

Norman Hay Group

Annual Report 2006

Financial highlights

	2006	2005
Turnover	£20.3m	£21.2m
Profit before tax	£2.1m	£1.0m
Profit after tax	£1.5m	£0.8m
Basic earnings per share	10.5p	5.5p
Net assets per share	62.8p	54.3p
Dividends paid per share (including proposed dividends)	3.3p	2.6p
Cash inflow from operating activities	£2.5m	£1.3m

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Organisation Chart

The Geography of the Norman Hay Group

Location	Business Name	Activity
UK		
• East Kilbride	Surface Technology	Sub-contract coatings
• Irvine	Surface Technology	Sub-contract coatings
• Leeds	Armourcote	Sub-contract coatings
• Bradford	Applied Precision Coatings	Sub-contract coatings
• Cannock	Plasticraft	Process plant manufacture
• Coventry	Norman Hay	Head office
	Surface Technology	Sub-contract coatings
	Ultraseal	Sealant manufacture
	Norman Hay Engineering	Process plant manufacture
	MX Systems	Sealant manufacture
	Lancy Technology	Effluent treatment systems
• Daventry	TAM	Sealant manufacture
• Slough	Surface Technology	Sub-contract processing
India		
• Pune	Ultraseal	Sales & distribution centre Process plant manufacture
Singapore		
• Singapore	TAM	Sales & distribution centre
Hong Kong		
• Kowloon	TAM	Sales & distribution centre
China		
• Shanghai	Ultraseal	Sub-contract impregnation Process plant manufacture Sales & distribution centre
• Beijing	Ultraseal	Sales office
Japan		
• Tokyo	Ultraseal	Sales office
Australia		
• Adelaide	TAM	Sealant manufacture
USA		
• Ann Arbor	Ultraseal	Sales & distribution centre

Chairman's statement

In 2006 the Norman Hay Group saw profits double as we benefited from rationalisation within our subcontracting operations and growth in our chemical sealants businesses.

During the year we sold the business of BK Engineering to its management whilst retaining the freehold property. We also sold Plasticraft's offices in Cannock following their amalgamation with Ultraseal's engineering operations based in Coventry.

In December we acquired 75% of TAM International Group Holdings Ltd., a specialist manufacturer of chemical waterproofing sealants for the Construction Industry, with operations in the UK, Hong Kong, Singapore and Australia.

Following this, the Group now consists of four core businesses operating in the chemicals sector:-

- chemical sealants for the automotive industry
- chemical sealants for the construction industry
- process plant design and manufacture for the aerospace and automotive industries
- subcontract surface coating for the oil and gas, aerospace and automotive industries

These are effectively four stand-alone divisions within the Group, each with its own management structure, and strengthened by their similar skills and experience in the supply of chemical products and processes.

This allows us to function with a small head office team, whilst maintaining management in depth throughout the operating Group structure.

I am especially pleased that David Miller, who retired on his 65th birthday in December, has now re-joined the Board as a Non-Executive Director. His international experience and knowledge will continue to be invaluable to us in planning the Group's future growth.

Financial Overview

On turnover slightly reduced at £20.3m the Group achieved record profits of £2.1m pre-tax.

Basic earnings per share of 10.5p compare favourably with 5.5p in the preceding year.

Dividends

These results have allowed your Directors to propose an increased final dividend of 2.0p (2005: 1.5p) making the total for the year 3.3p, an increase of 27% on the 2005 total of 2.6p. If approved at the Annual General Meeting to be held on 22 June 2007, the dividend will be paid on 27 July 2007 to shareholders on the register on 22 June 2007.

Commercial/Business Overview

● Chemical Sealants – Automotive

Ultraseal had an excellent year building on their international business, with 95% of their sales being overseas. During the year we commissioned a significant number of new impregnation plants, some of which were supplied by our Ultraseal India & Ultraseal Shanghai facilities.

The centre of gravity of worldwide automotive manufacturing is moving to the emerging markets of the East. In many areas the industry is already well established, but the twin pressures of product quality and environmental responsibility are driving these businesses towards our new range of eco-friendly and recyclable sealants.

● Chemical Sealants – Construction

TAM (Technically Advanced Materials) manufactures a broad range of materials and systems for water proofing, ground consolidation and concrete repair. With manufacturing in the UK and Australia and distribution & maintenance operations in Hong Kong and Singapore, the business is in a strong position to take advantage of the growing demands of the construction industry worldwide.

TAM's products are delivered into the niche end of the \$2bn global market for construction chemicals.

- **Process Plant Manufacture**

This division did well to perform profitably in its first year after the amalgamation of the Ultraseal, Plasticraft and Ardrex operations.

The majority of chemical impregnation plants that we have manufactured over the last 5 years have been for overseas customers, and operate with our range of Ultraseal sealant consumables.

However, our metal finishing plants for the aerospace industry (where we do not supply the process chemistry) have mainly been for the UK market. Here too, the manufacturing base is moving and our experience in serving the automotive industry worldwide is supporting us as we follow the commercial aerospace industry eastwards.

- **Sub-Contract Surface Coatings**

A major contributor to Group profits, these businesses operate predominantly in the UK, albeit for a number of major multi-nationals. They have benefited from strong local management and by the addition of small bolt-on acquisitions over the past few years. They continue to provide the strong cash flows that have enabled us to fund our acquisitions with cash.

The world's growing energy demands underpin our future business in the oil and gas sectors, where there is considerable demand for our processes in the oil tool industry. New areas of exploration will potentially give us new opportunities in the Far East and Australasia.

Outlook

In January 2007 we acquired the business and assets of Prestige Engineering, a small sub-contract coatings company, which we are relocating into our operation in Slough.

Whilst there are variations in the levels of activity in our various operations, on a Group basis trading in the first quarter is broadly in line with last year.

Employees

Any business is only as good as its employees, and we are fortunate to have some very talented people within the Group. Their endeavours have created these first class results and, with their help, we will continue to grow profitably.

We welcome to our midst new colleagues from TAM operations around the world, and look forward to an exciting future with them.

Peter L Hay

Chairman

8 May 2007

Directors and advisers

Directors

Peter L Hay

Chairman

Victor P Bellanti

Chief Executive

Anthony M Hay

Non-Executive Director

David W Miller

Non-Executive Director

Secretary and registered office

Brigid M Cattle

Godiva Place
Coventry CV1 5PN

Registered number 405025

Auditors

BDO Stoy Hayward LLP
125 Colmore Row
Birmingham B3 3SD

Bankers

Bank of Scotland
38 St Andrew Square
Edinburgh EH2 2YR

Close Brothers
10 Crown Place
London EC2A 4FT

Registrars

Lloyds TSB Registrars Scotland
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ

Nominated Adviser and Broker

Brewin Dolphin Securities Limited
PO Box 512
National House
36 St Ann Street
Manchester M60 2EP

Report of the Directors

The Directors have pleasure in submitting their annual report and audited financial statements for the year ended 31 December 2006.

