

**TG21 plc**

**Annual Report**

31 December 2006

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### Directors

**Non-executive Chairman**  
P T Ward

**Non-executive director**  
D A H Voss

**Executive directors**  
N Grimond (Chief Executive)  
W W Jennings BA, FCA (Finance Director)

**Company Secretary**  
W W Jennings BA, FCA

**Auditors**  
PricewaterhouseCoopers LLP  
First Point  
Buckingham Gate  
Gatwick  
RH6 0PP

**Bankers**  
NatWest Bank  
Carlyle House  
Carlyle Road  
Cambridge  
CB4 3DH

### Solicitors

Ashurst  
Broadwalk House  
5 Appold Street  
London  
EC2A 2HA

**Registered office**  
National Control Centre  
Drake Road  
Mitcham  
Surrey  
CR4 4HQ

### Brokers and financial advisers

Daniel Stewart & Co  
Becket House  
36 Old Jewry  
London  
EC2R 8DD

### Registrars

Capita Registrars  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

## Chairman's statement

### Trading Results

2006 was an extremely challenging year and, while the company achieved operating profit in line with full year City expectation, the legacy businesses continued to show the marked decline highlighted in my interim results statement. The operating profit was £1.0m before amortisation. However, the impact of the declining activities reduced turnover by £5.1m (2006: £31.2m, 2005: £36.3m) clearly underlining our need to accelerate progress in the new market sectors within which we now operate and which have greater potential. Gross margins were down as a result of competitive pricing pressures in our legacy distribution businesses and the increased proportion of low margin satellite navigation sales. As a result of cost savings within our less profitable sectors the group achieved breakeven at the net profit line (2005: £1.2m profit).

Group	2006	2005 Restated (note 8)
	£m	£m
Turnover	31.2	36.3
Gross profit	11.9	14.9
Gross profit percentage	38.1%	41.0%
Total operating expenses including share of loss of associate but excluding amortisation and impairment of intangibles	(10.9)	(12.4)
Total operating profit before amortisation and impairment of intangibles	1.0	2.5
Amortisation and impairment of intangibles	(0.6)	(0.4)
Total operating profit	0.4	2.1
Net profit attributable to members of the parent company	-	1.2
EPS (basic)	0.00p	1.45p
Net debt	3.3	3.8

Analysis of turnover	2006	2005
	£m	£m
Distribution	18.4	21.9
Insurance Services	5.6	7.1
Technical Services	4.3	5.4
Public transport CCTV	2.9	1.9
Total turnover	31.2	36.3

In the interim statement for 2006 I indicated that as a result of the decline in our legacy businesses and delays in the revenue streams from our new initiatives we would need to reduce overheads and consider exit strategies from some of our mature markets. During the second half of the year we made overhead savings of over 10% per month overall. These savings have largely come about through refocusing our Distribution sales channels from field sales to telesales and we are currently enhancing our web sales capability.

During the year we have successfully integrated 21<sup>st</sup> Century's public transport CCTV business into our operations and have undertaken two significant trials for insurance Pay As You Go schemes.

## Chairman's statement

### Cash flow

Cash flow remains strong and we have reduced our borrowings during the year by a further £0.5m so that net debt now stands at £3.3m (2005: £3.8m)

### Current trading and outlook

#### Public transport CCTV

In 2006 21<sup>st</sup> Century supplied 465 CCTV systems for its main customer. The current year proposed roll out schedule from this customer's UK regions is for a further 1,000 CCTV system installations, substantially underpinning the 21<sup>st</sup> Century business for 2007.

At the end of 2006, 21<sup>st</sup> Century won new business from another major bus operator in the London region and also made its first export sales to bus operators in Ireland and Scandinavia. While these are excellent opportunities, we have come to learn that the gestation period for the development of new business in this market can be very long. Consequently, we have to be more prudent in our expectations for growth from these new projects in the current year.

In July 2006 the company acquired an option to purchase Cyberlyne Communications Limited ("CCL"). CCL is a private company based in the North East of England. Like 21<sup>st</sup> Century it specialises in the supply and installation of on-board CCTV for public transport vehicles. CCL's customers include First Bus, Go-Ahead and Translink. We feel that this company will significantly strengthen TG21's presence in the public transport CCTV market. For the year to 31 December 2006 CCL made a net loss of £0.5m on turnover of £2.9m (£60,000, being our share of this loss, is included within the group results for the year). We are encouraged by the improvement in the order book that CCL has achieved in the first quarter of the current year. However, if we were to take a controlling interest in CCL we would need to reorganise the business to reduce its overhead base and to integrate it within the group's operation.

#### Pay As You Go

In the second quarter of the current year we expect to complete pilot Pay As You Go schemes with two major insurers. We were awarded these opportunities on the back of the long and valued relationships which we have established in this market through our insurance replacement services. We hope to report later in the year on progress of these projects which offer the potential of significant growth for our installation services.

#### Distribution, Technical Services and Insurance Services

Our Distribution businesses continue to suffer from the impact of competitive pricing pressures on gross margins. We have seen a further decline in Distribution sales and we anticipate that this trend will prevail through the current year and beyond. We have also seen a marked slow down in mobile 'phone hands free installations as more new vehicles are supplied with 'phone kits as standard. We are more encouraged by the results of our insurance replacement business which has held up a little better than expected so far in the current year.

### Staff

My thanks and those of the board go to all our staff who have worked extremely hard in what has been a challenging year.



Peter Ward  
Chairman  
21 March 2007

## Directors' biographical details

### **Peter Ward, Non-executive Chairman**

Peter Ward, 61, joined TG21 plc on 1 November 2001 as Non-executive Chairman and was appointed Executive Chairman in February 2002 before returning to a non-executive role on 1 January 2007. 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. 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 until 2001 he was CEO of Hong Kong listed Jardine International Motor Holdings. He resigned as a non-executive director of DLA Piper Rudnick LLP in March 2006. Peter is Chairman of Raymanne plc and also a member of the European Advisory Board for Harley-Davidson Inc.

### **Nicholas Grimond, Chief Executive**

Nick Grimond, 40, was Group Operations Director of Sextons, which he joined in 1984, until it was acquired by TG21 plc. He joined the board of TG21 plc on 14 April 1998 and was made Managing Director in 2003 and Chief Executive in October 2005.

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

Wilson Jennings, 46, joined TG21 plc 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, he has extensive corporate finance experience with PricewaterhouseCoopers. Wilson joined the board in March 2000.

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

David Voss, 57, who joined the TG21 plc 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 Sports Analysis Limited and a director of Jensen Property Services 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 2003 Combined Code. Although as an AIM company the company is not required to comply with the Combined Code, the directors regard compliance as a benchmark of best practice which they wish to follow wherever appropriate.

### Statement by the directors on compliance with the provisions of the 2003 Combined Code

The company has been in full compliance with the provisions set out in Section 1 of the 2003 Combined Code throughout the year except as noted below.

- (a) A 3.2 - "A smaller company should have at least two independent non-executive directors"
- A 4.1 - "A majority of the members of the nomination committee should be independent non-executive directors"
- B 1.3 - "Remuneration for non-executive directors should not include share options. If, exceptionally, options are granted, shareholder approval should be sought in advance and any shares acquired by exercise of the options should be held until at least one year after the non-executive director leaves the board. Holding of share options could be relevant to the determination of a non-executive director's independence"
- B 2.1 - "The board should establish a remuneration committee of at least three, or in the case of smaller companies, two members who should all be independent non-executive directors"
- C 3.1 - "The board should establish an audit committee of at least three or, in the case of smaller companies, two members who should all be independent non-executive directors"

From 29 May 2003 until 31 December 2006 there was only one non-executive director, David Voss, and consequently the remuneration, nomination and audit committees have had only one non-executive member during that period.

Due to the relatively small size of the group and its board, the directors believe that one non-executive director has been sufficient during this period of the company's recovery. On 1 January 2007 Peter Ward moved from Executive Chairman to Non-executive Chairman and consequently since that date the company has had two non-executive directors. The board believes that Mr Voss qualifies as an independent director, notwithstanding his participation in a share option scheme in the company as they believe that the relatively low value of these options will not compromise his independence.

- (b) B 2.2 - "The remuneration committee should also recommend and monitor the level and structure of remuneration for senior management. The definition of 'senior management' for this purpose should be determined by the board but should normally include the first layer of management below board level"

The company's remuneration committee has been delegated responsibility for setting remuneration of all executive directors and the chairman, however, while the committee monitors the level and structure of the senior management team remuneration, it is not asked to recommend the remuneration for the level of management below board level. The company's executive board sets the remuneration for the senior management team as the directors consider that this is a more appropriate assignment of responsibilities for a small AIM company.

## Corporate governance

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

### The workings of the board and its committees

#### The Board

The board currently comprises two non-executive directors and two executive directors and is responsible for the management of the group. The board meets at least 10 times a year, setting and monitoring group strategy, reviewing trading performance and formulating policy on key issues. Day to day operational decisions are delegated to the senior management team. 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.

Biographies of the directors including details of their experience and role within the group are set out on page 5.

#### Attendance at meetings

The full board met eleven times in 2006. All of the directors were in attendance at these meetings. The Chairman held a separate meeting with the non-executive director on each occasion that the full board met.

#### The Audit Committee

During 2006 the audit committee comprised the non-executive director, David Voss. The audit committee's remit is set out in its terms of reference. David Voss met with the auditors twice during the year. He assists the board in ensuring that the group's published financial statements give a true and fair view and that where the auditors provide non-audit services that their objectivity and independence is safeguarded. The audit committee reviews arrangements by which the staff of the company may in confidence raise concerns about possible inappropriateness in the financial reporting of the company or other matters. The audit committee has procedures in place for the investigation and follow up of any such matters reported to it by staff.

