

# Transport Systems plc

REPORT AND ACCOUNTS

31 March 2006

# Transport Systems plc

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# Transport Systems plc

## COMPANY INFORMATION

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<b>Directors:</b>	C C Powell (Non executive Chairman) * K J Allen (Non executive) * I P Martin (Non executive)* A R Williams (Managing Director) K Y Matthews (Finance Director)  * Member of the Audit Committee and Remuneration Committee
<b>Company secretary:</b>	R-M Sexton
<b>Company number:</b>	3179975
<b>Registered office:</b>	Forest House Broad Quay Road Felnex Industrial Estate Newport NP19 4PN
<b>Independent auditors:</b>	Baker Tilly 1 Georges Square Bath Street Bristol BS1 6BP
<b>Solicitors:</b>	Berrysmith Haywood House Dumfries Place Cardiff CF10 3GA
<b>Nominated Adviser and Broker:</b>	Corporate Synergy Plc 30 Old Broad Street London EC2N 1HT
<b>Principal bankers:</b>	National Westminster Bank plc 96 Queen Street Cardiff CF1 1TX
<b>Registrars:</b>	Capita IRG Registrars Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU

# Transport Systems plc

## CHAIRMAN'S STATEMENT

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The Group has recorded a pre-tax loss of £38,380 after goodwill amortisation of £83,100 compared with 2005 pre-tax profit of £20,668. Therefore, a pre-tax profit before goodwill amortisation for the full year of £44,720 (2005: £103,768) is in line with revised expectations.

As was reported at the interim stage, the first half of the year was disappointing and this led us to reduce our expectations for the full year. During the first half there were significant differences between the results achieved by individual operations. Sales growth was slow at our recently opened Southampton depot; with the result that achieving profitability in this region took longer than expected. Start-up losses at Southampton, which trades under the Forest Traffic banner, were £120,043 during the first half. In addition, trading at Forest Highways was below expectations. However, during the same period the established Forest Traffic depots at Newport and Bristol traded strongly with both margin and revenue being significantly ahead of expectations.

The second half of the year saw an improvement in results. At Southampton, tender levels increased markedly leading to increased sales and a profitable second half, although the outcome for the full year was a loss.

At Forest Highways trading remained depressed throughout the third quarter, largely due to delays in the start date of a long term contract. Trading improved significantly in the fourth quarter but this was insufficient to offset the losses incurred in previous periods. In this period several contracts were undertaken by the company which required a significant input from a specialist supplier. Forest Highways makes only a small margin on sub-contracted work and this has tended to increase revenue in the period with only a limited benefit to margin. Underlying pricing has been maintained by the company.

### Results

The Group profit was £44,720 (before goodwill amortisation of £83,100) for the full year ending 31<sup>st</sup> March 2006. This compares with a profit of £103,768 (before goodwill amortisation of £83,100) for 2005. Turnover for the period was £4.76m (2005: £3.98m) an increase of 19% compared to last year. The Group ended the period with cash in hand of £511,711 (2005: £452,735), and Net Funds of £297,051 (2005: £207,056).

The Company intends to pay a final dividend of 0.275p per share (2005: 0.25p) reflecting the Board's continued confidence in the future.

### Current Trading and Prospects

The new financial year has begun well with the Group trading at a level above expectations. The forward order book is substantial and we have successfully won an encouraging level of work for the key summer period.

As reported previously, actions have been taken to reposition the Forest Highways business and we have targeted large-scale, extended duration Framework contracts. We have achieved an early success in winning an additional Framework contract, improving our continuity of work and giving extended forward visibility. Our efforts continue, with a key objective being improving the quality of earnings while maintaining the revenue stream.

In October 2005 we relocated our Southampton depot to larger premises in Winchester. This was necessary to facilitate further expansion of the business. In April 2006 we introduced temporary traffic signals to the product range offered at Winchester and the initial growth in sales is in line with our expectations. We will continue to invest at this depot, strengthening the customer base and broadening the product range offered to mirror other Forest Traffic depots. We expect Winchester to contribute to profits in the current financial year and increasingly in future years.

Our established Forest Traffic depots at Newport and Bristol continue to trade strongly. Revenue continues to grow and margin to be maintained.