Principal Group activities, review of operations and future developments

The Group's main trading activities during the year all involved industrial process chemicals. Our largest division utilises process chemistry for coating, impregnating or finishing a wide variety of metal components. This is carried out on a sub-contract basis, predominantly for the engineering industry in the UK. Our other main activity is the manufacture and supply of chemical sealants and related chemicals used to eliminate porosity in metal castings, generally destined for the automotive industry. Being a true global supplier, we have been able to follow the manufacturing trend of automotive companies and their suppliers and thus continue to be in the supply chain wherever manufacturing takes place. The principal activity of the parent Company is to operate as a holding company for the Group.

Our other areas of specialisation include the design and manufacture of process plant and associated extraction and pollution control plant systems. We also manufacture impregnation plant and non-destructive testing equipment.

The acquisition of the TAM Group of Companies took place at the end of the year and therefore no revenues were incorporated into the 2006 accounts. A review of operations and future developments is contained in the Chairman's Statement.

Results and dividends

The Group Profit and loss account is set out on page 11 and shows turnover for the year of £20.3m and profits on ordinary activities before tax of £2.1m.

Turnover has fallen by 4.5% whilst pre tax profits are up by 109%. The growth in profits has resulted from rationalisation within our subcontracting operations and growth in the chemical sealants business. A one-off profit from the sale of the Cannock office building was offset by the loss on the sale of the BK Engineering business.

Whilst we are expecting a small reduction in turnover from our subcontracting operations supporting the oil and gas market in the first half of 2007, we believe that the second half of the year will be back on plan. Any reduction in these revenues in the first six months will be offset by the additional income coming in from TAM, which supplies chemical sealants into the construction industry which is a new market sector for the Group.

An interim dividend of 1.3p (2005: 1.1p) per share was paid on 3 November 2006 and the Directors recommend a final dividend of 2.0p (2005: 1.5p). If approved the final dividend will be paid on 27 July 2007 to shareholders on the register on 22 June 2007 and will be reflected in the 2007 financial statements.

Principal risks and uncertainties.

The oil and gas tool manufacturing industry has experienced a high level of activity in the last two years which has supported the growth of our Leeds, East Kilbride and Irvine operations. Whilst this business, which supports oil and gas exploration and extraction, continues to run at good levels, it is imperative that we follow our customer base as it moves to new geographical locations and, with them, explore new opportunities for our services.

The TAM Group of companies, which operates in the world market for construction sealants, offers an entirely new area of business for the Group. Whilst this will accelerate our overall levels of international trading, we are reviewing our management structures to ensure that we minimise the risks inherent in doing business globally.

The Board of Directors of Norman Hay accept their collective responsibility in providing health and safety leadership and regard the effective management of health and safety risks as key to the fulfilment of the Group's business objectives.

Financial Instruments

The Group's exposure to credit risk is primarily attributable to its trade debtors and this risk is managed by running credit checks on new customers and by monitoring payments against contractual agreements.

Our treasury function is carried out on a day to day basis, depositing any surplus funds on the short term money market. The Group has maintained a long term loan with the Bank of Scotland in order to provide readily accessible cash for future investments and acquisitions. The Board considers cash flow projections on a monthly basis. Further details are given in note 34 to the financial statements.

International Financial Reporting Standards

The adoption of IFRS is mandatory for UK AIM listed Groups' consolidated financial statements with effect from 1 January 2007.

The Group will prepare the 31 December 2007 financial statements in accordance with IFRS, including the 2006 comparatives.

Two of the key effects of the adoption of IFRS will be the accounting for intangible assets in respect of business combinations, and also the accounting for deferred tax.

Report of the Directors

Directors

The Directors of the Company, shown on page 5, held office throughout the year. Mr Victor Bellanti retires by rotation and, being eligible, offers himself for re-election

Executive Directors

Mr Peter Hay is the Chairman. He has been on the Board of the Company for thirty years, serving as Managing Director for ten years.

Mr Victor Bellanti is Chief Executive and has been employed by Norman Hay plc for the last thirteen years. A graduate qualified accountant, he was previously the Group Financial Director and, having been involved in all aspects of the business, was appointed Chief Executive in March 2000.

Non-Executive Directors

Mr Anthony Hay has been a Director of the Company for forty four years, served as Chairman from 1984 to 1993 and is independent from the day to day running of the Group.

Mr David Miller, Chief Operating Officer up until his retirement on 30 December 2006 was employed by Norman Hay plc for seven years, following a successful engineering career with Smiths Industries, EMI and as Managing Director of Photo-Me International plc. In February 2007 David rejoined the Company as a Non-Executive Director.

Directors' interests

Interest in shares

The interests of the Directors and their immediate families in the share capital of the Company, which are required to be disclosed pursuant to the Companies Act 1985, on the dates set out below, are as follows:

	At 1 January 2006	31 December 2006
	Beneficial	Beneficial
P L Hay	1,910,221	1,910,221
A M Hay	1,107,521	1,107,521
V P Bellanti	125,000	125,000
D W Miller	77,000	92,000

During the year Mr D W Miller purchased 15,000 ordinary shares.

Details of the Directors' interests in share options are as follows:

Interest in share options

		Opening at	Closing at
		1 January 2006	31 December 2006
D W Miller	(a)	212,750	212,750
V P Bellanti	Approved (b)	–	144,925
	Unapproved (c)	–	620,075
P L Hay	Approved(b)	–	144,925
	Unapproved (c)	–	420,075

(a) Mr D W Miller exercised his options over 212,750 ordinary shares at 37.5p per share on 6 April 2007, at which time the market price per share was 83p.

(b) The approved options are exercisable between 5 July 2009 and 4 July 2016 at 69p per share.

(c) The options are exercisable between 5 July 2006 and 4 July 2016 at 69p per share upon the share price achieving 250p or a change in control.

At 31 December 2006 the middle market price of the ordinary shares was 79.5p per share, and the range during the year was between 50.5p and 82.5p.

