,000	1,000
in more than two years but not more than five years	2,000	3,000
	<u>4,000</u>	<u>5,000</u>
Less: issue costs	(195)	(280)
	<u>3,805</u>	<u>4,720</u>
Less: included in creditors: amounts falling due within one year	(1,000)	(1,000)
	<u>2,805</u>	<u>3,720</u>



## Notes to the financial statements

at 31 December 2002

### 20. Financial risk management

The group's approach to managing financial risk is described in the Directors' Report. The disclosures below exclude all short-term debtors and creditors.

#### Interest rate risk

31 December 2002

Financial liabilities - All Sterling	At fixed	At floating	Total	Fixed rate
	interest rates	interest rates		interest rate
	£'000	£'000	£'000	Weighted average %
Bank loan	-	3,805	3,805	-
Bank overdrafts	-	3,007	3,007	-
Obligations under finance leases	118	-	118	11.5
	<u>118</u>	<u>6,812</u>	<u>6,930</u>	

31 December 2001

Financial liabilities - All Sterling	At fixed	At floating	Total	Fixed rate
	interest rates	interest rates		weighted average
	£'000	£'000	£'000	interest rate %
Bank loan	-	4,720	4,720	-
Bank overdrafts	-	4,964	4,964	-
Obligations under finance leases	158	-	158	11.5
	<u>158</u>	<u>9,684</u>	<u>9,842</u>	

Floating rate financial liabilities comprise bank borrowings and overdrafts with National Westminster Bank Plc bearing interest at commercial rates. The interest on the bank loan is linked to LIBOR. The overdraft interest is payable on the overdraft balances net of funds held on current account with the bank which at the year end totalled £842,000 (2001: £1,326,000).

Financial assets - cash and deposits - (all floating rate)	2002	2001
	£'000	£'000
Sterling	186	1,316
Euro	31	-
US Dollar	625	10
	<u>842</u>	<u>1,326</u>

#### Interest rate risk profile of non-equity shares

The company has in issue £779,000 of redeemable convertible preference shares that do not carry any interest or dividend rights. The shares are denominated in sterling and have an average period of conversion or redemption of 3 years.



## Notes to the financial statements

at 31 December 2002

### 20. Financial risk management (continued)

#### Currency exposures

As explained in the Directors' Report, the group uses forward exchange contracts to hedge foreign exchange exposures on forecast payments in foreign currencies.

The table below shows the group's currency exposures after taking into account forward contracts; in other words, those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the group that are not denominated in the operating (or 'functional') currency of the group.

At 31 December 2002 these currency exposures were as follows:

Functional currency of group operations	Net foreign currency assets/(liabilities)		
	Euro £'000	US Dollar £'000	Total £'000
Sterling	31	625	656

At 31 December 2001 these currency exposures were as follows:

Functional currency of group operations	Net foreign currency assets/(liabilities)		
	Euro £'000	US Dollar £'000	Total £'000
Sterling	-	10	10

#### Maturity of financial liabilities

	2002 £'000	2001 £'000
In one year or less	4,099	6,045
Between one and two years	1,026	1,077
Between two and five years	1,805	2,720
	6,930	9,842

#### Borrowing facilities

The company has a Sterling term loan facility of £4,000,000 and a revolving overdraft facility of £5,000,000. As at 31 December 2002, the term loan balance was £4,000,000 (2001: £5,000,000) and the net overdraft balance was £2,165,000 (2001: £3,638,000) leaving undrawn facilities expiring within one year of £2,835,000 (2001: £1,362,000).

## Notes to the financial statements

at 31 December 2002

### 20. Financial risk management (continued)

#### *Fair value of financial instruments*

	<i>Book value</i>		<i>Fair value</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash and deposits	842	1,326	842	1,326
Bank loans	(3,805)	(4,720)	(3,805)	(4,720)
Bank overdrafts	(3,007)	(4,964)	(3,007)	(4,964)
Obligations under finance leases	(118)	(158)	(118)	(158)
Forward exchange contracts	-	-	(161)	-
Interest rate swaps	-	-	(233)	-
Redeemable convertible preference shares	(779)	(779)	(171)	(257)
	<u>(6,867)</u>	<u>(9,295)</u>	<u>(6,653)</u>	<u>(8,773)</u>

The fair value of forward exchange contracts represents the unrealised loss on revaluation of the contracts to year-end exchange rates. The fair value of the interest rate swaps is the unrealised loss on the interest payable at the swap rate compared to the year end interest rate. The fair value of the unlisted redeemable convertible preference shares is based upon the closing share price on 31 December 2002 of 5.5p (2001: 8.25p). As detailed in note 22, the preference shares are redeemable at their original issue price, or convertible into ordinary shares on a one to one basis. The fair value of other financial instruments is approximately equal to book value due to their short term nature or the fact that they bear interest at floating rates and those rates are below their capped levels where applicable.