The Board believes that the most effective method of providing value to shareholders is organic growth. It remains our intention to open further Forest Traffic depots. This will provide additional growth opportunities and will give the Group an increasingly robust revenue stream; improving earnings and allowing management the opportunity to focus on the longer term development of the business.

# Transport Systems plc

## CHAIRMAN'S STATEMENT

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As part of the process of strengthening and repositioning the business, the Board believes that it would be beneficial to re-brand the Group. It is proposed that the name of Transport Systems plc should be changed to Forest Support Services Plc and, to this end, shareholders will be asked to vote for a resolution at the Annual General Meeting. It is also the intention of the Board to merge operations of the subsidiaries Forest Traffic Signals Ltd and Forest Highways Ltd into a new business called Forest Traffic Services Ltd.

### **Conclusion**

While the performance of the Group has not met expectations it is clear that a number of key improvements have been made. The Group begins the new year with a healthy forward order book, the expectation of a satisfactory, profitable conclusion to the current year and significant future growth opportunities.

.....  
Chairman

Date:

# Transport Systems plc

## DIRECTORS' REPORT

31 March 2006

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The directors present their annual report and the accounts for the year ended 31 March 2006.

### Principal activity

The principal activity of the Group is the provision of traffic management services.

### Review of the business and future developments

A review of the business and future developments is given in the Chairman's statement on page 3 and 4. The directors aim to reduce the impact of any risks to the Group at all times. There are a number of uncontrollable risks which face the Group and the Directors have worked throughout the year to limit these risks by widening the customer base, developing sound contacts with all customers, and managing the traditional weaker summer workload.

The performance of the Group is monitored against the number of tenders won, the value of these contracts and the results from managing the weaker months. The Directors manage the overheads tightly and the improvement of utilisation of labour and vehicles have contributed to the process of strengthening and repositioning of the business during the year.

The Group loss for the year after taxation was £39,911, (2005 : profit of £17,824). The directors recommend the payment of a final dividend of £50,171 (2005 : £46,768). In accordance with the transitional rules of FRS21, the proposed dividend will not be accounted for in this year's accounts and a prior year adjustment in respect of last year's dividend has been made.

### Directors and their interests

The directors of the Company and their beneficial interests in the shares of the Company were as follows:

	At 31 March 2006 Ordinary shares of 5p each	At 1 April 2005 Ordinary shares of 5p each
K J Allen	428,340	428,340
I P Martin	621,265	621,265
K Y Matthews	-	-
C C Powell	2,182,400	1,182,400
A R Williams	338,706	338,706

Details of share options held by the directors are given in the Remuneration report on pages 8 and 9.

# Transport Systems plc

## DIRECTORS' REPORT (*continued*)

31 March 2006

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### Substantial shareholdings

At 31st July 2006 notification had been received of the following interests, other than directors, which exceed a 3% interest in the issued equity share capital of the Company.

Name of holder	Number	% of issued share capital Ordinary 5p shares
BNY (OCS) Nominees Limited	1,912,400	10 %
Giltspur Nominees Limited	935,900	5 %
HSBC Global Custody Nominee (UK) Limited	2,140,000	11 %
O L J D Marriott	1,000,000	5 %
Nordea Bank Danmark A/S	2,782,600	15 %
Rathbone Nominees Ltd	2,336,000	12 %
Talisman First VCT Plc	1,630,000	9 %

### Statement of directors' responsibilities

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

The directors are required under Company Law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the profit or loss of the Group for that year.

In preparing these accounts, the directors are required to:

- Select suitable accounting policies and then apply these 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.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also 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 requirements of the Companies Act 1985.
- Safeguarding the Group's and Company's assets
- Taking reasonable steps for prevention and detection of fraud and other irregularities
- Ensuring that the Directors' Report and other information contained in the annual report is prepared in accordance with company law in the United Kingdom
- Ensuring that the annual report includes information required by the AIM rules of the London Stock Exchange.

### Statement as to disclosure of information to auditors

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all of the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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**Political and charitable donations**

There are no political or charitable donations requiring disclosure.

**Creditor payment policy**

The Company does not have any trade creditors.

Terms and conditions are agreed with suppliers individually and the Group pays its suppliers in accordance with these terms, provided the suppliers meet the agreed conditions.