Report of the Directors

Substantial shareholdings

At 31 December 2006, the Company has been notified of the following holdings in the issued share capital of the Company

	Ordinary	Shares %
Mr P L Hay	1,910,221	13.15
Mrs G Luker	1,375,921	9.47
Mrs J Bewsher (deceased)	1,335,746	9.20
Mr A M Hay	1,107,521	7.63
Westcombe Investments	545,000	3.75
Mr N Hendy	472,500	3.25
Miss A Hendy	395,000	2.72

Mr Hendy and Miss Hendy may be considered associates of Westcombe Investments. These three shareholders do not consider themselves to be a concert party under the rules of the Takeover Panel. However they consider that they may be deemed to be acting in concert by certain regulatory bodies.

Save as disclosed above, no other person or company has a material interest in the shares of the Company of 3% or more or, being an investment manager, interests aggregating to 10% or more.

Creditors payment policy

The Group's policy for all suppliers is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms and to abide by the agreed terms of payment. At 31 December 2006 creditors represented 57 days of purchases for the year. The Company has negligible trade creditors.

Indemnity cover

Third party indemnity cover for the Directors was in force during the year.

Employees

The Directors place considerable value on the involvement of employees and recognise the importance of communicating effectively on matters which affect their current and future interests. This communication is achieved through regular meetings at local operating level and through informal briefing sessions.

The Group's policy is to ensure that, as far as is reasonably practicable, there is a working environment which will minimise the risk to health and safety of its employees and those persons who are authorised to be on its premises.

The Group continues to give full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. If an employee becomes disabled, the Group endeavours to continue his or her employment if this is practicable and, in appropriate cases, special training may be given.

Donations

Donations for charitable purposes during the year were £2,149 (2006: £465). No political contributions were made.

Auditors

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

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

B M Cattle

Secretary
8 May 2007

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 Group and the Company and of the profit or loss of the Group that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 a going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

Independent Auditor's Report

To the shareholders of Norman Hay plc

We have audited the Group and parent Company financial statements (the "financial statements") of Norman Hay plc for the year ended 31 December 2006, which comprise the Group profit and loss account, the Group statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the Group and Parent Company balance sheets, the Group cash flow statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also 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. The other information comprises only the Financial Highlights, the Chairman's Statement, and the Directors' Report. We consider the implications for our report and if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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.

Opinion

In our opinion:

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

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors

Birmingham

8 May 2007

Group profit and loss account

For the year ended 31 December 2006

	Note	2006 £000	2005 £000
Turnover	2	20,250	21,203
Cost of sales		(12,857)	(13,935)
Gross profit		7,393	7,268
Distribution expenses		(370)	(446)
Administrative expenses			
– exceptional	4	–	(332)
– other		(5,138)	(5,274)
Total administrative expenses		(5,138)	(5,606)
Other operating income		133	–
Operating profit	3	2,018	1,216
– Operating profit before exceptional administrative expenses		2,018	1,548
– Exceptional administrative expense	4	–	(332)
Profit on sale of assets	5	417	–
Loss on sale of businesses	6	(290)	(117)
Interest receivable and similar income	7	193	69
Interest payable and similar charges	8	(214)	(155)
Profit on ordinary activities before taxation		2,124	1,013
Taxation	10	(575)	(243)
Profit on ordinary activities after taxation		1,549	770
Minority interest		(26)	22
Profit for the financial year		1,523	792
Basic earnings per share	13	10.5p	5.5p
Diluted earnings per share	13	10.3p	5.5p

All amounts relate to continuing activities

There is no material difference between the historical cost profit and the profit for the year shown above.

The notes shown on pages 16 to 31 form part of these financial statements.

Group statement of total recognised gains and losses & reconciliation of movements in shareholders' funds

For the year ended 31 December 2006

Group statement of total recognised gains and losses

	2006 £000	2005 £000
Profit for the financial year	1,523	792
Exchange translation differences on consolidation	(38)	19
Total recognised gains and losses for the financial year	1,485	811

Reconciliation of movements in shareholders' funds

Group

For the year ended 31 December 2006

	2006 £000	2005 £000
Profit for the financial year	1,523	792
Dividends paid	(407)	(348)
	1,116	444
Exchange translation differences on consolidation	(38)	19
Issue of new shares	–	55
Purchase of own shares	–	(78)
Share scheme charge	9	54
Net additions to shareholders' funds	1,087	494
Opening shareholders' funds	7,838	7,344
Closing shareholders' funds	8,925	7,838

Company

For the year ended 31 December 2006

	2006 £000	2005 £000
Profit for the financial year	1,576	322
Dividends paid	(407)	(348)
	1,169	(26)
Issue of new shares	–	55
Purchase of own shares	–	(78)
Share scheme charge	9	54
Net additions to shareholders' funds	1,178	5
Opening shareholders' funds	4,585	4,580
Closing shareholders' funds	5,763	4,585

The notes shown on pages 16 to 31 form part of these financial statements.

Group balance sheet

At 31 December 2006

	Note	2006 £000	2005 £000
Fixed Assets			
Intangible Assets	14	1,985	887
Tangible Assets	15	4,365	5,272
Investments	16	26	26
		6,376	6,185
Current Assets			
Stocks	17	1,181	1,057
Debtors	18	5,916	5,693
Cash at bank and in hand		1,464	711
		8,561	7,461
Creditors – due within one year	19	4,769	4,420
Net current assets		3,792	3,041
Total assets less current liabilities		10,168	9,226
Creditors – due after one year	20	1,026	1,313
Provision for liabilities	21	19	34
		(1,045)	(1,347)
Net assets		9,123	7,879
Capital & Reserves			
Share capital	22	1,452	1,452
Share premium account	23	1,170	1,170
Revaluation reserve	23	538	545
Capital redemption reserve	23	94	94
Other reserves	23	766	766
Share scheme reserve	23	9	–
Profit and loss account	23	4,896	3,811
Shareholders' funds		8,925	7,838
Minority Interest		198	41
		9,123	7,879

The financial statements were approved and authorised by the Board on 8 May 2007.

V P Bellanti

Director

The notes shown on pages 16 to 31 form part of these financial statements.

Company balance sheet

At 31 December 2006

	Note	2006 £000	2005 £000
Fixed Assets			
Tangible Assets	15	2,837	2,827
Investments	16	13,165	11,513
		16,002	14,340
Current Assets			
Debtors	18	373	914
Cash at bank and in hand		787	–
		1,160	
Creditors – due within one year	19	3,092	4,424
Net current liabilities		(1,932)	(3,510)
Total assets less current liabilities		14,070	10,830
Creditors – due after one year	20	8,182	6,141
Provision for liabilities	21	125	104
		(8,307)	(6,245)
Net assets		5,763	4,585
Capital & Reserves			
Share capital	22	1,452	1,452
Share premium account	23	1,170	1,170
Revaluation reserve	23	538	545
Capital redemption reserve	23	94	94
Share scheme reserve	23	9	–
Profit and loss account	23	2,500	1,324
Shareholders' funds		5,763	4,585

The financial statements were approved and authorised by the Board on 8 May 2007.