#### The Remuneration Committee

During 2006 the remuneration committee comprised the non-executive director, David Voss. He meets with the Chairman as necessary, with one meeting held during 2006. David Voss is responsible for making recommendations to the board on the remuneration of senior executives and all directors.

#### The Nomination Committee

The nomination committee is comprised of the non-executive director and is chaired by the 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. When required, it is the usual practice of the nomination committee to employ specialist external search and selection consultants to assist in the appointment process for new executive and non-executive directors. The Nomination Committee did not meet during 2006.

## Corporate governance

### Election and re-election of directors

All directors of the company are subject to election by shareholders at the first Annual General Meeting following their appointment by the nomination committee. Thereafter each director is subject to re-election by rotation at intervals of no more than three years.

### Terms of reference

The terms of reference for the Audit, Remuneration and Nomination Committees are available on request from the Company Secretary and are available for inspection on the company's website – [www.tg21plc.com](http://www.tg21plc.com)

### Performance evaluation

Performance of each of the executive directors is evaluated on an ongoing basis by the Chairman and the non-executive director with a formal review held at least annually. The non-executive director is responsible for the performance evaluation of the Chairman, taking into account the views of the other executive directors. The non-executive director meets with the Chairman on an ad hoc basis but at least once a year to appraise the Chairman's performance. The performance of the non-executive director and the sub-committees on which he serves are reviewed by the executive board on an on-going basis.

### Relations with shareholders

Key members of the executive board regularly visit institutional investors and the full board makes itself available to questions at all shareholder meetings it holds. The Chairman and Finance Director report back to the board views of investors obtained at analysts' and brokers' briefings. 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 Chairman of the audit, remuneration and nomination committees is 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. The internal control systems are reviewed annually by the board. 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 December 2006.

## Corporate governance

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. Standardised 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 financial statements.

## Report on directors' remuneration

As an AIM company the company is not required to comply with the Directors' Remuneration Report Regulations 2002. Nevertheless, the board prefers to follow best practice and has therefore prepared the following report which meets the majority of these regulations and will be put to the shareholders for approval at the Annual General Meeting.

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.

*Information not subject to audit (on pages 10 and 11)*

### Remuneration committee

For the financial year ended 31 December 2006, 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 comprising the one non-executive director with input from the Chairman.

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,
- (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 the non-executive director

The non-executive director receives a fee for his 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 director did not receive any pension or other benefits from the company, nor did he participate in any bonus or incentive schemes other than share options.

### 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 discretionary bonus schemes,
- (c) provide employment-related benefits including life assurance, insurance relating to the director's duties and medical insurance.

The directors' annual basic pay increases mirror those awarded to the staff – it is the intention to gradually increase the proportion of directors' remuneration which is linked to performance criteria.

A key focus for the board has been to try to improve the profitability and share price of the company and to this end the performance criteria attaching to the share options have been linked to growth in either the earnings per share or share price from the date of grant.

## Report on directors' remuneration

### 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 2007.

### Directors' service contracts

Details of individual directors' service contracts are as follows

	<i>Contract date</i>	<i>Unexpired term</i>	<i>Notice period</i>
<i>Executive</i>			
N Grimond	1 January 2001	None	6 months
W W Jennings	1 January 2001	None	6 months

The non-executive directors do not have a service contract but their terms are set out in letters of appointment. The letter of appointment for Peter Ward is dated 1 January 2007 and states that his appointment is terminable at the will of either party but envisages that his reappointment will be reviewed every six months on 1 July and 1 January. The letter of appointment for David Voss is dated 26 February 2002 and states that his appointment is terminable at the will of either party but envisages that his reappointment will be reviewed annually on 1 January. The directors are required to retire by rotation. The directors retiring by rotation at the forthcoming Annual General Meeting are Peter Ward and Wilson Jennings.

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.

### 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.

During the year Peter Ward received £82,500 (2005 £75,000) in fees for services provided by him as a non-executive director for other companies outside of the group.

## Report on directors' remuneration

### Information subject to audit

#### Directors' detailed emoluments

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

	Salary and fees £	Bonuses £	Benefits £	Total 2006 £	Total 2005 £
<i>Executive</i>					
N Grimond	159,500	-	1,176	160,676	208,274
W W Jennings	132,000	-	1,404	133,404	161,397
P T Ward (Chairman)	176,000	-	2,664	178,664	243,499
S A Gall <sup>1</sup>	-	-	-	-	29,941
<i>Non-executive</i>					
D A H Voss	26,000	-	-	26,000	24,000
	<u>493,500</u>	<u>-</u>	<u>5,244</u>	<u>498,744</u>	<u>667,111</u>

<sup>1</sup> Resigned on 31 March 2005

The value of benefits received during the year relates to medical expenses cover

Directors' remuneration paid to Messrs Grimond, Jennings and Ward include an allowance of 10% of basic salary for personal pension provision

No director waived emoluments in the year (2005 nil)

#### Share options

At 31 December 2006 the company had five employee share option schemes the 1994 Unapproved Executive Share Option Scheme ("the 1994 Scheme"), the 1995 Unapproved Executive Share Option Scheme ("the 1995 Scheme"), the 1997 (No 3) Unapproved Executive Share Option Scheme ("the 1997 Unapproved Scheme"), the 1997 Approved Employee Share Option Plan ("the 1997 Approved Scheme"), the 2004 Enterprise Management Incentive Plan ("the 2004 EMI Scheme") and five (2005 five) individual 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 granted under this scheme during the year

The 1997 Unapproved Scheme was approved by shareholders of the company on 6 January 1997 and amended by resolution of shareholders on 18 May 2004. 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 at any time other than during a prohibited period for dealings under the Model Code for securities transactions set out in the UK Listing Rules

## Report on directors' remuneration

The 1997 Approved 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 2004 EMI Scheme was approved by shareholders on 18 May 2004. The EMI Scheme operates in substantially the same way as the 1997 Unapproved Scheme but participants are able to take advantage of tax concessions applicable to EMI options. The vesting of any new options issued under this scheme this year has been linked to the achievement of profit growth targets.

The non-executive director schemes were established on 22 March 2002, 19 March 2004 and 9 May 2005.

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.

	<i>As at</i> 31 December 2005	<i>Movements</i> <i>in the year</i>	<i>As at</i> 31 December 2006	<i>Exercise</i> <i>price</i>	<i>Date</i> <i>from which</i> <i>exercisable</i>	<i>Expiry</i> <i>date</i>
<i>The 1997 Approved Scheme</i>						
N Grimond (note 1)	127,660	(127,660)	-	23.5p	17 07 01	17 07 08
W W Jennings (note 1)	63,830	(63,830)	-	47p	08 09 03	08 09 10
<i>The 1997 Unapproved Scheme</i>						
N Grimond	500,000	-	500,000	23p	19 03 07	19 03 11
W W Jennings	500,000	-	500,000	23p	19 03 07	19 03 11
P T Ward	500,000	-	500,000	23p	19 03 07	19 03 11
<i>Non-executive Director Schemes</i>						
D A H Voss (note 2)	100,000	-	100,000	10p	22 03 02	22 03 12
D A H Voss	100,000	-	100,000	23p	19 03 07	19 03 11
D A H Voss (note 3)	75,000	-	75,000	10p	09 05 08	09 05 15
<i>Executive Director Schemes</i>						
P T Ward (note 4)	250,000	-	250,000	10p	20 11 01	20 11 11
P T Ward (note 5)	500,000	-	250,000	10p	22 03 02	22 03 12
<i>The 2004 EMI Scheme issue 1 (note 6)</i>						
N Grimond	500,000	-	500,000	10p	09 05 05	09 05 15
W W Jennings	500,000	-	500,000	10p	09 05 05	09 05 15
P T Ward	500,000	-	500,000	10p	09 05 05	09 05 15
<i>The 2004 EMI Scheme issue 2 (note 7)</i>						
N Grimond	-	500,000	500,000	12.5p	12 04 06	12 04 16
W W Jennings	-	500,000	500,000	12.5p	12 04 06	12 04 16
P T Ward	-	500,000	500,000	12.5p	12 04 06	12 04 16

## 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 6 25p (2005 13 0p) and the range of market prices during the year was 4 75p to 13 5p (2005 8 0p to 13 5p)

- 1 These share options were cancelled on 12 April 2006
- 2 These share options vested when the closing mid market value of the shares exceeded 15p
- 3 These David Voss share options were granted on 9 May 2005
- 4 The 250,000 Peter Ward share options, issued on 20 November 2001, vest in two equal tranches of 125,000 ordinary shares but only once the closing mid-market value of TG21 plc ordinary shares has equalled or exceeded target prices for each tranche of 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
- 5 The 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 TG21 plc 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. At 31 December 2006, the first two tranches had vested
- 6 These share options were granted under the EMI Scheme on 9 May 2005 with a profit performance target that they would only vest on the achievement of at least 15% increase in the basic earnings per share of the company. The actual increase achieved in the basic earnings per share for that year was 68% and consequently these share options have all now vested
- 7 These share options were granted under the EMI Scheme on 12 April 2006 with a profit performance target that they would only vest on the achievement of at least 15% increase in the basic earnings per share of the company

### Directors' interests in shares

Directors' interests in the share capital of the company are disclosed in the Directors' Report

## Directors' report

The directors present their report and the group financial statements for the year ended 31 December 2006

### Results and dividend

The group made a small profit for the year (2005 profit for the year after taxation and minority interests, restated £1.2 million). The directors do not recommend the payment of a dividend (2005: £nil).