**Auditors**

A resolution to re-appoint Baker Tilly as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board

Secretary

Date:

**Registered office:**

Forest House  
Broad Quay Road  
Felnex Industrial Estate  
Newport  
Gwent  
NP19 4PN

# Transport Systems plc

## REMUNERATION REPORT

31 March 2006

The terms of reference of the Remuneration Committee are that it makes recommendations to the Board on the framework of executive remuneration and its cost. It determines, without reference to the Board, the pay and benefits of the executive directors in the light of the recommendations of the Managing Director (other than in relation to himself).

The Committee comprises C C Powell, K J Allen and I P Martin. The overall policy of the committee is to provide pay and benefits packages to executive directors that are appropriate to retain and motivate them to meet the objective set by the Board to achieve superior performance. Both short-term rewards (base salary, annual bonuses and fringe benefits) and longer term benefits (share options) reflect the responsibilities and performance of individual executives.

### Directors' emoluments (Audited)

Emoluments paid to each director are as follows:-

	<b>Fees for services</b> £'000s	<b>Salary</b> £'000s	<b>Pension</b> £'000s	<b>Benefits</b> £'000s	<b>Total</b> £'000s
<b>Year ended 31 March 2006</b>					
K J Allen	15	-	-	-	15
I P Martin	15	-	-	-	15
K Y Matthews	-	42	-	7	49
C C Powell	15	-	-	-	15
A R Williams	-	60	3	9	72
	45	102	3	16	166
<b>Year ended 31 March 2005</b>					
K J Allen	10	14	-	1	25
I P Martin	11	15	-	-	26
K Y Matthews	-	26	-	3	29
C C Powell	15	-	-	-	15
A R Williams	-	60	3	11	74
	36	115	3	15	169

The service contract of A R Williams is terminable on 12 months' notice by the Company. Those of I P Martin and K J Allen are terminable by 6 months' notice. The service contract of K Y Matthews is terminable by 3 months' notice. The Company has a contract for services with C C Powell terminable by one year's notice.

### Directors' share options

Details of directors' share options are shown below:-

	<b>Exercise price</b> (pence)	<b>Number at</b> <b>1 April 2005</b>	<b>Granted in</b> <b>year</b> <b>(number)</b>	<b>Exercised</b> <b>in year</b> <b>(number)</b>	<b>Number at</b> <b>31 March</b> <b>2006</b>
K J Allen	10p	800,000	-	-	800,000
I P Martin	10p	975,000	-	-	975,000
K Y Matthews	10p	-	-	-	-
C C Powell	10p	575,000	-	-	575,000
A R Williams	13p	500,000	-	-	500,000

All options are unapproved for tax purposes and all exercise criteria have been met.

All options expire after a period of seven years from the date of grant.

# Transport Systems plc

## REMUNERATION REPORT (*continued*)

31 March 2006

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The market price of the Company's shares ranged from a high of 11p to a low of 5.25p during the year and was 5.5p at the year end. From 31 March 2006 to the date of this report, no options have been exercised, lapsed, or cancelled.

Chairman of the Remuneration Committee  
Date:

# Transport Systems plc

## CORPORATE GOVERNANCE

31 March 2006

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The shares of the Company were admitted to the Alternative Investment Market on 31 January 2001 and do not have to comply with the Combined Code.

### **Directors**

The Board comprises two executive directors and three non-executive directors. The non-executive directors are independent of management and free from any business or other relationship with the Company other than owning shares.

The Board meets at least quarterly and additionally when necessary. All non-executives attend monthly management meetings. At each scheduled meeting of the Board, the Managing Director reports on the Group's operations. The Board is satisfied that it is provided with information in an appropriate form and quality to enable it to discharge its duties. All directors are subject to re-election by shareholders at the first opportunity after their appointment. All directors are required to retire by rotation and one third of the Board is required to seek re-election each year. Recommendations on new appointments to the Board are made by individual directors and are discussed at the scheduled Board meetings.

### **Audit Committee**

The Audit Committee consists of C C Powell (Chairman), K J Allen and I P Martin. The Committee considers matters relating to the financial accounting controls, the reporting of results, and the effectiveness and cost of the audit. It aims to meet at least once a year with the Company's auditors in attendance. Other directors attend as required.