V P Bellanti

Director

The notes shown on pages 16 to 31 form part of these financial statements.

Group cash flow statement

For the year ended 31 December 2006

	Note	2006 £000	2005 £000
Net cash inflow from operating activities	30	2,503	1,342
Returns on investment and servicing of finance			
Interest received		193	69
Interest paid		(200)	(145)
Interest element of finance leases		(14)	(10)
Dividends paid to minority shareholders		(38)	–
Net cash outflow from returns on investment and servicing of finance		(59)	(86)
Taxation			
Tax paid		(333)	(141)
Capital expenditure and financial investment			
Purchase of tangible and intangible fixed assets		(269)	(435)
Proceeds of sale of tangible fixed assets		836	73
Net cash inflow/(outflow) from capital expenditure and financial investment		567	(362)
Acquisitions and disposals			
Sale of business and operations		17	5
Purchase of subsidiary undertakings	25	(1,816)	(874)
Net borrowing disposed of with subsidiary undertakings		134	–
Net cash acquired with subsidiary undertakings		59	176
Net cash outflow from acquisitions and disposals		(1,606)	(693)
Dividends paid			
		(407)	(348)
Net cash inflow before financing		665	255
Issue of new shares		–	55
Purchase of own shares		–	(78)
Issue of new debt		–	1,200
Repayments of debt		(50)	(506)
Capital element of finance lease rentals		(62)	87
Net cash (outflow)/inflow from financing		(112)	758
Increase in cash		553	470

The notes shown on pages 16 to 31 form part of these financial statements.

Notes to the financial statements

1 Accounting policies

Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings and are in accordance with applicable accounting standards. The Group has adopted FRS 20 'Share based payment'. The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements incorporate the results of Norman Hay plc and all other subsidiary and associated undertakings as at 31 December 2006 using the acquisition or merger method of accounting as appropriate. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition.

Goodwill

Goodwill arising on an acquisition of an undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired.

Turnover

Turnover represents the invoiced amount of own goods sold and services provided during the year, excluding value added tax, except in respect of long term contracts where turnover represents the sales value of work done in the year. Turnover is recognised when the risks and rewards of owning the goods have passed to the customer, which is generally on delivery.

Land and buildings

The Group has continued to follow the transitional arrangements of FRS 15 'Tangible Fixed Assets' to retain the carrying value of freehold land and buildings as at 31 December 1999 as deemed cost. All additions since this date are stated at cost. Where an asset that was previously revalued is disposed of, its book value is eliminated and an appropriate transfer made from the revaluation reserve to the profit and loss reserve.

Depreciation and amortisation

Depreciation and amortisation are provided at rates calculated to write-off the cost or valuation, less estimated residual value of each asset, except for freehold land, evenly over its expected useful life as follows:

● Goodwill	15 years
● Freehold buildings	45 years
● Long leasehold property	Over term of lease
● Plant, vehicles and fixtures	3 to 10 years
● Computer equipment	2 to 5 years

Impairment tests on the carrying value of goodwill are undertaken at the end of the first full year following acquisitions and in other years if events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments

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

Stocks

Stocks are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition comprise:

- Raw materials – cost of purchase on a first in, first out basis.
- Work in progress and finished goods – cost of raw materials and labour plus attributable overheads based on the normal level of activity.
- Net realisable value is based on estimated selling price less further costs to completion and disposal.

Long-term contracts

Long-term contracts are assessed on a contract by contract basis and are reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Where the outcome of each long-term contract can be assessed with reasonable certainty before its conclusion, the attributable profit is recognised in the profit and loss account as the difference between the reported turnover and related costs for that contract.

Notes to the financial statements

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amount payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Foreign currency translation

The results of foreign operations and the balance sheets of foreign undertakings are translated into sterling at the rates of exchange ruling at the balance sheet date.

The effect of variances in exchange rates between the beginning and end of the financial year on the opening net investment in foreign undertakings is dealt with through reserves.

Where transactions are entered into by an operation, in a currency other than the operation's functional currency, the transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account for the year.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by balance sheet date except that;

- deferred tax is not recognised on timing differences arising on revalued properties unless the Group has entered into a binding sale agreement and is not proposing to take advantage of rollover relief; and
- the recognition of deferred tax assets is limited to the extent that the Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances, arising from underlying timing differences in respect of tax allowances on industrial buildings are reversed if and when all conditions for retaining those allowances have been met. Deferred tax balances are not discounted.

Financial Instruments

Financial Instruments are measured initially and subsequently at cost.

Further details of financial instruments are given in note 34 to the financial statements.

Share-based payment

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the profit and loss account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the profit and loss account over the remaining vesting period.

Pension costs

Contributions to the Group's defined contribution scheme are charged to the profit and loss account in the year in which they become payable.

Research and development

Expenditure on pure and applied research is charged to the profit and loss account in the year in which it is incurred. Development costs are also charged to the profit and loss account in the year of expenditure.

Notes to the financial statements

2 Turnover, results and net assets

	2006 £000	2005 £000
The analysis of turnover by destination is as follows :		
United Kingdom	11,648	12,342
Rest of Europe	3,591	3,935
Rest of the World	5,011	4,926
	20,250	21,203

Substantially all the Group's turnover, results and net assets relate to the supply of engineering sealants, application of surface coatings and specialist fabrication and originate in the United Kingdom.

3 Operating profit

	Note	2006 £000	2005 £000
This is stated after charging :			
Amortisation of intangible assets		50	65
Impairment of intangible assets		8	250
Depreciation of tangible fixed assets		476	607
Auditors' remuneration		47	52
– audit services			
– taxation		40	10
– remuneration services		17	–
Research and development		198	187
Operating lease rentals		113	165
– plant and machinery			
– properties		148	175
Share scheme charge	33	9	–
Included in the audit fee is an amount of £5,900 (2005 : £4,115) in respect of the Company.			