#### *Gains and losses on hedges*

The group's policy is to hedge the following exposures:

- Interest rate risk
- Currency exposures on future stock purchases



## Notes to the financial statements

at 31 December 2002

### 21. Provisions for liabilities and charges

There are no amounts provided for deferred taxation in the accounts. The unrecognised deferred tax asset is as follows:

<i>Group</i>	<i>Recognised</i>		<i>Unrecognised</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Accelerated capital allowances	-	-	48	47
Tax losses carried forward	-	-	1,628	1,843
Total deferred tax asset	-	-	1,676	1,890

### 22. Share capital

	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>
<b>Authorised:</b>		
105,000,000 (2001: 105,000,000) ordinary shares of 10 pence each	10,500	10,500
4,448,930 (2001: 4,448,930) redeemable convertible preference shares of 10 pence each	445	445
(a) Called up share capital		
<b>Issued, allotted, and fully paid:</b>		
74,636,019 (2001: 73,777,650) ordinary shares of 10 pence each	7,463	7,377
3,114,582 (2001: 3,114,582) redeemable convertible preference shares of 10 pence each	312	312
(b) Ordinary share capital to be issued		
Secur-Fix acquisition	43	43
Datatool acquisition	-	472
	43	515

On 25 April 1996, Toad acquired the whole of the issued share capital of Secur-Fix Limited for a maximum total consideration of £950,000. The remaining £43,000 of shares will be issued on the condition of Toad selling 1,500 rolls of Secur-Fix film.

## Notes to the financial statements

at 31 December 2002

### 22. Share capital (continued)

On 1 June 2001, the company acquired the entire share capital of Datatool (UK) Limited for a consideration of £1,000,000 in cash (of which £250,000 was deferred until 2002) plus a number of shares to be issued to the vendors of Datatool, contingent upon the profit of that company for the financial years ended 31 December 2001 and 2002. At 31 December 2001 the contingent shares to be issued were estimated to be £472,000. During 2002 £236,000 of contingent shares were issued to the vendors of Datatool in full settlement of the provisions of the purchase and sale agreement and the remaining £236,000, which will now not have to be issued, has been deducted from the cost of the investment.

#### (c) Movement in ordinary share capital

	<i>Date</i>	<i>Number of shares</i>	<i>£'000</i>
Balance at 31 December 2001		73,777,650	7,377
Shares issued in the year re:			
Acquisition of Datatool	10 Sept '02	858,369	86
		<u>74,636,019</u>	<u>7,463</u>
Balance at 31 December 2002			

#### *Share options*

The company operates an employee share option scheme. As at 31 December 2002 options under this scheme, excluding those held by directors, were outstanding over (a) 32,000 ordinary shares issued in 1997 at 20.5p each, (b) 331,000 ordinary shares issued in 1998 at 23.5p each, (c) 120,000 options issued in 1999 at 28.5p each, (d) 58,000 ordinary shares issued in 2000 at 63.5p each, (e) 388,000 ordinary shares issued in 2000 at 47p each (f) 177,000 ordinary shares issued in 2001 at 30.25p (g) 62,000 ordinary shares issued in 2001 at 19.5p and (h) 358,100 ordinary shares issued in 2002 at 10p. The options are exercisable between 3 and 10 years from the date of issue.

Details of the company's share option schemes in respect of directors are given in the report of the remuneration committee.