The Audit Committee is satisfied that the Group's auditors, Baker Tilly, have been objective and independent of the Group. Baker Tilly perform non-audit services for the Group, but the Audit Committee is satisfied that their objectivity is not impaired by such work.

### **Going concern**

The directors have satisfied themselves that the Company and Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements continue to be prepared on a going concern basis.

### **Internal financial control**

The Board is responsible for ensuring that the Company maintains a system of internal financial controls, including suitable monitoring procedures. The objective of the system is to safeguard Company assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable. Any such system can only provide reasonable, but not absolute, assurance against material misstatement or loss.

All the day to day operational and investment decisions are taken initially by the executive directors, in accordance with the Company's strategy. Where required, the Board approves such decisions. The executive directors are also responsible for initiating all transactions and authorising all payments, save for those relating to their employment. As such, the internal controls primarily comprise:

- the segregation of duties, such that the executive directors have no involvement in the recording of any financial data;
- the review of pertinent financial and other information by the Board on a regular basis;
- the prior approval of all significant strategic decisions;
- having a formal strategy for business activities.

On behalf of the Board

Secretary

Date:

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# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TRANSPORT SYSTEMS PLC

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We have audited the financial statements on pages 12 to 25.

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

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

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).

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, and whether the information given in the Directors' Report is consistent with the 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 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 the Company information the Chairman's Statement, Remuneration Report and the Corporate Governance statement and the Notice of the Annual General Meeting. 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group and parent company's affairs as at 31 March 2006 and of the group's loss for the year then ended and 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.

BAKER TILLY  
Chartered Accountants  
Registered Auditor  
1 Georges Square  
Bath Street  
Bristol BS1 6BP

Date:

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Transport Systems plc  
CONSOLIDATED PROFIT AND LOSS ACCOUNT  
for the year ended 31 March 2006

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	<i>Note</i>	<b>2006</b> £	<b>2005</b> £
<b>Turnover</b>	<i>1</i>	4,758,284	3,980,648
Cost of sales		(3,407,302)	(2,599,638)
<b>Gross profit</b>		1,350,982	1,381,010
Administrative expenses		(1,379,493)	(1,347,852)
<b>Operating (loss) / profit</b>	<i>2</i>	(28,511)	33,158
Interest receivable		9,143	7,741
Interest payable and similar charges	<i>5</i>	(19,012)	(20,231)
<b>(Loss) / profit on ordinary activities before taxation</b>		(38,380)	20,668
Tax charge on (loss) / profit on ordinary activities	<i>6</i>	(1,611)	(2,844)
<b>(Loss)/profit on ordinary activities after taxation</b>	<i>17</i>	(39,991)	17,824
<b>Earnings per share:</b>	<i>7</i>		
Basic		(0.2)p	0.1p
Basic excluding goodwill amortisation		0.2p	0.5p
Diluted		(0.2)p	0.1p

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The Group has no recognised gains and losses other than those included above.

All of the Group's activities are classed as continuing.

# Transport Systems plc

## BALANCE SHEET

as at 31 March 2006

	<i>Note</i>	2006		2005	
		Group £	Company £	Group Restated £	Company Restated £
<b>Fixed assets</b>					
Intangible assets	8	1,041,783	-	1,124,883	-
Tangible assets	9	728,561	-	662,247	-
Investment in subsidiary companies	10	-	1,586,892	-	1,586,892
		1,770,344	1,586,892	1,787,130	1,586,892
<b>Current assets</b>					
Stock - consumables		187,145	-	92,219	-
Debtors	11	1,154,402	955,596	1,047,291	1,103,093
Cash at bank and in hand		511,711	419,630	452,735	282,735
		1,853,258	1,375,226	1,592,245	1,385,828
<b>Creditors: amounts falling due within one year</b>	12	(1,120,971)	(66,460)	(759,716)	(77,110)
<b>Net current assets</b>		732,287	1,308,766	832,529	1,308,718
<b>Total assets less current liabilities</b>		2,502,631	2,895,658	2,619,659	2,895,610
<b>Creditors: amounts falling due after more than one year</b>	13	(125,087)	(94,235)	(172,733)	(150,106)
<b>Provisions for liabilities and charges</b>	14	-	-	-	-
		2,377,544	2,801,423	2,446,926	2,745,504
<b>Capital and reserves</b>					
Called up share capital	15	935,350	935,350	935,350	935,350
Share premium account	16	1,513,530	1,513,530	1,496,153	1,496,153
Profit and loss account	17	(71,336)	352,543	15,423	314,001
	18	2,377,544	2,801,423	2,446,926	2,745,504