4 Administrative expense – exceptional

	2006 £000	2005 £000
Impairment of goodwill relating to previous acquisitions	–	250
Reorganisation costs	–	82
	–	332

5 Profit on sale of assets

	2006 £000	2005 £000
Plasticraft Limited property	417	–

6 Loss on sale of businesses

	2006 £000	2005 £000
Profit on sale of impregnation business and assets	100	–
Loss on sale of BK Engineering Limited	(390)	–
Loss on sale of Technovent Limited	–	(117)
	(290)	(117)

7 Interest receivable

	2006 £000	2005 £000
Bank deposits	193	69

Notes to the financial statements

8 Interest payable

	2006 £000	2005 £000
Bank loans and overdrafts	200	145
Hire purchase interest	14	10
	214	155

9 Employees

	Group		Company	
	2006 Number	2005 Number	2006 Number	2005 Number
The average number of employees, including executive directors, during the year comprised :				
Office and management	103	145	6	6
Manufacturing	162	147	–	–
	265	292	6	6
Staff costs, including executive directors, during the year amounted to :	£000	£000	£000	£000
Wages and salaries	5,952	6,639	699	540
Social security costs	633	673	89	70
Other pension costs (Note 27)	315	303	116	88
	6,900	7,615	904	698
Directors' remuneration consists of :			£000	£000
Aggregate emoluments (including performance related pay)			609	546
Pension contributions			41	57
Compensation for loss of office			47	–
Gain on exercise of share options			–	54
			697	657

The highest paid Director had a salary, including performance related pay and the above gain on exercise of share options of £212,000 (2005: £249,000) and a pension contribution of £20,000 (2005: £20,000).

The company contributed £41,000 (2005 : £57,000) towards the personal pension plans of three Directors (2005 : three) including the highest paid director.

10 Taxation

	2006 £000	2005 £000
UK corporation tax		
Current tax on profits of the year	511	188
Adjustment in respect of previous periods	12	(18)
	523	170
Foreign tax		
Current tax on foreign income for the year	2	–
Total current tax	525	170
Deferred tax		
Transfer to deferred tax account	50	22
Adjustment in respect of previous periods	–	51
	575	243

Notes to the financial statements

10 Taxation (continued)

The tax assessed in the year is lower than the standard rate of corporation tax in the UK.

The difference is explained follows:

	2006 £000	2005 £000
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 : 30%)	637	304
Expenses not deductible for tax purposes	63	41
Capital allowances in excess of depreciation	(27)	(34)
Utilisation of tax losses	(143)	(147)
Other short term timing differences	1	12
Chargeable gains	18	–
Income not taxable for tax purposes	(45)	–
Unrelieved tax losses	13	14
Marginal relief	(4)	(2)
Adjustment in respect of previous periods	12	(18)
	525	170

11 Dividends

	2006 £000	2005 £000
Final dividend paid of 1.5p (2005 : 1.3p) per share	218	188
Interim dividend paid of 1.3p (2005 : 1.1p) per share	189	160
	407	348
Dividends declared after balance sheet date but before approval of financial statements of 2.0p (2005 : 1.5p) per share	290	218

12 Profit for the financial year

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The Group profit for the year includes a profit after tax and before dividends of £1,576,000 (2005: £322,000) which is dealt with in the financial statements of the parent Company.

13 Earnings per ordinary share

	2006 £000	2005 £000
Profit on ordinary activities after tax	1,523	792
Basic earnings per ordinary share	Number 000's	Number 000's
Weighted average number of ordinary shares in issue	14,524	14,505
Basic earnings per share	10.5p	5.5p
Fully diluted earnings per share	Number 000's	Number 000's
Weighted average number of ordinary shares in issue (including dilutive share options)	14,733	14,664
Diluted earnings per share	10.3p	5.5p

Of the 1,617,750 options outstanding at 31 December 2006, 1,040,150 options have been excluded from the diluted earnings per share calculations because they are not dilutive.

Mr D W Miller exercised his options over 212,750 ordinary shares at 37.5p per share on 6 April 2007.

Notes to the financial statements

14 Intangible Assets

	Goodwill £000
Cost	
At 1 January 2006	2,655
Additions	1,308
Disposal of impregnation business	(279)
Disposal of subsidiary	(1,157)
At 31 December 2006	2,527
Amortisation	
At 1 January 2006	1,768
Provided during the year	50
Impairment provision	8
Disposal of impregnation business	(127)
Disposal of subsidiary	(1,157)
At 31 December 2006	542
Net book value	
At 31 December 2006	1,985
At 31 December 2005	887

15 Tangible Assets

	Freehold land and buildings £000	Long leasehold land and buildings £000	Plant vehicles and fixtures £000	Computers £000	Total £000
Group					
Cost or valuation					
At 1 January 2006	3,570	552	5,928	475	10,525
Additions	41	–	161	67	269
Acquisition of subsidiary	–	–	80	1	81
Disposals	(275)	(4)	(1,707)	(32)	(2,018)
Disposal of subsidiary	–	–	(1,072)	(90)	(1,162)
At 31 December 2006	3,336	548	3,390	421	7,695
Depreciation					
At 1 January 2006	490	63	4,310	390	5,253
Provided during the year	40	15	380	41	476
Disposals	(53)	–	(1,570)	(17)	(1,640)
Disposal of subsidiary	–	–	(671)	(88)	(759)
At 31 December 2006	477	78	2,449	326	3,330
Net book value					
At 31 December 2006	2,859	470	941	95	4,365
At 31 December 2005	3,080	489	1,618	85	5,272

Notes to the financial statements

15 Tangible Assets (continued)

	Freehold land and buildings £000	Plant vehicles and fixtures £000	Computers £000	Total £000
Company				
Cost or valuation				
At 1 January 2006	3,252	38	35	3,325
Additions	41	–	–	41
Group transfer	–	5	–	5
At 31 December 2006	3,293	43	35	3,371
Depreciation				
At 1 January 2006	446	35	17	498
Provided during the year	32	1	8	41
Group transfer	–	(5)	–	(5)
At 31 December 2006	478	31	25	534
Net book value				
At 31 December 2006	2,815	12	10	2,837
At 31 December 2005	2,806	3	18	2,827

The net book value of plant, vehicles and fixtures includes Group £7,000 (2005 : £364,000) and Company £nil (2005: £nil) in respect of assets held under finance leases and hire purchase contracts.

Depreciation charged on these assets amounted to Group £24,000 (2005: £61,000) and Company £nil (2005 : £nil)

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Freehold land and buildings included at :				
Open market value on 16 November 1992	2,878	2,878	2,850	2,850
Cost	458	692	443	402
	3,336	3,570	3,293	3,252
The historical balances of freehold land and buildings are :				
Cost	2,741	2,975	2,698	2,657
Accumulated depreciation	(470)	(483)	(440)	(408)
	2,271	2,492	2,258	2,249

Notes to the financial statements

16 Investments

	£000
Group	
Other investments	
Cost	
At 1st January 2006 and at 31 December 2006	26

The investment represents a 30% interest in the shares of Ultraseal India Pvt and in the opinion of the Directors the market value of the investment is not materially different from the cost. This is not treated as an associate Company under FRS 9 as the Group exercises no control or significant influence over the operating or financial policies of Ultraseal India Pvt.