### Capital reduction

At the Annual General Meeting held on 23 May 2006 a special resolution was passed to transfer £8,723,000 standing on the credit of the company's share premium account to distributable reserves. Following the AGM an application to the High Court was made and this completed on 28 June 2006. For the protection of creditors an amount equal to the dividends received from subsidiary companies out of the prior year profit has been transferred to a special reserve.

### Principal activities and business review

The group operates in three divisions:

#### Public transport on-board monitoring systems

Principal activities in this division are the supply of CCTV, black box and other monitoring systems for use on public transport vehicles.

#### Services

Principal activities within Services are the replacement of stolen in-car entertainment and navigation systems for insurance company customers and the supply and installation of mobile 'phone hands-free kits for corporate fleets. Following the acquisition of 21<sup>st</sup> Century, the division now also undertakes installations of public transport monitoring systems.

#### Distribution

Principal activities within Distribution consist of the distribution of in-car entertainment systems, satnav/communications equipment, speed camera alerts, audio leads and own brand automotive and motorcycle alarms to the retail trade.

### Business environment

A number of the group's legacy businesses are in mature and declining markets, namely:

#### Within Services

- Insurance replacement of stolen in-car entertainment systems

Improved vehicle security, reduced retail prices for in-car entertainment systems combined with increased insurance excess payments have led to a 20% fall in sales within this niche insurance replacement market during 2006.

#### Within Distribution

- Distribution of in-car audio, navigation and vehicle security systems

Retail prices in the in-car entertainment and navigation market have reduced dramatically over the last few years and new vehicles increasingly come with more

## Directors' report

accessories as standard. In addition, the introduction of portable satellite navigation to the market has further brought down prices. While sales volumes in the navigation market have undoubtedly increased, these sales are at much reduced margins. Moreover, since 1998 all new vehicles sold within the UK must have an immobiliser fitted and most also come with an alarm supplied by the manufacturer. These factors have led to increased pricing pressure in the in-car entertainment and navigation market and a significant decline in the volume of product sold through the security aftermarket.

### Strategy and key performance indicators

The group's immediate objective is to re-position the business into markets with attractive and sustainable rates of growth and returns through a combination of acquisitions and organic growth. Ideally these new markets will leverage our three core strengths:

- 70 seat call centre
- 60 mobile installation engineers
- Distribution network with over 1,000 active independent retail accounts

#### *Public transport CCTV*

In 2005 we took a majority stake in 21<sup>st</sup> Century Crime Prevention Services Limited which is a leading provider and installer of high-tech CCTV systems to the UK public transport market. 21<sup>st</sup> Century contributed £1.1m to group operating profit before amortisation of intangibles in 2005. However, its dependence on one major customer was highlighted when that customer reduced its spend in 2006. This factor, when combined with increased investment in new products, resulted in a fall in contribution of £0.7m in 2006.

During the second half of 2006 we further increased our potential presence in this market by acquiring an option to purchase the whole of the share capital of Cyberlyne Communications Limited which, while currently loss making, has a wider customer base. We are looking for these two investments to give us a platform in the UK from which we can develop a substantial export and distribution business for public transport CCTV systems.

We aim to secure future growth from these businesses by developing other monitoring systems for use on public transport vehicles.

Our success in this market will initially be measured by our ability to attract new customers and to develop and launch new products. There are relatively few major operators in the bus market and so a new customer win drawn from these operators could lead to significant future orders. At the end of 2006 21<sup>st</sup> Century won orders from one new major customer in the UK and two overseas customers. In 2006 we increased our installed base of WiFi CCTV units to over 2,500 systems and we believe this makes us the UK's leading supplier and installer of WiFi systems to the public transport market. During 2006 we also established trials for two new products with a major UK bus operator and we hope to build on this in the current year.

#### *Pay As You Go*

Within the Services Division we have been undertaking installations of black box technology for two major insurance companies who are piloting Pay As You Go insurance schemes.

Our success on this project will be measured by how well we perform in terms of customer satisfaction with the quality of the work undertaken by our installation engineers and customer management by our call centre staff. Key performance indicators are monitored by ourselves.

## Directors' report

and our customers for most of the installation work we undertake. Statistics typical of our performance show that with one client we have improved our scores for customer satisfaction and quality of work in 2006 so that we now rank first amongst the sub-contractors employed by that client.

### *New products for Distribution*

Through our Distribution division we are constantly looking for new products to bring to market, ideally on an exclusive basis. One of the more recent products added to our exclusive range is the Inforad speed camera warning device.

Our key measure of success in this area is the percentage increase in sales and gross margin within Distribution year on year. Unfortunately in 2006 the fall in sales within our legacy sectors of in-car entertainment and security was greater than the increase attributable to new products. Consequently our Distribution sales fell overall by 16% and our gross margin in this division fell 4 points from 23% to 19%.

### *Net debt and cash generation*

Since 1998 the company has financed its acquisitions through bank borrowing serviced by cash generated from operations. At 31 December 2006 net debt was £3.3m (2005: £3.8m).

A key objective is to manage cash flow through tight working capital control and reduce net debt as quickly as possible. A key performance indicator is therefore the amount of cash generated from operations. In 2006 the group generated £1.8m from operations and £4.1m in 2005.

### **Principal risks and uncertainties**

The management of the business and the execution of the company's strategy are subject to a number of risks. Risks are formally reviewed by the board and where possible appropriate processes put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the company. The key business risks affecting the company are set out below.

#### *Dependence on major customers*

Within the Services and CCTV divisions there is a high dependence on a relatively small number of customers and consequently the loss of one single customer would have a significant impact on the business. This risk is mitigated by monitoring and managing the businesses key performance indicators which are agreed with most of these customers. A key focus is to win new business in the CCTV market and thereby reduce reliance on the existing customer base.

#### *Competition*

The group operates in highly competitive markets and there is significant pressure to maintain quality of service and reduce costs. The sales team have ready access to market pricing information so that they can respond appropriately to price movements. Quality of service is monitored through questionnaires given to our installation customers and through reviews of our key performance indicators.

#### *Decline of our legacy businesses*

The business has its foundation in several markets which are now mature or in decline. We have made significant strides in recent years to move into new growth markets but the risk remains that reduced sales from our in-car entertainment and security businesses will impact more quickly than the benefits of these new markets can be exploited.

## Directors' report

### Financial risk management

The group's principal financial instruments, other than derivatives, comprise bank loans 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 credit, liquidity, interest rate and foreign exchange risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

#### Credit risk

The group is exposed to credit risk primarily in respect of its trade receivables, which are stated net of provision for estimated doubtful receivables. Exposure to this risk is mitigated by careful evaluation of the granting of credit and close monitoring and management of collections from trade debtors.

#### Liquidity and interest rate risk

The group's policy on funding capacity is to ensure that we have sufficient long term funding and facilities in place to meet foreseeable peak borrowing requirements. The company has a Sterling term loan facility of £3,000,000 and a Sterling overdraft facility of £3,000,000. 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. The company has 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.

### Future outlook

We have successfully achieved the first stages of our strategy to reposition the business. However, our CCTV business had a challenging year in 2006 as a result of the dependence of 21<sup>st</sup> Century on one major customer. In the second half of the year we made overhead savings of over 10% per month overall and increased our potential to access more of the public transport market through our investment in Cyberlyne Communications Limited. Towards the end of the year 21<sup>st</sup> Century was successful in winning business from new customers. In addition, we see the potential to grow our installation services business through the development of Pay As You Go insurance initiatives. Consequently we remain confident that we can build on these opportunities to achieve sustainable growth in the long term.

### International Financial Reporting Standards ("IFRS")

The first full year that the company will report in accordance with IFRS will be for the year ending 31 December 2007. We are reviewing what impact adopting IFRS will have on both the group's financial statements and the methodologies used for recording financial and related information.

## Directors' report

### Directors' interests in shares

The directors during the year 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

	31 December 2006	31 December 2005
<b>The company – ordinary 10p shares</b>		
N Grimond	2,021,739	2,021,739
W W Jennings	784,921	684,921
D A H Voss	859,913	709,913
P T Ward	2,125,365	2,125,365

The share interests at 31 December 2006 and 31 December 2005 include the interest of D A H Voss in 244,487 shares registered in nominee accounts

Apart from the interests disclosed above no directors held interests at any time in the year in the share capital or loan stock of the company or other group companies and there have been no changes since the year end and the date of this report

### Land and buildings

In December 2004 the freehold land and buildings were valued by Drivers Jonas on the basis of open market value in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards. This valuation of £3.4m at December 2004 was incorporated in the financial statements and the resulting revaluation adjustment taken to revaluation reserve. The revaluation in 2004 resulted in a revaluation surplus of £1.4m.

### Research and development activities

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

We constantly review the market place for any new technologies which might make a profitable contribution to the business and look to research and develop innovative solutions to produce new and improved products and services.

### 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. The number of options granted varies according to seniority and experience.

## Directors' report

### Major interest in shares

As at 28 February 2007, according to the company's register, the following shareholders each held 3% or more of the company's issued share capital

Name	Ordinary 10p shares	% Holding
Vidacos Nominees Limited	6,455,025	7.90
Barclayshare Nominees Limited	4,890,358	5.99
Rock (Nominees) Limited	3,995,000	4.89
T D Waterhouse Nominees (Europe) Limited	3,977,632	4.87
W B Nominees Limited	3,290,000	4.03
L R Nominees Limited Nominee Account	2,928,531	3.59

### Creditor payment policy

The company's policy is to

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

The group's average creditor payment period at 31 December 2006 was 40 days (2005 51 days) and that of the company was nil days (2005 nil days)

### Charitable donations

During the year the group made charitable donations totalling £1,400 (2005 £2,000) to the Samantans and Barnardo's Children's Homes

### Disclosure of information to auditors

Each director of the company confirms that

- so far as the director is aware there is no relevant audit information of which the company's auditors are unaware, and
- he has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

By order of the board



W W Jennings  
Secretary  
21 March 2007

## **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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business

The directors confirm that they have complied with the above requirements in preparing the financial statements

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

The directors are responsible for the maintenance and integrity of the website and wish to highlight that legislation in the UK covering the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

## **Auditors' report**

### **Independent auditors' report to the members of TG21 plc**

We have audited the group and parent company financial statements (the "financial statements") of TG21 plc for the year ended 31 December 2006 which comprise the Consolidated Profit and Loss Account, Consolidated Note of Historical Cost Profits and Losses, Consolidated Statement of Total Recognised Gains and Losses, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out therein.