The accounts were approved by the Board of directors and authorised for issue on and signed on its behalf by:

Director

Transport Systems plc  
CONSOLIDATED CASH FLOW STATEMENT  
for the year ended 31 March 2006

	<i>Note</i>	2006 £	2005 £
<b>Net cash inflow from operating activities</b>	<i>21(i)</i>	518,904	453,880
<b>Returns on investment and servicing of finance</b>			
Bank interest received		9,143	7,741
Bank interest paid		(13,587)	(11,880)
Interest element of finance lease payments		(5,425)	(8,351)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(9,869)	(12,490)
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(274,813)	(271,591)
Sale of tangible fixed assets		9,646	7,700
<b>Net cash outflow from capital expenditure</b>		(265,167)	(263,891)
<b>Equity dividends paid</b>		(46,768)	(46,455)
<b>Management of liquid finances</b>			
Increase in short term deposits		(185,000)	(70,000)
<b>Net cash inflow before financing</b>		12,100	61,044
<b>Financing</b>			
Bank loans drawn in the year		-	156,601
Bank loans repaid during year		(55,408)	(40,664)
Share issue costs recovered		17,377	-
Capital element of finance lease payments		(100,093)	(33,598)
<b>Net cash (outflow)/inflow from financing</b>		(138,124)	82,339
<b>(Decrease)/increase in cash</b>	<i>21(ii)</i>	(126,024)	143,383

# Transport Systems plc

## NOTES TO THE ACCOUNTS

for the year ended 31 March 2006

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### 1 Accounting Policies

#### *Accounting convention*

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

In preparing the financial statements for the current year, the company has adopted FRS 21 'Events after the balance sheet date'.

The adoption of FRS 21 has resulted in a change of accounting policy for dividends declared after the balance sheet date. Where the company declares dividends to shareholders after the balance sheet date, but before the financial statements are issued, the company no longer recognises those dividends as a liability at the balance sheet date.

This change in accounting policy has resulted in a prior year adjustment for the company. Shareholders' funds at 1 April 2005 have increased by £46,768.

#### *Basis of consolidation*

The accounts of the Group consolidate the accounts of the Company and its subsidiaries up to 31 March.

#### *Goodwill*

Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the excess of the separable net assets acquired) is capitalised save to the extent that there is considered to be an impairment in value in which event the loss is charged to the profit and loss account. Amortisation is provided over 20 years on a straight line basis, the estimated useful life of the goodwill.

#### *Turnover*

Turnover represents amounts invoiced to customers for services rendered excluding VAT. Turnover relates to the group's principal activity and arises wholly in the UK.

#### *Tangible fixed assets*

Tangible fixed assets are stated at cost. Depreciation is provided at rates which are expected to write off the assets to their residual value over their expected economic lives. The principal rates used are as follows:

Motor vehicles	25% straight line
Plant and machinery	14% to 50% straight line
Office and computer equipment	20% to 33% straight line
Leasehold property	over the term of the lease

#### *Stocks*

Stocks are included at the lower of cost and net realisable value.

#### *Deferred taxation*

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the accounts.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Deferred tax assets are recognised where recovery is more likely than not.

**Transport Systems plc**  
**NOTES TO THE ACCOUNTS**  
for the year ended 31 March 2006

**1 Accounting Policies (continued)**

***Pension scheme arrangements***

Payments to defined contribution pension schemes are charged to the profit and loss account in the year in which they are made.

***Lease commitments***

Assets held under finance leases are capitalised in the balance sheet and depreciated over their estimated useful lives. Interest on finance leases is charged to the profit and loss account over the period of the lease or contract.

Rentals paid under operating leases are charged to the profit and loss account as incurred.