Ultraseal India Pvt is incorporated in India and the aggregate capital and reserves at 31 December 2006 were £113,000 (2005 : £95,000)

Company

Subsidiary undertakings	
Cost	£000
At 1 January 2006	13,894
Additions	1,816
Disposals	(164)
At 31 December 2006	15,546
Provisions	
At 1 January 2006 and at 31 December 2006	2,381
Net book value	
At 31 December 2006	13,165
At 31 December 2005	11,513

17 Stocks

	Group	
	2006	2005
	£000	£000
Raw materials and consumables	358	391
Work in progress	21	40
Long term contract balances	39	238
Finished goods	763	388
	1,181	1,057
Long term contract balances comprise		
Net costs less foreseeable losses	81	267
Payments on account	(42)	(29)
	39	238

18 Debtors

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Trade debtors	4,944	5,144	17	–
Amount owed by subsidiaries	–	–	316	879
Other debtors	279	187	5	16
Prepayments and accrued income	693	362	15	19
Corporation tax	–	–	20	–
	5,916	5,693	373	914

All amounts included in debtors are receivable within one year, with the exception of a debt of £198,000 receivable over the next five years.

Notes to the financial statements

19 Creditors due within one year

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Bank loans and overdrafts (secured)	400	–	1,763	2,033
Trade creditors	1,613	1,632	162	68
Amounts owed to subsidiaries	–	–	938	1,989
Finance lease and hire purchase interest (secured)	28	86	–	–
Other loans	394	83	–	–
Taxation and social security costs	624	762	103	85
Other creditors	57	179	–	–
Accruals and deferred income	1,248	1,293	126	249
Payments on account	–	182	–	–
Corporation tax	405	203	–	–
	4,769	4,420	3,092	4,424

The bank overdrafts and loans are secured over certain of the Group's assets and undertakings.

The finance leases and hire purchase are secured on the assets to which they relate.

20 Creditors due after one year

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Bank loans (secured)	950	1,200	950	1,200
Other loans	76	–	–	–
Finance leases and hire purchase (secured see note 19)	–	113	–	–
Amounts owed to subsidiaries	–	–	7,232	4,941
	1,026	1,313	8,182	6,141

The bank loans are secured over certain of the Group's assets and undertakings.

A cross guarantee structure also exists to encompass certain Companies within the Group.

Notes to the financial statements

20 Creditors due after one year (continued)

Maturity of debt	Group				Company	
	Loans & overdrafts		Finance leases		Loans & overdrafts	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
In one year or less (Note 19)	400	–	6	86	1,763	2,033
In more than one year but not more than two years	200	171	22	113	200	171
In more than two years but not more than five years	750	686	–	–	750	686
In more than five years	–	343	–	–	–	343
	1,350	1,200	28	199	2,713	3,233

The bank loans are repayable by equal monthly instalments and interest is payable at 1.25% above bank base rate.

21 Provision for liabilities

The amount of deferred taxation provided, which relates to accumulated depreciation being lower than accumulated capital allowances, and other timing differences, is as follows :

	Group	Company
	2006 £000	2006 £000
At 1 January 2006	34	104
Debit to profit and loss account	50	21
Disposed of with subsidiary	(65)	–
At 31 December 2006	19	125

If the Group's freehold land and buildings were sold at their net book value no corporation tax would arise due to available reliefs.

The Group has an unrecognised deferred tax asset of £nil (2005: £95,000) in respect of trading losses.

22 Share capital

	At 31 December 2006		At 31 December 2005	
	Number 000	Value £000	Number 000	Value £000
Authorised – ordinary shares of 10p each	18,000	1,800	18,000	1,800
Allotted and fully paid – ordinary shares of 10p each	14,524	1,452	14,524	1,452

At 31 December 2006 the following options were outstanding including those relating to Directors as detailed on page 7 of this Annual Report:

- On 212,750 ordinary shares, exercisable between 7 April 2003 and 6 April 2007 at 37.5p per share.
- On 75,000 ordinary shares, exercisable between 28 October 1998 and 27 October 2008 at 42.5p per share.
- On 620,075 ordinary shares, exercisable between 5 July 2006 and 4 July 2016 at 69p per share upon the share price achieving 250p or a change in control.
- On 420,075 ordinary shares, exercisable between 5 July 2006 and 4 July 2016 at 69p per share, upon the share price achieving 250p or a change in control.
- On 289,850 ordinary shares, the approved options are exercisable between 5 July 2009 and 4 July 2016 at 69p per share.

Notes to the financial statements

23 Reserves

	Share premium account £000	Revaluation reserve £000	Capital redemption reserve £000	Other non- distributable reserve £000	Share scheme reserve £000	Profit and loss account £000
Group						
At 1 January 2006	1,170	545	94	766	–	3,811
Share scheme charge	–	–	–	–	9	–
Movement in reserves	–	(7)	–	–	–	7
Retained profit for the year	–	–	–	–	–	1,523
Dividends paid in year	–	–	–	–	–	(407)
Exchange translation differences on consolidation	–	–	–	–	–	(38)
At 31 December 2006	1,170	538	94	766	9	4,896
Company						
At 1 January 2006	1,170	545	94	–	–	1,324
Share scheme charge	–	–	–	–	9	–
Movement in reserves	–	(7)	–	–	–	7
Retained profit for the year	–	–	–	–	–	1,576
Dividends paid in year	–	–	–	–	–	(407)
At 31 December 2006	1,170	538	94	–	9	2,500

24 Contingent liabilities

The Company had outstanding guarantees in respect of subsidiary undertakings and a former subsidiary undertaking of £109,000 at 31 December 2006 (2005: £172,000)

Notes to the financial statements

25 Acquisitions

On 22 December 2006 Norman Hay plc acquired a 75% interest in TAM International Group Holdings Ltd, and its subsidiaries TAM International Consultants Ltd, TAM International (Hong Kong) Ltd, TAM International (Singapore) Pte, TAM International (Australia) Pty for a consideration of £1,816,000. The assets and liabilities are included in the consolidated balance sheet using the acquisition method of accounting.