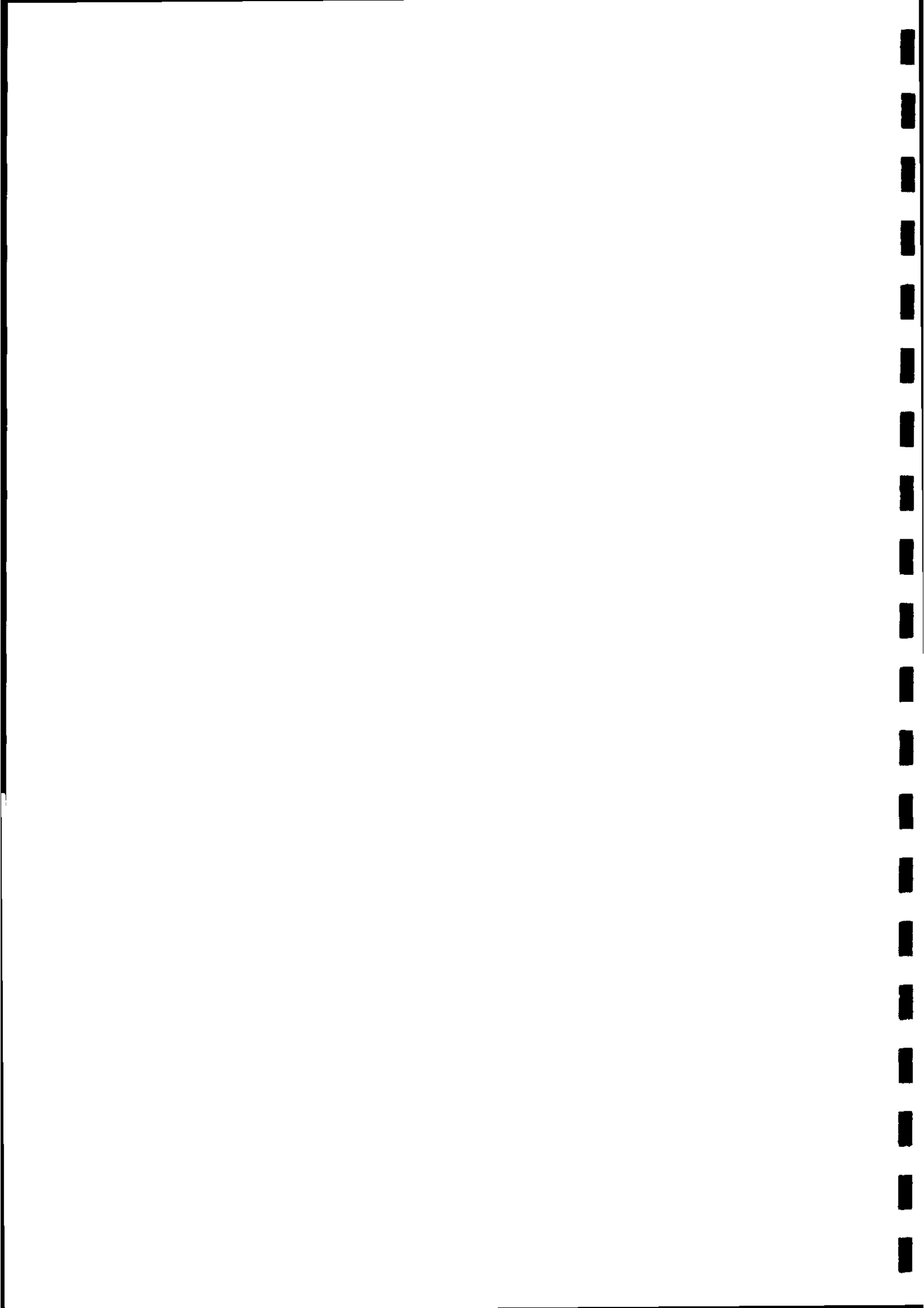
#### (d) Movement in preference share capital

	<i>Number of shares</i>	<i>£'000</i>
Balance at 31 December 2001 and 31 December 2002	3,114,582	312

The preference shares are convertible at the option of the preference shareholder into ordinary shares at any time between 7 January 2001 and 31 December 2005 on the basis of one ordinary share for every preference share. They are redeemable at the option of the preference shareholder at 25p per share in the event that:

- i) the Autoglass Alliance is terminated (other than as a result of effluxion of time or breach by the preference shareholder), or;
- ii) the group becomes engaged directly or indirectly in the business of repair, replacement and distribution of automotive glass and ancillary products.

The preference shares do not carry any dividend or voting rights. On a winding up of the company the preference shareholders have a right to receive, in preference to ordinary shareholders, 25p per share.



## Notes to the financial statements

at 31 December 2002

### 23. Goodwill

The cumulative amount of goodwill resulting from acquisitions, which has been written off to reserves, is £17,215,000 (2001: £17,039,000).