<b>2 Operating profit</b>	<b>2006</b>	<b>2005</b>
	£	£
Operating profit is stated after charging/(crediting):		
Depreciation of owned fixed assets	234,159	258,815
Depreciation of assets held under finance leases	93,999	63,785
Amortisation of goodwill	83,100	83,100
Profit on disposal of fixed assets	(4,823)	(107)
Auditors' remuneration - as auditors	20,365	17,000
- other services	7,426	8,500
Operating lease rentals - land and buildings	56,845	60,456
- other	128,223	100,823

<b>3 Directors' emoluments</b>	<b>2006</b>	<b>2005</b>
	£	£
Emoluments for qualifying services	118,062	130,056
Fees for services	45,000	36,000
Pension contributions	3,000	3,067
	166,062	169,123

The number of directors to whom retirement benefits are accruing under defined contribution pension schemes is 1 (2005 : 1).

<b>4 Employees (including directors)</b>	<b>2006</b>	<b>2005</b>
	£	£
Wages and salaries	2,069,529	1,654,551
Social security costs	209,539	174,368
Other pension costs	6,277	23,185
	2,285,345	1,852,104
Average number of employees:	<b>2006</b>	<b>2005</b>
	Number	Number
Management	11	8
Administration	13	18
Production	73	41
	97	67

**Transport Systems plc**  
**NOTES TO THE ACCOUNTS**  
for the year ended 31 March 2006

5	<b>Interest payable and similar charges</b>	<b>2006</b>	<b>2005</b>
		£	£
	On finance leases	5,425	8,351
	Bank interest	13,587	11,880
		<b>19,012</b>	<b>20,231</b>

6	<b>Taxation</b>	<b>2006</b>	<b>2005</b>
		£	£
	The tax charge for the year comprises:		
	Corporation tax on (loss)/profit for the year	-	-
	Movement in deferred tax (see note 14)	(1,611)	(2,844)
		<b>(1,611)</b>	<b>(2,844)</b>

**Factors affecting the tax for the year**

The tax assessed for the year differs from the (loss)/profit for the year at the small companies' corporation tax rate of 19% (2005 - 19%). The differences are explained below:

(Loss)/profit on ordinary activities before taxation	(38,380)	20,668
(Loss)/profit on ordinary activities multiplied by the small companies' rate of UK corporation tax of 19% (2005 : 19%)	(7,292)	3,927
Effects of:		
Disallowed expenses	5,693	2,884
Utilisation of tax losses	-	(18,208)
Capital allowances in excess of depreciation	1,229	5,251
Other timing differences	370	6,146
Current year charge for taxation	-	-

7	<b>(Loss) / Earnings per ordinary share</b>	£	£
	(Loss) / Earnings	(39,991)	17,824
	Amortisation of goodwill	83,100	83,100
	Earnings excluding goodwill amortisation	<b>43,109</b>	<b>100,924</b>

Basic earnings per share is based on the profit for the year attributable to shareholders and on the weighted average number of shares in issue during the year. The number of shares used for calculating basic earnings per share was 18,706,961 (2005 : 18,706,961). The number of shares used for calculating diluted earnings per share, taking into account share option schemes, was 21,556,761 (2005 : 21,556,761). Where the diluted earnings per share calculation is based on a loss after taxation, share options in issue have been excluded from the weighted average number of ordinary shares used in the calculation of the basic loss per share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of FRS 22.

Basic earnings per share excluding the effect of goodwill has been disclosed in order that the effect of goodwill amortisation on reported earnings can be fully appreciated. These have been calculated using the earnings excluding goodwill amortisation as above and also the share information as previously disclosed.

Transport Systems plc  
 NOTES TO THE ACCOUNTS  
 for the year ended 31 March 2006

8	Intangible fixed assets – Group	Goodwill £
<b>Cost</b>		
At 1 April 2005 and 31 March 2006		
<b>Amortisation</b>		
	At 1 April 2005	537,263
	Charge for the year	83,100
	At 31 March 2006	620,363
<b>Net book value</b>		
	At 31 March 2006	1,041,783
	At 31 March 2005	1,124,883