	TAM International Consultants Ltd £000	TAM International (Hong Kong) Ltd £000	TAM International (Singapore) Pte £000	TAM International (Australia) Pty £000	Book & Fair Value £000
Fixed Assets					
Tangible assets	6	12	1	62	81
Current Assets					
Stocks	77	43	168	154	442
Debtors	168	109	511	168	956
Cash	133	31	–	95	259
	378	183	679	417	1,657
Creditors					
Due within one year	96	304	345	316	1,061
	288	(109)	335	163	677
Minority interest					(169)
Net assets acquired					508
Cash consideration (including expenses £116,000)					1,816
Net assets acquired					(508)
Goodwill arising on acquisition					1,308
Costs on acquisition include £32,000 paid to auditors in respect of corporate finance advice.					

26 Disposals

On 29 September 2006 Norman Hay plc transferred its entire interest in BK Engineering Limited to the management of that Company in consideration of their accepting liabilities totalling £530,000. Costs of £25,000 were paid relating to this disposal. In addition to the fixed assets, net borrowing and deferred tax disposed of with BK Engineering Limited, stocks of £122,000, debtors of £436,000, creditors of £261,000, and finance leases of £131,000 were also disposed of.

Following the sale of the impregnation business £42,000 of cash has been received up to 31 December 2006.

27 Pension Costs

The Group operates a number of defined contribution pension schemes. The assets of these schemes are held separately from those of the Group in independently administered funds. A pension charge of £315,000 (2005 : £303,000) represents the contribution payable by the Group to those schemes.

28 Commitments under operating leases

	Land and buildings		Plant	
	2006 £000	2005 £000	2006 £000	2005 £000
Expiring:				
In one year	70	12	–	40
In two to five years	97	130	93	124
After five years	8	25	–	–
	175	167	93	164

Notes to the financial statements

29 Subsidiary undertakings

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

Subsidiary undertaking	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held	Nature of business
Surface Technology plc	England	100%	Surface engineering, impregnation and finishing of metals. Supply of impregnation equipment and chemicals and NDT equipment.
Plasticraft Ltd	England	100%	Design, supply and installation of plant and pollution control equipment.
Ultraseal USA Inc	USA	100%	Distributors of impregnation equipment and chemicals.
Lancy Technology Ltd	England	67%	Effluent treatment systems.
Ultraseal Asia Ltd *	BVI	75%	Holding company for Ultraseal Shanghai Ltd.
Ultraseal Shanghai Ltd *	China	75%	Processing and distribution centre for impregnation chemicals and equipment.
MX Systems Ltd	England	100%	Supply of impregnation equipment and chemistry.
Applied Precision Coatings Ltd *	England	83%	Processing, coating and surface finishing of various materials
TAM International Group Holdings Ltd	England	75%	Holding company for the following TAM trading companies.
TAM International Consultants Ltd *	England	75%	Manufacture and supply of sealants for the construction industry.
TAM International (Hong Kong) Ltd *	China	75%	Supply of sealants for the construction industry.
TAM International (Singapore) Pte *	Singapore	75%	Supply of sealants for the construction industry.
TAM International (Australia) Pty *	Australia	75%	Manufacture and supply of sealants for the construction industry.

For all undertakings listed above, the country of operation is the same as the country of incorporation or registration.

* These undertakings are indirectly held by Norman Hay plc.

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

	2006 £000	2005 £000
Operating profit	2,018	1,216
Share option charge	9	54
Profit on sale of assets	(78)	–
Depreciation, amortisation and impairment	534	922
Decrease/(increase) in stock	195	(39)
Decrease/(increase) in debtors	543	(784)
Decrease in creditors	(718)	(27)
Net cash inflow from operating activities	2,503	1,342

Notes to the financial statements

31 Reconciliation of net cash inflow to movement in net debt

	2006 £000	2005 £000
Increase in cash in the year	553	470
Cash inflow due to increase/(decrease) in debt and lease financing	112	(781)
Change in net funds/(debt) resulting from cash flows	665	(311)
Loans and finance leases acquired and disposed of with subsidiaries	(278)	–
Opening net debt	(771)	(460)
Closing net debt	(384)	(771)

32 Analysis of net debt

	At 1 January 2006 £000	Cash flow £000	Acquisitions (excl cash and overdrafts) £000	At 31 December 2006 £000
Cash at bank and in hand	711	553	–	1,264
Debt due within one year	(83)	(124)	(387)	(594)
Debt due after one year	(1,200)	174	–	(1,026)
Finance leases	(199)	62	109	(28)
Net debt	(771)	665	(278)	(384)

33 Share-based payment

Norman Hay plc operates two equity-settled share based remuneration schemes for employees: a long term incentive scheme and an unapproved scheme for executive directors and senior management. Certain UK employees are eligible to participate in the long term incentive scheme, the only vesting condition is that the employee remains an employee of the Group over the savings period. In addition there are two old share based schemes which are being phased out and are not open to any new entrants.

Under the unapproved scheme, the share options are exercisable up to and including 4 July 2016 at 69p per share, upon the share price achieving 250p or a change in control.

	2006 Weighted average exercise (pence)	2006 Number
Outstanding at the beginning of the year	39	287,750
Granted during the year	210	1,330,000
Exercised during the year	–	–
	180	1,617,750

The exercise price of options outstanding at the end of the year ranged between 37.5p and 250p (2005: 37.5p and 42.5p)

The weighted average value of each option granted during the year was 1.7p (2005: nil p)

Notes to the financial statements

33 Share-based payment (continued)

The following information is relevant in the determination of the fair value of options granted during the year under the equity-and cash-settled share based remuneration schemes operated by Norman Hay plc.

Equity-settled

Option pricing model used	Black-Scholes
Weighted average share price at grant date (pence)	68
Exercise price (pence)	69
Weighted average contractual life (days)	1,095

Equity-settled

Expected volatility	20%
Expected dividend growth rate	5%
Risk-free interest rate	5%

Equity-settled

Option pricing model used	Monte Carlo
Weighted average share price at grant date (pence)	68
Exercise price (pence)	69
Weighted average contractual life (days)	1,095

Equity-settled

Expected volatility	20%
Expected dividend growth rate	5%
Risk-free interest rate	5%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily prices over the last 2 years.

The share based remuneration expense is included within administration expenses.

	2006	2005
	£000	£000
Equity-settled schemes	9	54

Share options (e) disclosed in note 22 have been valued using the Black-Scholes method and share options (c) and (d) disclosed in note 22 have been valued using the Monte Carlo method. All previous share options included in note 22 are outside the scope of FRS 20.

The Group did not enter into any share-based payment transactions with parties other than employees during the current or previous period.

34 Financial Instruments

The Board reviews and agrees policies for managing financial risks as necessary. The Board does not consider interest risk to be significant and therefore does not use interest rate swaps. Liquidity risk is managed by obtaining and reviewing the adequacy of banking facilities. At 31 December 2006 the Group had unused facilities of £2,577,000 (2005 : 2,023,000) including the annual working capital facility of £1,500,000 which was reviewed on 29 January 2007. This is due for renewal on 28th January 2008.