#### **Respective responsibilities of directors and auditors**

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the directors' biographical details, the report on directors' remuneration, the chairman's statement and the 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.

#### **Basis of audit opinion**

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

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

## Auditors' report

### Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Registered Auditors**  
Gatwick

21 March 2007

## Consolidated profit and loss account

for the year ended 31 December 2006

	Notes	Before amortisation £'000	Amortisation of intangibles £'000	2006 £'000	2005 Restated (note 8) £'000
Turnover	2	31,228	-	31,228	36,316
<i>Cost of sales</i>		<u>(19,310)</u>	<u>-</u>	<u>(19,310)</u>	<u>(21,409)</u>
<i>Gross profit</i>		11,918	-	11,918	14,907
Other operating expenses	3	<u>(10,827)</u>	<u>(576)</u>	<u>(11,403)</u>	<u>(12,664)</u>
<b>Group operating profit</b>		<b>1,091</b>	<b>(576)</b>	<b>515</b>	<b>2,243</b>
Share of operating loss in associate	14	<u>(60)</u>	<u>-</u>	<u>(60)</u>	<u>(137)</u>
<b>Total operating profit</b>		<b>1,031</b>	<b>(576)</b>	<b>455</b>	<b>2,106</b>
Interest payable and similar charges	7	<u>(427)</u>	<u>-</u>	<u>(427)</u>	<u>(500)</u>
<b>Profit on ordinary activities before taxation</b>	8	<b>604</b>	<b>(576)</b>	<b>28</b>	<b>1,606</b>
Taxation	9	<u>-</u>	<u>-</u>	<u>-</u>	<u>(289)</u>
<b>Profit on ordinary activities after taxation</b>		<b>604</b>	<b>(576)</b>	<b>28</b>	<b>1,317</b>
Minority interest – equity		<u>(27)</u>	<u>-</u>	<u>(27)</u>	<u>(132)</u>
<b>Profit for the year attributable to members of the parent company</b>	24	<b>577</b>	<b>(576)</b>	<b>1</b>	<b>1,185</b>
Earnings per share – basic	11	<u>0.71p</u>	<u>(0.71)p</u>	<u>0.00p</u>	<u>1 45p</u>
- diluted		<u>0.71p</u>	<u>(0.71)p</u>	<u>0.00p</u>	<u>1 45p</u>

All operations above relate to continuing operations – the share of the loss of the associate in 2006 relates to an acquisition in the year which forms part of continuing operations

**Consolidated note of historical cost profits and losses**

for the year ended 31 December 2006

	2006	2005 Restated (note 8)
	£'000	£'000
Reported profit on ordinary activities before taxation	28	1,606
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	28	28
<b>Historical cost profit on ordinary activities before tax</b>	<b>56</b>	<b>1,634</b>
<b>Historical cost profit on ordinary activities after tax and minority interest</b>	<b>29</b>	<b>1,213</b>

## Consolidated statement of total recognised gains and losses

for the year ended 31 December 2006

	2006	2005
	£'000	Restated (note 8) £'000
Profit for the financial year		
- Group	61	1,322
- Associate company	(60)	(137)
	<u>1</u>	<u>1,185</u>
Prior period adjustment – FRS 20	(150)	-
<b>Total recognised (loss)/gain for the year</b>	<u>(149)</u>	<u>1,185</u>
Group	(89)	1,322
Associate company	(60)	(137)
	<u>(149)</u>	<u>1,185</u>

## Balance sheets

At 31 December 2006

	Notes	2006 £'000	Group 2005 £'000	2006 £'000	Company 2005 £'000
<b>Fixed assets</b>					
Intangible assets	12	4,447	4,850	-	-
Tangible assets	13	4,600	4,645	-	-
Investments	14	-	-	14,928	13,721
		<u>9,047</u>	<u>9,495</u>	<u>14,928</u>	<u>13,721</u>
<b>Current assets</b>					
Stocks	15	3,114	3,799	-	-
Debtors	16	4,662	6,771	1,815	3,395
Cash at bank and in hand		745	1,525	127	40
		<u>8,521</u>	<u>12,095</u>	<u>1,942</u>	<u>3,435</u>
<b>Creditors: amounts falling due within one year</b>	17	<u>(6,334)</u>	<u>(8,865)</u>	<u>(1,003)</u>	<u>(1,088)</u>
<b>Net current assets</b>		<u>2,187</u>	<u>3,230</u>	<u>939</u>	<u>2,347</u>
<b>Total assets less current liabilities</b>		<u>11,234</u>	<u>12,725</u>	<u>15,867</u>	<u>16,068</u>
<b>Creditors: amounts falling due after more than one year</b>	18	<u>(1,989)</u>	<u>(3,468)</u>	<u>(1,989)</u>	<u>(3,468)</u>
<b>Net assets</b>		<u>9,245</u>	<u>9,257</u>	<u>13,878</u>	<u>12,600</u>
<b>Capital and reserves</b>					
Called up share capital	21	8,169	8,169	8,169	8,169
Share premium account	23	3,387	12,110	3,387	12,110
Special Reserve	23	1,206	-	1,206	-
Other reserve	21,23	43	43	43	43
Merger reserve	23	-	-	1,001	1,001
Revaluation reserve	23	1,350	1,378	-	-
Profit and loss account	23	(4,954)	(12,665)	72	(8,723)
<b>Total equity shareholders' funds</b>	24	<u>9,201</u>	<u>9,035</u>	<u>13,878</u>	<u>12,600</u>
Minority interests	21	44	222	-	-
<b>Capital employed</b>		<u>9,245</u>	<u>9,257</u>	<u>13,878</u>	<u>12,600</u>

The financial statements which comprise the Consolidated Profit and Loss Account, Consolidated Note of Historical Cost Profits and Losses, Consolidated Statement of Total Recognised Gains and Losses, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Cash Flow Statement and the related notes were approved by the board of directors on 21 March 2007 and were signed on its behalf by

P T Ward  
Chairman

W W Jennings  
Finance Director

## Consolidated statement of cash flows

for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Net cash inflow from operating activities	27	1,813	4,092
<b>Returns on investments and servicing of finance</b>			
Interest paid		(407)	(463)
Issue costs of new loans	28	-	(40)
Dividend paid to minority interest		(205)	-
		(612)	(503)
<b>Taxation</b>			
UK corporation tax paid		(192)	(151)
<b>Capital expenditure</b>			
Purchase of tangible fixed assets	13	(446)	(699)
<b>Acquisitions</b>			
Costs of acquisition of associate	14	(25)	-
Purchase of investment in subsidiary		-	(3,133)
Cash acquired		-	319
		(25)	(2,814)
<b>Cash inflow/ (outflow) before financing</b>		<b>538</b>	<b>(75)</b>
<b>Financing</b>			
(Decrease)/increase in long term borrowings		(1,500)	2,500
Repayment of principal under finance leases		-	(2)
		(1,500)	2,498
(Decrease)/increase in cash in the year	28	(962)	2,423

## Notes to the financial statements

for the year ended 31 December 2006

### 1. Principal accounting policies

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the more important accounting policies is set out below along with an explanation of where changes have been made on the adoption of new accounting standards in the year.

#### *Changes in accounting policies*

The group has adopted FRS 20, 'Share-based payments'. The adoption of this standard represents a change in accounting policy and comparative figures have been restated accordingly. Details of the effect of this restatement are given in note 8.

#### *Basis of preparation*

The financial statements are prepared in accordance with the historical cost convention as modified by the revaluation of certain tangible fixed assets.

#### *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 2006. 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.

Minority interests have been disclosed separately from the group's profit and shareholders' equity and stated as a separate item.

#### *Associates*

Associated undertakings are accounted for using the equity method. The consolidated profit and loss account includes the group's share of the associates' profits less losses, where appropriate, while the group's share of the net assets of the associates are shown on the consolidated balance sheet. Any unamortised balance of goodwill is included in the carrying value of the investment in associates. On acquisition, the group's share of the associate's assets and liabilities are recorded at fair values reflecting their condition at that date. Where these fair values are provisional, adjustments are made where deemed appropriate in the hindsight period which is the first full year after acquisition.

#### *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 of 10 years. Such goodwill 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 represents amounts invoiced to customers, net of value added tax and trade discounts. Turnover from sales of equipment is recognised on delivery to the customer. Where the sale of equipment includes installation, the turnover is recognised once the installation has been completed. Turnover also includes income from the granting of distribution rights. Turnover is accounted for on the date that the rights transfer to the third party.