### 24. Share premium account and reserves

	Share premium account £'000	Share capital to be issued £'000	Group profit and loss account £'000	Share premium account £'000	Share capital to be issued £'000	Merger reserve £'000	Company profit and loss account £'000
At 31 December 2000	11,353	1,189	(15,402)	11,353	1,189	1,001	(633)
Shares issued re Sextons	178	(297)	-	178	(297)	-	-
Adjustment to shares to be issued re Sextons	-	(349)	228	-	(349)	-	-
Belron obligation shares	107	-	-	107	-	-	-
Datatool acquisition	-	472	-	-	472	-	-
Adjustment to shares to be issued re Spacetrac	-	(500)	-	-	(500)	-	-
Loss for the year	-	-	(1,033)	-	-	-	(2,114)
At 31 December 2001	11,638	515	(16,207)	11,638	515	1,001	(2,747)
Datatool acquisition	150	(472)	-	150	(472)	-	-
Profit for the year	-	-	239	-	-	-	(139)
At 31 December 2002	11,788	43	(15,968)	11,788	43	1,001	(2,886)

### 25. Reconciliation of movements in shareholders' funds

	2002 £'000	2001 £'000
Opening shareholders' funds	3,635	4,639
Adjustment to shares to be issued on Spacetrac	-	(500)
Belron obligation shares issued	-	178
Shares to be issued as consideration for acquisition of Datatool	(236)	472
Adjustment to shares to be issued on Sextons acquisition	-	(121)
Profit/(loss) for the year	239	(1,033)
Closing shareholders' funds	3,638	3,635

### 26. Capital commitments

Neither the company nor the group had any capital commitments at the year end (2001: £nil).

## Notes to the financial statements

at 31 December 2002

### 27. Financial commitments

The company had no financial commitments at the end of the year. At 31 December 2002 the group had annual commitments under non-cancellable operating leases as follows:

	<i>Land and buildings</i>		<i>Other</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Expiring within one year	–	1	30	103
Expiring between two and five years inclusive	62	116	709	405
Expiring in over five years	164	208	–	–
	<u>226</u>	<u>325</u>	<u>739</u>	<u>508</u>

### 28. Reconciliation of operating profit/(loss) to net cash inflow from operating activities

	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>
Operating profit/(loss)	985	(247)
Depreciation on tangible fixed assets	458	415
Profit on disposal of tangible fixed assets	(48)	–
Amortisation of intangible fixed assets	255	182
Write off of goodwill	–	230
Decrease/(increase) in stocks	826	(332)
Decrease in debtors	2,159	1,290
(Decrease)/increase in creditors	(935)	469
Net cash inflow from continuing operating activities	<u>3,700</u>	<u>2,007</u>

### 29. Reconciliation of net cash flow to movement in net debt

	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>
Increase in cash in the year	1,473	867
Cash outflow/(inflow) from movement in debt	1,040	(1,206)
Change in net debt arising from cash flows	<u>2,513</u>	<u>(339)</u>
New finance leases	–	(16)
Other	(85)	(35)
Movement in net debt in the year	<u>2,428</u>	<u>(390)</u>
Net debt at 1 January (see note 30)	(8,516)	(8,126)
Net debt at 31 December (see note 30)	<u>(6,088)</u>	<u>(8,516)</u>

## Notes to the financial statements

at 31 December 2002

### 30. Analysis of net debt

	<i>At</i>			<i>At</i>
	<i>31 December</i>	<i>Cash flow</i>	<i>Other</i>	<i>31 December</i>
	<i>2001</i>	<i>£'000</i>	<i>£'000</i>	<i>2002</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash at bank and in hand	1,326	(484)	-	842
Bank overdrafts	(4,964)	1,957	-	(3,007)
	<u>(3,638)</u>	<u>1,473</u>	<u>-</u>	<u>(2,165)</u>
Finance leases	(158)	40	-	(118)
Short term bank loans	(1,000)	1,000	(1,000)	(1,000)
Other loans	(3,720)	-	915	(2,805)
	<u>(8,516)</u>	<u>2,513</u>	<u>(85)</u>	<u>(6,088)</u>

### 31. Related party transactions

Pursuant to the contingent consideration relating to the acquisition in 1998 of Sextons Group Limited ("Sextons"), Nick Grimond who was a vendor of Sextons, accepted a cash alternative to the remaining shares offered to him by the company in 2001 of £110,000.