As well as bank loans disclosed in note 20, fixed rate financial liabilities of £28,000 (2005 : £199,000) comprise of finance lease and hire purchase agreements. The weighted average period for which they are fixed is 43 months (2005 : 48 months) and the weighted average fixed rate is 7.4% (2005 : 6.5%).

Floating rate financial assets comprise cash balances which attract interest by reference to rates set by the Group's UK and overseas banks.

Included within other debtors is an amount of £198,000 receivable over the next five years.

Notes to the financial statements

34 Financial Instruments (continued)

The Group's functional currency is pounds sterling, however it conducts some of its business in Euros, US dollars and the local currencies of the countries in which it operates. As a result it is subject to foreign currency exchange risk due to exchange movements, which will affect the Group's transaction costs and the translation of the results and underlying net assets of its foreign subsidiaries. No financial instruments are utilised to manage this risk and currency gains and losses are charged to the profit and loss account as incurred. At the year end the Group had the following net foreign currency debtors and creditors:

	2006	2006	2006	2006
	Debtors	Creditors	Cash less	Net
	£000	£000	borrowings	exposure
	£000	£000	£000	£000
Euros	36	5	75	106
US dollars	138	4	150	284
Hong Kong dollars	135	62	31	104
Singapore dollars	511	145	(200)	166
Other currencies	204	197	(35)	(28)
Total	1,024	413	21	632

Other currencies include Chinese RMB, Australian dollars and Korean won.

In respect of 2005 the Company had no material foreign currency exposure.

There is no material difference between the fair value and book value of financial instruments.

Notice of Meeting

Notice is hereby given that the sixty first Annual General Meeting of the Company will be held at Norman Hay plc, Godiva Place, Coventry on 22 June 2007 at 11 am for the following purposes:

- 1 To receive and adopt the Directors' report and audited financial statements for the year ended 31 December 2006.
- 2 To declare a final dividend for the year ended 31 December 2006.
- 3 To re-elect as a Director Mr V P Bellanti who retires by rotation in accordance with Article 84 of the Articles of Association.
- 4 To reappoint the auditors. A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the forthcoming Annual General Meeting.
- 5 To authorise the Directors to fix the auditors' remuneration.
- 6 To consider and, if thought fit, approve as an Ordinary Resolution:
 - 6.1) That in accordance with Article 7A of the Company's Articles of Association and Part V Chapter VII of the Companies Act 1985 ("the Act") the Company be and it is hereby authorised generally and unconditionally (pursuant to Section 166 of the Act) to make market purchases of any of its own shares on such terms and in such a manner as the Board of Directors of the Company may from time to time determine.
 - 6.2) The general authority conferred by this resolution shall:
 - i) expire on the date of the Annual General Meeting of the Company to be held in 2008;
 - ii) be limited to 750,000 shares of the Company;
 - iii) not permit the payment per share of less than 10p nor more than 5% above the average of the middle market quotations (derived from The Stock Exchange Daily Official List) of the shares for the ten business days before any such purchase is made;
 - iv) before expiry entitle the Company to enter into any contract for the purchase of its own shares which will or might be executed wholly or partly after its expiration.
 - 6.3) This authority shall only be capable of variation, revocation or renewal by the Company in General Meeting.
- 7 To consider and, if thought fit, approve as a Special Resolution:

That the Directors be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (as defined in that Act) and pursuant to an authority dated 23 June 2006 given to the Directors to allot relevant securities (as defined in that Act) as if the provisions of Section 89(1) of the Act did not apply to any such allotment until the conclusion of the Annual General Meeting to be held in 2008 or 15 months whichever comes first in respect of:

 - i) allotments in connection with rights issues (subject only to such exclusions as the Directors may feel necessary or expedient to deal with fractional entitlements or legal or practical requirements of a recognised regulatory body in any territory); and
 - ii) the allotment for cash (otherwise than pursuant to (i)) of equity securities up to an aggregate nominal amount of £75,000.

Registered office:
Godiva Place
Coventry CV1 5PN

By order of the Board
B M Cattle
8 May 2007

Notes:

- 1 A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company. A form of proxy is attached for use at the meeting. Members should complete, sign and return this so as to reach the office of the Company's Registrars not less than 48 hours before the time appointed for the holding of the meeting. By so doing they will not be precluded from attending and voting at the meeting in person should they be able to do so.
- 2 A register of Directors' interests and those of their families in the shares of the Company and copies of relevant Directors' service contracts will be available for inspection at Norman Hay plc, Godiva Place, Coventry from the date of this notice until the close of the meeting.

Form of Proxy

Form of Proxy for use at the Annual General Meeting to be held on 22 June 2007.

I/We
(NAME IN FULL IN BLOCK CAPITALS PLEASE)

of
being a member/members of Norman Hay plc, hereby appoint the Chairman of the meeting.

OR †)

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 11 am on 22 June 2007 and at any adjournment thereof.

Dated this _____ day of _____ 2007

Signature _____

Please indicate, by inserting a cross in the appropriate space, how you wish your vote to be cast on all the resolutions mentioned. If you sign this form and return it without specific directions, your proxy will vote or abstain at his discretion. This proxy will be used only in the event of a poll being directed or demanded.

Resolutions	For	Against
1 To receive and adopt the Directors' report and financial statements		
2 To declare a final dividend		
3 To re-elect Mr V P Bellanti as a Director		
4 To reappoint the auditors		
5 To authorise the Directors to fix the auditors' remuneration		
6 To authorise the Company to buy its own shares		
7 To disapply Section 89(1), Companies Act 1985 to share issues		

Notes:

- To be effective, this form must be lodged with the Registrars, Lloyds TSB Registrars Scotland, PO. Box 28448, Finance House, Orchard Brae, Edinburgh, EH3 2YR, not later than forty-eight hours before the meeting.
 - Any alteration in this form should be initialled.
 - In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the other joint holders and for this purpose seniority shall be determined by the order the names appear in the Register of Members.
 - In the case of a corporation, this form should be executed either under its common seal or under the hand of an officer or attorney duly authorised.
 - Completion and return of this form will not preclude shareholders from attending and voting at the meeting should they subsequently decide to do so.
- †) If it is desired to appoint any other person (who need not be a member of the Company) to act as proxy, insert the name in the space provided above and strike out the reference to the Chairman.



Second Fold

BUSINESS REPLY SERVICE
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**Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA**

First Fold

Third Fold (Tuck in)