## Notes to the financial statements

for the year ended 31 December 2006

### 1. Principal accounting policies (continued)

#### *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 the right to pay less, 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

#### *Fixed asset investments*

Investments in group undertakings are stated at cost less any provision for impairment. 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

#### *Tangible fixed assets*

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition or are held at a valuation

Depreciation is calculated so as to write off the cost or valuation 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 buildings	%
Motor vehicles	2
Plant and equipment	25
	20-33

Assets under construction are not depreciated until they come into use. Freehold land is not depreciated

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

Where assets are carried at valuation they are held at their current value on an 'existing use basis' as at the balance sheet date. Their value is determined by having a qualified valuer perform a full detailed valuation at least every five years and an interim external valuation in year three. In years one, two and four a review is performed and if it indicates that a material change in value has occurred, a full detailed valuation would be performed

## Notes to the financial statements

for the year ended 31 December 2006

### 1. Principal accounting policies (continued)

#### *Intangible assets*

Intangible assets acquired separately from a business are capitalised at cost. 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 if events or changes in circumstances indicate the carrying value may not be recoverable.

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.

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

#### *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 deferred when its future recoverability can reasonably be regarded as assured and it complies with the criteria of SSAP 13. Any expenditure deferred is amortised on a systematic basis to each accounting period by reference to expected future sales from the related project.

## Notes to the financial statements

for the year ended 31 December 2006

### 1. Principal accounting policies (continued)

#### *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 speculative 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.

The group's criteria for interest rate swaps are

- the instrument must be related to an asset or liability, and
- it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Interest differentials are recognised by accruing with net interest payable. Interest rate swaps are not revalued to fair value or shown on the group balance sheet at the year end.

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.

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they meet the definition of a liability under FRS 25.

#### *Share-based payments*

Share options granted after 7 November 2002 are measured at their fair value at the date of grant using a Black Scholes model. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based upon the group's estimate of participants eligible to receive shares at the point of vesting.

## Notes to the financial statements

for the year ended 31 December 2006

### 2. Segmental reporting

Turnover consists primarily of sales made in the United Kingdom. Export sales are not material. The analysis by business area is based upon the group's reporting structure. Sales between segments are not material.

Business analysis	Turnover		Profit before tax		After amortisation and impairment of intangibles 2005 Restated (note 8) £'000
	2006	2005	Before amortisation of intangibles 2006 £'000	After amortisation of intangibles 2006 £'000	
<b>Continuing operations</b>					
Services	9,890	12,454	606	606	645
Distribution	18,443	21,927	(312)	(408)	667
Public transport CCTV	2,895	1,935	310	(170)	294
	<u>31,228</u>	<u>36,316</u>	<u>604</u>	<u>28</u>	<u>1,606</u>

Business analysis	Net assets/(liabilities)		
	Excluding intangible assets 2006 £'000	Including intangible assets 2006 £'000	Including intangible assets 2005 £'000
Services	2,689	2,689	2,651
Distribution	5,033	5,469	6,322
Public transport CCTV	(3,024)	987	184
	<u>4,698</u>	<u>9,145</u>	<u>9,157</u>
Central (deferred tax asset)	100	100	100
	<u>4,798</u>	<u>9,245</u>	<u>9,257</u>

Central net assets comprise assets, partially offset by liabilities, that cannot practicably be divided between the segments and comprise the deferred corporation tax asset.

## Notes to the financial statements

for the year ended 31 December 2006

### 3. Other operating expenses

	Before amortisation and impairment of intangibles £'000	Amortisation and impairment of intangibles £'000	2006  Total £'000	2005 Restated (note 8) Total £'000
<b>Other operating expenses</b>				
Administrative expenses	3,784	576	<b>4,360</b>	4,445
Distribution expenses	7,043	-	<b>7,043</b>	8,219
	<u>10,827</u>	<u>576</u>	<u><b>11,403</b></u>	<u>12,664</u>

### 4. Amortisation of intangibles

	2006 £'000	2005 £'000
Amortisation of goodwill – operating expenses	<b>576</b>	312
Amortisation of goodwill – share of operating loss of associate	-	116
	<u><b>576</b></u>	<u>428</u>

Further information on these charges is given in note 12

### 5. Directors' emoluments

Details of directors' remuneration for each director, and share options are included in the Report on Directors' Remuneration and set out under the heading "Information subject to audit". These details form part of the financial statements.

### 6. Employee information

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

	2006 Number	2005 Number
By activity		
Administration	<b>54</b>	73
Technical	<b>9</b>	9
Operations	<b>158</b>	172
	<u><b>221</b></u>	<u>254</u>

## Notes to the financial statements

for the year ended 31 December 2006

### 6. Employee information (continued)

	2006 £'000	2005 £'000
Staff costs (for the above persons)		
Wages and salaries	5,507	6,525
Social security costs	572	652
Share-based payments (note 8)	165	150
Pension costs	63	73
	<u>6,307</u>	<u>7,400</u>

### 7. Interest payable and similar charges

	2006 £'000	2005 £'000
Bank loans and overdrafts	406	467
Other finance costs – amortisation of loan issue costs	21	33
	<u>427</u>	<u>500</u>

### 8. Profit on ordinary activities before taxation

This is stated after charging/(crediting)

	2006 £'000	2005 £'000
Auditors' remuneration		
PricewaterhouseCoopers LLP		
- Statutory audit of parent and consolidated accounts	42	32
- Statutory audit of subsidiary company accounts	35	30
- Other services relating to taxation	29	13
Operating lease rentals		
- Rent of land and buildings	182	188
- Hire of plant and machinery	432	459
Amortisation of goodwill in associate	-	116
Amortisation of other goodwill and other intangible fixed assets	576	312
Depreciation		
- Tangible fixed assets owned	491	482
Share based remuneration charge (FRS 20) – restated 2005 (see below)	165	150
Sale of stock/provision of services to 21 <sup>st</sup> Century (included within turnover)	(196)	(500)
Provision of services to CCL (included within turnover)	(30)	-
	<u></u>	<u></u>

## Notes to the financial statements

for the year ended 31 December 2006

### 8. Profit on ordinary activities before taxation (continued)

#### *Restatement of 2005 operating expenses*

Share-based payments are now accounted for under FRS 20. Applying the Black Scholes valuation model gives a fair value charge for these share options which in accordance with FRS 20 has been added to other operating expenses in each period. The other operating expenses for 2005 have been restated to include a charge of £150,000 in respect of share based remuneration. Since the corresponding adjustment for the FRS 20 charge is to profit and loss reserves, there is no restatement of the opening reserves position (notes 23 and 24).

### 9. Taxation

#### (a) Analysis of charge in year

	<b>2006</b>	2005
	<b>£'000</b>	£'000
<i>Current tax</i>		
UK corporation tax on the profit for the year (30%)	<b>(33)</b>	189
UK corporation tax on profit of prior year (30%)	<b>33</b>	-
	<hr/>	<hr/>
Total current tax	-	189
Deferred tax	-	100
	<hr/>	<hr/>
Total tax charge for the year	<b>-</b>	<b>289</b>
	<hr/> <hr/>	<hr/> <hr/>

#### (b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below.

	<b>2006</b>	2005
	<b>£'000</b>	£'000
Profit on ordinary activities before tax	<b>28</b>	1,756
	<hr/> <hr/>	<hr/> <hr/>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	<b>8</b>	527
<i>Effects of</i>		
Expenses not deductible for tax purposes	<b>182</b>	103
Capital allowances in excess of depreciation	<b>(30)</b>	(38)
Utilisation of tax losses	<b>(160)</b>	(403)
	<hr/>	<hr/>
Current tax charge for the year	<b>-</b>	<b>189</b>
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the financial statements

for the year ended 31 December 2006

### 9. Taxation (continued)

#### (c) Deferred tax

The unrecognised and recognised deferred tax asset comprises the following

<i>Group</i>	Unrecognised		Recognised	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Tax losses	(223)	(383)	-	-
Decelerated capital allowances	(156)	(155)	(100)	(100)
	<u>(379)</u>	<u>(538)</u>	<u>(100)</u>	<u>(100)</u>

The movement on deferred tax is as follows

	Debtor £'000
Balance brought forward at 1 January 2006	100
Charge to profit and loss account	-
	<u>100</u>
Balance carried forward at 31 December 2006	<u>100</u>

Capital gains tax of approximately £400,000 would be payable if the company were to sell its property for its book value at the balance sheet date. No deferred tax liability has been provided in respect of this potential capital gains as it is assumed that any gain on disposal would be rolled over.

A deferred tax asset has been recognised in accordance with the provisions of FRS 19 and represents that element of the decelerated capital allowances which the directors can reliably forecast will reverse in the future.

<i>Company</i>	Unrecognised		Recognised	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Tax losses	(210)	(207)	-	-
	<u>(210)</u>	<u>(207)</u>	<u>-</u>	<u>-</u>

#### (d) Factors that may affect future tax charges

The group has estimated tax losses of £0.7 million (2005: £1.3 million) that are available indefinitely for offset against future taxable profits of those companies in which the losses arose.