9	Tangible fixed assets - Group	Leasehold property £	Plant and machinery £	Motor vehicles £	Office and computer equipment £	Total £
<b>Cost</b>						
	At 1 April 2005	-	1,795,631	39,879	150,351	1,985,861
	Transfer	5,730	(5,730)	-	-	-
	Additions	11,739	368,464	5,927	13,165	399,295
	Disposals	-	(10,161)	-	-	(10,161)
	At 31 March 2006	17,469	2,148,204	45,806	163,516	2,374,995
<b>Depreciation</b>						
	At 1 April 2005	-	1,196,954	31,786	94,874	1,323,614
	Transfer	4,912	(4,912)	-	-	-
	Charge for the year	1,461	285,966	6,206	34,525	328,158
	Disposals	-	(5,338)	-	-	(5,338)
	At 31 March 2006	6,373	1,472,670	37,992	129,399	1,646,434
<b>Net book value</b>						
	At 31 March 2006	11,096	675,534	7,814	34,117	728,561
	At 31 March 2005	-	598,677	8,093	55,477	662,247

The net book value of assets held under finance leases is £124,482 (2005 : £127,770). Neither the Group nor the Company had any capital commitments at 31 March 2006 (2005 : £Nil).

10	Investments – Company	£
<b>Cost</b>		
At 1 April 2005 and 31 March 2006		
		1,586,892

**Transport Systems plc**  
**NOTES TO THE ACCOUNTS**  
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10 **Investments - Company (continued)**

**Subsidiaries**

The Company owns the whole of the issued ordinary share capital of the following companies, all of which are incorporated in England:

	<b>Nature of business</b>
Forest Traffic Signals Limited	Traffic management - small works
Forest Highways Limited	Traffic management - major works
A.J.R.G. Limited	Dormant
Topmarks (UK) Limited	Dormant

11 <b>Debtors</b>	<b>2006</b>	<b>2005</b>
	£	£
<b>Group</b>		
Trade debtors	1,064,165	974,082
Other debtors	12,164	12,333
Prepayments	65,928	47,120
Deferred tax asset (see note 14)	12,145	13,756
	1,154,402	1,047,291

The deferred tax asset is recoverable after more than one year.

<b>Company</b>		
Amounts due from subsidiary companies	954,750	1,098,824
Other debtors	785	3,188
Prepayments	61	1,081
	955,596	1,103,093

12 <b>Creditors: amounts falling due within one year</b>	<b>2006</b>	<b>2005</b>
	£	Restated £
<b>Group</b>		
Bank loans and overdrafts	57,104	56,641
Trade creditors	696,944	452,920
Other creditors	-	2,764
Obligations under finance leases	32,469	16,305
Other taxation including social security	200,797	156,004
Accruals	133,657	75,082
	1,120,971	759,716
<b>Company</b>		
Bank loans	57,104	56,641
Trade creditors	730	6,169
Accruals	8,626	14,300
	66,460	77,110



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14 Provisions for liabilities and charges (continued)

The deferred tax balance comprises	2006		2005	
	Provided £	Unprovided £	Provided £	Unprovided £
Accelerated capital allowances	7,961	-	7,066	-
Tax losses	-	113,224	-	132,729
Other timing differences	4,184	-	6,690	-
Deferred tax asset (note 11)	12,145	113,224	13,756	132,729

Management have not provided for the deferred tax asset relating to losses due to the uncertainty in the timing of recovery of these.

No deferred tax arises in the company.

15 Share capital

**Authorised**

30,000,000 (2005: 30,000,000) ordinary shares of 5p each 1,500,000

**Allotted, called up and fully paid**

18,706,961 (2005 - 18,706,961) ordinary shares of 5p each 935,350

Options have been granted over 2,850,000 of the Company's ordinary shares. 2,350,000 options are exercisable at a price of 10p while 500,000 options are exercisable at a price of 13p. All exercise criteria has been met. All options are unapproved for tax purposes. No options were granted or exercised in the year ended 31 March 2006. An option may not be exercised later than the seventh anniversary of the Date of Grant.