## Notes to the financial statements

for the year ended 31 December 2006

### 10. Profit 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 profit for the year was £1,113,000 (2005, loss £72,000)

### 11. Earnings per ordinary share

Basic earnings per share ("EPS") is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year

For diluted earnings, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares

	2006		2005	
	Earnings £'000	Per share amount Pence	Earnings Restated (note 8) £'000	Per share amount Restated (note 8) Pence
Basic EPS				
Earnings attributable to ordinary shareholders	1	0.00	1,185	1.45
Amortisation of intangibles	576	0.71	428	0.53
Alternative earnings	<u>577</u>	<u>0.71</u>	<u>1,613</u>	<u>1.98</u>
Diluted EPS				
Earnings	1	0.00	1,185	1.45
Amortisation of intangibles	576	0.71	428	0.53
Alternative earnings	<u>577</u>	<u>0.71</u>	<u>1,613</u>	<u>1.98</u>

Alternative basic and diluted EPS have been calculated to exclude the effect of amortisation and impairment of intangibles in order that the effect of these items on reported earnings can be fully appreciated

Details of the weighted average number of ordinary shares used as the denominator in calculating the basic and diluted earnings per ordinary share is given below

	2006 000	2005 000
Basic weighted average number of shares	81,689	81,689
Dilutive potential ordinary shares	-	85
	<u>81,689</u>	<u>81,774</u>

## Notes to the financial statements

for the year ended 31 December 2006

### 12. Intangible fixed assets

<i>Group</i>	21 <sup>st</sup> Century goodwill £'000	Datatool goodwill £'000	Metvale goodwill £'000	Total goodwill £'000	Other intangible fixed assets £'000	Total goodwill & intangible assets £'000
<b>Cost</b>						
At 1 January 2006	4,628	996	802	6,426	673	7,099
Amounts written off	-	-	(802)	(802)	(673)	(1,475)
Hindsight adjustments (see below)	173	-	-	173	-	173
At 31 December 2006	4,801	996	-	5,797	-	5,797
<b>Amortisation</b>						
At 1 January 2006	310	464	802	1,576	673	2,249
Amounts written off	-	-	(802)	(802)	(673)	(1,475)
Charge for the year	480	96	-	576	-	576
At 31 December 2006	790	560	-	1,350	-	1,350
<b>Net book value</b>						
At 31 December 2006	4,011	436	-	4,447	-	4,447
At 31 December 2005	4,318	532	-	4,850	-	4,850

#### 21<sup>st</sup> Century goodwill

The company has acquired a 75% interest in 21<sup>st</sup> Century Crime Prevention Services Limited ("21<sup>st</sup> Century") in three tranches

Percentage Acquired	Date	Nature of investment	Consideration
25%	18 December 2004	Preference shares*	£1 8m
24%	9 May 2005	Preference shares*	£0 8m
26%	1 August 2005	Ordinary shares	£2 3m

\*21<sup>st</sup> Century has two classes of shares, being ordinary and preference shares. The preference shares and ordinary shares rank pari-passu in all respects except in terms of entitlement to dividends. The preference shares yield an annual dividend entitlement of at least £500,000.

## Notes to the financial statements

for the year ended 31 December 2006

### 12. Intangible fixed assets (continued)

The hindsight adjustments to the fair values of the net assets acquired on 1 August 2005 are as follows

	Provisional fair value to the group 2005 £'000	Hindsight period adjustments 2006 £'000	Fair value to the group 2006 £'000
Tangible fixed assets	18	-	18
Stocks	296	(26)	270
Debtors	1,130	-	1,130
Cash	239	-	239
Creditors falling due within one year	(1,387)	(147)	(1,534)
<b>Net assets</b>	<b>296</b>	<b>(173)</b>	<b>123</b>
Consideration			
Cash	4,647	-	4,647
Acquisition costs	277	-	277
<b>Total consideration</b>	<b>4,924</b>	<b>-</b>	<b>4,924</b>
<b>Goodwill</b>	<b>4,628</b>	<b>173</b>	<b>4,801</b>

The adjustments to fair value to the group are in respect of additional stock obsolescence provision and the recognition of a liability of 21<sup>st</sup> Century to Toad (UK) Limited in respect of pre-acquisition sales made by Toad (UK) Limited to 21<sup>st</sup> Century of stock which became obsolete before the controlling interest of the company was acquired

The company has an option to acquire the remaining 25% of 21<sup>st</sup> Century for £2.1m in cash. There is no fixed date for the exercise of this option and the option remains exercisable without time limit.

#### *Datatool goodwill*

Datatool goodwill represents the goodwill arising on the acquisition of Datatool (UK) Limited on 1 June 2001 and is being amortised over its estimated useful life.

#### *Metvale goodwill*

On 7 January 1999 the company acquired Metvale Limited ("Metvale") which owned the UK audio reinstatement business of Autoglass Limited. At the end of 2004 the directors reviewed the carrying value of this intangible asset and concluded that because the alliance with Autoglass came to the end of its term during the year then the remaining net book value was recognised as an impairment in 2004. This goodwill has now been written off against the provision as it is considered that because the alliance with Autoglass has ended this goodwill should no longer be reflected in the books of the company.

#### *Other intangible fixed assets*

Other intangible assets at cost represent the group's investment in the Spacetrac distribution agreement, Actra development costs and intellectual property rights for several mobile audio interface products. The group no longer has a tangible interest in these activities and consequently these intangible assets which were previously provided for in full have been written off against the related provisions.

## Notes to the financial statements

for the year ended 31 December 2006

### 12. Intangible fixed assets (continued)

<i>Company</i>	Spacetrac distribution agreement £'000
Cost	
At 1 January 2006	230
Amounts written off	(230)
At 31 December 2006	-
Amortisation - amounts provided	
At 1 January 2006	230
Amounts written off	(230)
At 31 December 2006	-
Net book amount	
At 31 December 2005 and 31 December 2006	-

### 13. Tangible fixed assets

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

	Freehold land and buildings £'000	Motor vehicles £'000	Plant and equipment £'000	Total £'000
Cost/valuation				
At 1 January 2006	3,717	15	3,170	6,902
Additions	69	3	374	446
At 31 December 2006	3,786	18	3,544	7,348
Depreciation				
At 1 January 2006	144	5	2,108	2,257
Charge for the year	74	5	412	491
At 31 December 2006	218	10	2,520	2,748
Net book amounts				
At 31 December 2006	3,568	8	1,024	4,600
At 31 December 2005	3,573	10	1,062	4,645

## Notes to the financial statements

for the year ended 31 December 2006

### 13. Tangible fixed assets (continued)

The group's freehold property was revalued on 10 December 2004, on the basis of open market valuation by independent qualified valuers. The valuation was undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors in the United Kingdom by Drivers Jonas, a firm of independent Chartered Surveyors. This valuation has been incorporated into the financial statements and the resulting revaluation adjustment has been taken to revaluation reserve. The revaluation resulted in a revaluation surplus of £1,406,000 which is stated at £1,350,000 at 31 December 2006 (note 23). The directors do not believe that the valuation at 31 December 2006 is materially different from its valuation above.

Land and buildings included at valuation would have been included on an historical cost basis at the following amounts

	<b>2006</b>	2005
	<b>£'000</b>	£'000
Cost	<b>2,611</b>	2,542
Depreciation	<b>(393)</b>	(347)
	<u>2,218</u>	<u>2,195</u>
Net book amount	<u><b>2,218</b></u>	<u>2,195</u>

## Notes to the financial statements

for the year ended 31 December 2006

### 14. Fixed asset investments

Details of the group's investments are

	Interest in associate £'000
Cost	
At 1 January 2006	-
Addition	
- Net assets	25
- Goodwill	-
Share of loss in the period	(60)
	<hr/>
At 31 December 2006	
- Net assets	(35)
- Goodwill	-
	<hr/>
	(35)
	<hr/>
Accumulated amortisation of goodwill	
At 1 January 2006	-
Charge for the period	-
	<hr/>
At 31 December 2006	-
	<hr/>
Net book amount	
At 31 December 2006	
- Net assets	(35)
- Goodwill	-
	<hr/>
	(35)
	<hr/> <hr/>

Since the net balance has resulted in a credit, the amount above has been included in creditors due in less than one year

### Purchase of an associate

On 25 July 2006 TG21 entered into a loan and share option agreement with Cyberlyne Communications Limited ("CCL"). Under the agreement TG21 made a loan of £430,000 to CCL bearing interest from 1 January 2007 at 9.3%. In parallel with the loan agreement, CCL has granted an option to TG21 to acquire 50% of CCL's share capital for a nominal value of £100. TG21 has also been granted a second option to acquire the remaining 50% of the share capital for £1,000,000 if TG21 choose to exercise the option before 30 April 2007 or the higher of £1,000,000 in cash or the cash equivalent of five times CCL's 2007 operating profit before management charges if the option is exercised after completion of CCL's 2007 accounts. The consideration for both options is to be paid in cash and both options will lapse if not exercised by 30 June 2009. Neither option has yet been exercised.

TG21 plc has the ability to exercise its first option at any time from the date of signing the option agreement on 25 July 2006. However, the equity method of accounting has only been adopted from 29 September 2006, being the date that TG21 plc appointed its second nominated director to the board of CCL and the company thereby, in the opinion of the board of TG21 plc, was able to exercise significant influence over CCL.

## Notes to the financial statements

for the year ended 31 December 2006

### 14. Fixed asset investments (continued)

From 29 September 2006 to 31 December 2006 the acquisition contributed a net loss of £60,000 to the group's results for the year. For its last financial year to 31 December 2006, the unaudited accounts of CCL show a net loss after tax of £500,000.

The analysis of net assets acquired and the fair value to the group is as follows:

	Book value of net assets £'000	TG21 group share £'000	Fair value adjustment £'000	Fair value to group £'000
Tangible fixed assets	172	86	-	86
Stocks	929	465	(23)	442
Debtors	358	179	-	179
Creditors falling due within one year	(892)	(446)	-	(446)
Creditors falling due after one year	(472)	(236)	-	(236)
Net assets	95	48	(23)	25
Consideration				
Cash				-
Acquisition costs				25
Total consideration				25
Goodwill				-

The fair value adjustment relates to additional provision for obsolete stock.

The fair values of the net assets acquired are provisional.

### Details of the company's investments are:

	Interests in group undertakings £'000
Cost	
At 1 January 2006	23,870
Additions	1,207
At 31 December 2006	25,077
Amounts provided	
At 1 January 2006	(10,149)
Provided in the year	-
At 31 December 2006	(10,149)
Net book amounts	
At 31 December 2006	14,928
At 31 December 2005	13,721

## Notes to the financial statements

for the year ended 31 December 2006

### 14. Fixed asset investments (continued)

During the year Toad (UK) Limited a wholly owned subsidiary issued one new £1 ordinary share to the company at a premium of £1,017,000. Following an application to the High Court this share premium was offset against the brought forward losses of Toad (UK) Limited. The cost of this ordinary share is included in additions above along with £165,000 being the share based payments cost in relation to employee services provided to Toad (UK) Limited and £25,000 in respect of the costs of the acquisition of the associate company Cyberlyne Communications Limited.

#### *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:

Name of undertaking	Description of shares held	Proportion of voting rights held %	Nature of business
*Toad (UK) Limited	Ordinary £1 shares	100	Sale and installation of vehicle audio and security products
21 <sup>st</sup> Century Crime Prevention Services Limited	Ordinary £0.01 shares and Preference £0.01 shares	75	Sale and installation of public transport CCTV and related products
Datatool (UK) Limited	Ordinary £1 shares	100	Sale of motorcycle security and accessory products
Integrated Technologies (International) Limited	Ordinary £1 shares	70	Sale of vehicle audio interface leads and related products

\*Wholly or partly held by a subsidiary undertaking

The company also has an option to acquire 100% of the share capital of Cyberlyne Communications Limited. This company's business is the sale and installation of public transport CCTV and related products.

All of the above investments are incorporated in the United Kingdom.

### 15. Stocks

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

	2006 £'000	2005 £'000
Finished goods and goods for resale	3,088	3,728
Work in progress and raw materials	26	71
	<b>3,114</b>	<b>3,799</b>

## Notes to the financial statements

for the year ended 31 December 2006

### 16. Debtors

	2006 £'000	Group 2005 £'000	2006 £'000	Company 2005 £'000
Trade debtors	3,646	5,730	-	-
Amounts owed by group undertakings	-	-	1,378	3,395
Amounts owed by associate	430	-	430	-
Other debtors and prepayments	486	941	7	-
Deferred tax (note 9)	100	100	-	-
	<u>4,662</u>	<u>6,771</u>	<u>1,815</u>	<u>3,395</u>

Amounts owed by group undertakings are interest free and repayable on demand. The amount owed by the associate company is repayable after more than one year and accrues interest at 9.3% per annum.

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

	2006 £'000	Group 2005 £'000	2006 £'000	Company 2005 £'000
Bank overdrafts	1,032	850	-	-
Current instalment due on bank loan	1,000	1,000	1,000	1,000
Amounts due to associate undertaking	35	-	-	-
Trade creditors	2,506	4,330	-	-
Corporation tax	-	159	-	-
Other taxation and social security	880	846	-	-
Other creditors	487	515	-	-
Accruals and deferred income	394	1,165	3	88
	<u>6,334</u>	<u>8,865</u>	<u>1,003</u>	<u>1,088</u>

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

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

	2006 £'000	Group 2005 £'000	2006 £'000	Company 2005 £'000
Bank loan	1,989	3,468	1,989	3,468
	<u>1,989</u>	<u>3,468</u>	<u>1,989</u>	<u>3,468</u>

## Notes to the financial statements

for the year ended 31 December 2006

### 19. Loans

Group and company	<b>2006</b>	2005
	<b>£'000</b>	£'000
Amounts falling due		
in one year or less on demand	<b>1,000</b>	1,000
in more than one year but not more than two years	<b>1,000</b>	1,000
in more than two years but not more than five years	<b>1,000</b>	2,500
	<b>3,000</b>	4,500
Less unamortised loan issue costs	<b>(11)</b>	(32)
	<b>2,989</b>	4,468
Less included in creditors - amounts falling due within one year	<b>(1,000)</b>	(1,000)
	<b>1,989</b>	3,468

### 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 except for currency disclosures.

#### *Interest rate risk*

31 December 2006	At floating interest rates £'000	Total £'000
Financial liabilities – All Sterling		
Bank loan	2,989	2,989
Bank overdrafts	1,032	1,032
	<b>4,021</b>	<b>4,021</b>
31 December 2005	At floating interest rates £'000	Total £'000
Financial liabilities – All Sterling		
Bank loan	4,468	4,468
Bank overdrafts	850	850
	<b>5,318</b>	<b>5,318</b>

## Notes to the financial statements

for the year ended 31 December 2006

### 20. Financial risk management (continued)

Floating rate financial liabilities comprise bank borrowings and overdrafts with NatWest Bank plc bearing interest at commercial rates. The interest on the bank loan is linked to LIBOR. However, the company has a LIBOR interest rate swap for £3.0m of debt at 31 December 2006 at a fixed rate of 5.45% (2005: 5.45%). The overdraft interest is payable on the overdraft balances net of funds held on the Sterling current account with the bank which at the year end totalled £288,000 (2005: £686,000).

Financial assets – cash and deposits – (all floating rate)	2006 £'000	2005 £'000
Sterling	288	686
Euro	436	504
US Dollar	21	335
	<u>745</u>	<u>1,525</u>

The interest receivable on bank deposits is linked to LIBOR.

#### 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 2006 these currency exposures were as follows:

Functional currency of group operations	Net foreign currency assets		
	Euro £'000	US Dollar £'000	Total £'000
Sterling	436	21	457

At 31 December 2005 these currency exposures were as follows:

Functional currency of group operations	Net foreign currency assets		
	Euro £'000	US Dollar £'000	Total £'000
Sterling	504	335	889

## Notes to the financial statements

for the year ended 31 December 2006

### 20. Financial risk management (continued)

#### *Maturity of financial liabilities*

	2006 £'000	2005 £'000
In one year or less	2,032	1,850
Between one and two years	1,000	1,000
Between two and five years	989	2,468
	<u>4,021</u>	<u>5,318</u>

#### *Borrowing facilities*

The company has a Sterling term loan facility of £3,000,000 (2005 £4,500,000) and an overdraft facility of £3,000,000 (2005 £3,000,000). As at 31 December 2006, the term loan balance was £3,000,000 (2005 £4,500,000) and the net overdraft at bank balance was £287,000 (2005 net cash of £675,000) leaving undrawn facilities expiring within one year of £2,713,000 (2005 £3,000,000).

#### *Fair value of financial instruments*

	Book value		Fair value	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Cash and deposits	745	1,525	745	1,525
Bank loans	(2,989)	(4,468)	(2,989)	(4,468)
Bank overdrafts	(1,032)	(850)	(1,032)	(850)
Forward exchange contracts	-	-	(23)	75
Interest rate swaps	-	-	-	(26)
	<u>(3,276)</u>	<u>(3,793)</u>	<u>(3,299)</u>	<u>(3,744)</u>

The fair value of forward exchange contracts represents the unrealised gain/(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 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

for the year ended 31 December 2006

### 20. Financial risk management (continued)

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses and deferred gains and losses on financial instruments used for hedging are as follows

	Gains £'000	(Losses) £'000	Total net gains/(losses) £'000
Unrecognised gains and (losses) at 31 December 2006			
On forward currency contracts	-	(23)	(23)
	<u>-</u>	<u>(23)</u>	<u>(23)</u>
Of which gains and (losses) expected to be recognised next year			
On forward currency contracts	-	(23)	(23)
	<u>-</u>	<u>(23)</u>	<u>(23)</u>
Gains and (losses) included in the profit and loss account that arose in previous periods	75	(26)	49
	<u>75</u>	<u>(26)</u>	<u>49</u>
Unrecognised gains and (losses) at 31 December 2005			
On interest rate swaps	-	(26)	(26)
On forward currency contracts	75	-	75
	<u>75</u>	<u>(26)</u>	<u>49</u>
Of which gains and (losses) expected to be recognised next year			
On interest rate swaps	-	(24)	(24)
On forward currency contracts	75	-	75
	<u>75</u>	<u>(24)</u>	<u>51</u>
Gains and (losses) included in the profit and loss account that arose in previous periods	3	(251)	(248)
	<u>3</u>	<u>(251)</u>	<u>(248)</u>

## Notes to the financial statements

for the year ended 31 December 2006

### 20. Financial risk management (continued)

#### *Market price risk*

The group's exposure to market price risk comprises interest rate and currency risk exposures

Most of the group's borrowings are at floating rates. The bank loan and overdraft rates are linked to LIBOR. In 2002 the group entered into an interest rate swap to hedge against the risk of increased interest rates on its borrowings. This interest rate swap is based on a notional amount of £5m for three years from 12 February 2002 and on a notional amount of £3m for two years from 12 February 2005.

Forward currency contracts are used to hedge against movements on exchange which could impact upon the group's cost of sales for stock paid for in foreign currency. The budgets for the year are based upon the average exchange rates which apply to these forward currency contracts. All forward currency contracts mature within 12 months of the year end.

### 21. Share capital

	2006 £'000	2005 £'000
<b>Authorised:</b>		
109,448,930 (2005 109,448,930) ordinary shares of 10 pence each	<u>10,945</u>	<u>10,945</u>
(a) Called up share capital		
	2006 £'000	2005 £'000
<b>Allotted, called up and fully paid:</b>		
81,689,481 (2005 81,689,481) ordinary shares of 10 pence each	<u>8,169</u>	<u>8,169</u>
(b) Ordinary share capital to be issued		
	2006 £'000	2005 £'000
Secur-Fix acquisition	<u>43</u>	<u>43</u>

On 25 April 1996, TG21 plc acquired the whole of the issued share capital of Secur-Fix Limited for a maximum total consideration of £950,000. The remaining shares will be issued on the condition of the group selling 1,500 rolls of Secur-Fix film.

#### *Share options and share based payments*

The company operates an employee share option scheme. As at 31 December 2006 options under this scheme, excluding those held by directors, were outstanding over (a) 16,000 ordinary shares issued in 1997 at 20 5p each, (b) 177,000 ordinary shares issued in 1998 at 23 5p each, (c) 36,000 ordinary shares issued in 1999 at 28 5p each, (d) 12,000 ordinary shares issued in 2000 at 63 5p each, (e) 164,000 ordinary shares issued in 2000 at 47p each, (f) 79,000 ordinary shares issued in 2001 at 30 25p each, (g) 16,000 ordinary shares issued in 2001 at 19 5p each, (h) 241,150 ordinary shares issued in 2002 at 10p each, (i) 600,000 ordinary shares issued on 1 July 2005 at 10p each and (j) 925,000 ordinary shares issued on 12 April 2006 at 12 5p each. The options are exercisable between 3 and 10 years from the date of issue.

## Notes to the financial statements

for the year ended 31 December 2006

### 21. Share capital (continued)

Details of the company's share option schemes in respect of directors, which form part of these financial statements, are given in the Report on Directors' Remuneration

For those options granted after 7 November 2002 the Black Scholes model has been used to calculate the charge to the income statement. The inputs into the model are as follows

Movements in executive share option schemes granted after 7 November 2002	2006		2005	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of year	3,775,000	15.5p	1,600,000	23p
Granted during the year	2,500,000	12.5p	2,175,000	10p
Outstanding at end of year	6,275,000	14.3p	3,775,000	15.5p
Exercisable at end of year	2,100,000	10p	2,100,000	10p

Award	Grant date	Exercise price (pence)	Share price on grant date (pence)	Expected term (years)	Vesting period (years)	Option life (years)	Expected volatility	Risk free rate
Unapproved options	19/03/2004	23	23.75	4	3	7	82%	4.51%
Unapproved options	09/05/2005	10	9	5	3	10	78%	4.51%
Unapproved options	12/04/2006	12.5	12.75	5	3	10	76%	4.48%
EMI share options	09/05/2005	10	9	5	2	10	78%	4.51%
EMI share options	01/07/2005	10	9.87	5	3	10	76%	4.1%
EMI share options	12/04/2006	12.5	12.75	5	3	10	76%	4.48%

No dividend yield has been assumed for any of the above options and non of the share options' performance conditions are linked to the market price of the company's shares

Expected volatility was determined by calculating the historical volatility of the company's share price over the time commensurate with the award term immediately prior to the date of grant (i.e. 4 or 5 years). Given the lack of past option award exercise data for the company's share-based awards, management have assumed an expected term equal to 5 years for option awards with 10 year terms (a typical average input for a 10 year option scheme) and an expected term of 4 years for the award with a 7 year term

## Notes to the financial statements

for the year ended 31 December 2006

### 21. Share capital (continued)

(c) Minority interests

	2006 £'000	2005 £'000
Integrated Technologies (International) Limited (note (i) below)	-	22
21 <sup>st</sup> Century Crime Prevention Services Limited	44	200
	<u>44</u>	<u>222</u>

(i) The minority interest in Integrated Technologies (International) Limited has been eliminated as this company has negative net assets at 31 December 2006

### 22. Goodwill

The cumulative amount of goodwill resulting from acquisitions which has been written off directly to reserves, is £17,039,000 (2005 £17,039,000)

### 23. Share premium account and reserves

<i>Group</i>	Share premium £'000	Special reserve £'000	Share capital to be issued £'000	Revaluatio n reserve £'000	Profit and loss account £'000
At 1 January 2006	12,110	-	43	1,378	(12,665)
Transfer in respect of excess depreciation	-	-	-	(28)	28
Cancellation of share premium	(8,723)	-	-	-	8,723
Profit for the year	-	-	-	-	1
FRS 20 Reserve	-	-	-	-	165
Transfer to Special Reserve	-	1,206	-	-	(1,206)
	<u>3,387</u>	<u>1,206</u>	<u>43</u>	<u>1,350</u>	<u>(4,954)</u>
At 31 December 2006	<u>3,387</u>	<u>1,206</u>	<u>43</u>	<u>1,350</u>	<u>(4,954)</u>
	<u><u>3,387</u></u>	<u><u>1,206</u></u>	<u><u>43</u></u>	<u><u>1,350</u></u>	<u><u>(4,954)</u></u>
<i>Company</i>	Share premium £'000	Special reserve £'000	Share capital to be issued £'000	Merger reserve £'000	Profit and loss account £'000
At 1 January 2006	12,110	-	43	1,001	(8,723)
Cancellation of share premium	(8,723)	-	-	-	8,723
Profit for the year	-	-	-	-	1,113
FRS 20 Reserve	-	-	-	-	165
Transfer to Special Reserve	-	1,206	-	-	(1,206)
	<u>3,387</u>	<u>1,206</u>	<u>43</u>	<u>1,001</u>	<u>72</u>
At 31 December 2006	<u>3,387</u>	<u>1,206</u>	<u>43</u>	<u>1,001</u>	<u>72</u>
	<u><u>3,387</u></u>	<u><u>1,206</u></u>	<u><u>43</u></u>	<u><u>1,001</u></u>	<u><u>72</u></u>

## Notes to the financial statements

for the year ended 31 December 2006

### 23. Share premium account and reserves (continued)

At the Annual General Meeting held on 23 May 2006 a special resolution was passed to transfer £8,723,000 standing on the credit of the company's share premium account to distributable reserves. Following the AGM an application to the High Court was made and this completed on 28 June 2006. For the protection of creditors an amount equal to the dividends received from subsidiary companies out of the prior year profit has been transferred to the Special Reserve.

### 24. Reconciliation of movements in equity shareholders' funds

Group	2006 £'000	2005 Restated (note 8) £'000
Opening shareholders' funds	9,035	7,700
FRS 20 Reserve	165	-
Profit for the year	1	1,335
Closing equity shareholders' funds	<u>9,201</u>	<u>9,035</u>
Company	2006 £'000	2005 £'000
Opening shareholders' funds	12,600	12,672
FRS 20 Reserve	165	-
Profit/(loss) for the year	1,113	(72)
Closing equity shareholders' funds	<u>13,878</u>	<u>12,600</u>

### 25. Capital commitments

Neither the company nor the group had any capital commitments at the year end (2005 £nil)

### 26. Financial commitments

The company had no financial commitments at the end of the year. At 31 December 2006 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		2006 £'000	Other 2005 £'000
	2006 £'000	2005 £'000		
Expiring within one year	-	-	4	130
Expiring between two and five years inclusive	16	16	490	284
Expiring in over five years	142	135	-	-
At 31 December 2006	<u>158</u>	<u>151</u>	<u>494</u>	<u>414</u>

## Notes to the financial statements

for the year ended 31 December 2006

### 27. Reconciliation of operating profit to net cash inflow from operating activities

	2006	2005
	£'000	Restated (note 8) £'000
Operating profit	515	2,243
Depreciation on tangible fixed assets	491	482
Amortisation and impairment of intangible fixed assets	576	312
FRS 20 charge	165	150
Decrease in stocks	685	273
Decrease/(increase) in debtors	2,142	(364)
(Decrease)/increase in creditors	(2,761)	996
Net cash inflow from continuing operating activities	<u>1,813</u>	<u>4,092</u>

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

	2006	2005
	£'000	£'000
(Decrease)/increase in cash in the year	(962)	2,423
Cash outflow/(inflow) from movement in debt	1,500	(2,498)
Change in net debt arising from cash flows	<u>538</u>	<u>(75)</u>
Capitalisation of loan issue costs	-	40
Amortisation of loan issue costs	(21)	(33)
Movement in net debt in the year	517	(68)
Net debt at 1 January (see note 29)	<u>(3,793)</u>	<u>(3,725)</u>
Net debt at 31 December (see note 29)	<u>(3,276)</u>	<u>(3,793)</u>

## Notes to the financial statements

for the year ended 31 December 2006

### 29. Analysis of net debt

	At 31 December 2005 £'000	Cash flow £'000	Non cash movement £'000	At 31 December 2006 £'000
Cash at bank and in hand	1,525	(780)	-	745
Bank overdrafts	(850)	(182)	-	(1,032)
	<u>675</u>	<u>(962)</u>	<u>-</u>	<u>(287)</u>
Short term bank loans	(1,000)	1,000	(1,000)	(1,000)
Other loans	(3,468)	500	979	(1,989)
	<u>(3,793)</u>	<u>538</u>	<u>(21)</u>	<u>(3,276)</u>

The net non cash movement relates to the movement in amortised loan issue costs during the year

### 30. Related party transactions

#### **21<sup>st</sup> Century Crime Prevention Services Limited ("21<sup>st</sup> Century"), Mr Paul Frodsham and Mr Wilson Jennings**

Mr Paul Frodsham, Managing Director and 25% shareholder in 21<sup>st</sup> Century, is the brother-in-law of Mr Wilson Jennings a main board director and Company Secretary of TG21 plc

In 2005 TG21 plc increased its stake in 21<sup>st</sup> Century to a 75% holding having acquired this stake from Mr Paul Frodsham. The company also has options to acquire the remaining share capital in 21<sup>st</sup> Century. The total consideration paid to date in respect of the current holding, excluding costs, is £4.6m and the option price for the remaining 25% is £2.1m.

During the year the group made a charge of £250,000 (2005: £500,000) to 21<sup>st</sup> Century for management services.

Included in creditors of 21<sup>st</sup> Century at 31 December 2006 is an amount of £446,514 (2005: £593,649) payable to Mr Frodsham.

#### **Other**

The group has taken advantage of the FRS 8 exemption not to disclose any transactions or balances between entities of the TG21 plc group which have been eliminated on consolidation.