16 Share premium account

	Company and Group 2006 £	Company and Group 2005 £
At 1 April 2005	1,496,153	1,523,403
Share issue	-	10,750
Share issue costs (2006 – recovered)	17,377	(38,000)
At 31 March 2006	1,513,530	1,496,153

**Transport Systems plc**  
**NOTES TO THE ACCOUNTS**  
for the year ended 31 March 2006

17 Profit and loss account	<b>Group 2006</b>	<b>Company 2006</b>	<b>Group 2005</b>	<b>Company 2005</b>
	£	£	£	£
At 1 April as previously stated	15,423	314,001	(2,401)	229,371
Prior year adjustment	-	-	46,455	46,455
At 1 April as restated	15,423	314,001	44,054	275,826
Dividends (see below)	(46,768)	(46,768)	(46,455)	(46,455)
Profit for the year	(39,911)	85,310	17,824	84,630
At 31 March	(71,336)	352,543	15,423	314,001

The Company recorded a profit of £85,310 (2005 : profit of £84,630) in the year. The Company profit and loss account is not presented, advantage having been taken of the provisions of s.230 of the Companies Act 1985.

	<b>2006</b>	<b>2005</b>
	£	Restated £
Equity dividends on ordinary shares:		
Final dividend in respect of 2005	46,768	-
Final dividend in respect of 2004	-	46,455
	46,768	46,455

As a result of the change in accounting policy with the adoption of FRS21, the final dividend of £46,768 which had previously been included in the accounts to 31 March 2005, has now been treated as a charge against reserves in the current year. Since the balance sheet date, the directors have proposed dividends totalling £50,171 in respect of the year's results. These dividends are not recognised as a liability at the balance sheet date.

**18 Reconciliation of movement in shareholders' funds**

	<b>Group 2006</b>	<b>Company 2006</b>	<b>Group 2005</b>	<b>Company 2005</b>
	£	£	£	£
At 1 April	2,446,926	2,745,504	2,450,102	2,681,874
Prior year adjustment	-	-	46,455	46,455
At 1 April as restated	2,446,926	2,745,504	2,496,557	2,728,329
(Loss)/profit for the year	(39,991)	85,310	17,824	84,630
Other movements	17,377	17,377	(21,000)	(21,000)
Dividends	(46,768)	(46,768)	(46,455)	(46,455)
At 31 March	2,377,544	2,801,423	2,446,926	2,745,504

Transport Systems plc  
 NOTES TO THE ACCOUNTS  
 for the year ended 31 March 2006

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19	<b>Other financial commitments</b>	<b>2006</b>	<b>2005</b>
		£	£

**Group**

The Group has annual commitments under non-cancellable operating leases as follows:

Those expiring within one year:

Land and buildings	56,069	114,000
Other	128,248	174,933
	<hr/>	<hr/>
	184,317	288,933

Those expiring in two to five years:

Land and buildings	127,000	-
Other	213,702	139,472
	<hr/>	<hr/>
	340,702	139,472

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20 **Related party transactions**

The Company has taken advantage of the exemption available in paragraph 3(c) of Financial Reporting Standard 8 *Related parties* from the requirement to disclose related party transactions with other Group entities that are eliminated on consolidation.

There were no other related party transactions in the year requiring disclosure.

21	<b>Notes to the cash flow statement</b>	<b>2006</b>	<b>2005</b>
		£	£

(i) **Reconciliation of operating (loss)/profit to net cash inflow from operating activities**

Operating (loss)/profit	(28,511)	33,158
Profit on sale of fixed assets	(4,823)	(107)
Depreciation	328,158	322,600
Amortisation of goodwill	83,100	83,100
Increase in stocks	(94,926)	(48,377)
Increase in debtors	(108,722)	(214,800)
Increase in creditors	344,628	278,306
	<hr/>	<hr/>
	518,904	453,880

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Transport Systems plc  
 NOTES TO THE ACCOUNTS  
 for the year ended 31 March 2006

21 Notes to the cash flow statement (*continued*)

	At 1 April 2005 £	Cash flow £	Other movements £	At 31 March 2006 £
<b>(ii) Analysis of net funds</b>				
Cash at bank	182,735	(126,064)	-	56,711
Bank overdraft	-	-	-	-
	182,735	(126,024)	-	56,711
Short term deposits	270,000	185,000	-	455,000
Bank loans	(206,747)	55,408	-	(151,339)
Finance leases	(38,932)	100,093	(124,482)	(63,321)
	207,056	214,477	(124,482)	297,051
<b>(iii) Reconciliation of net cash flow to movement in net funds</b>				
			<b>2006</b> £	<b>2005</b> £
(Decrease)/increase in cash in the year			(126,024)	143,383
Cash outflow/(inflow) from change in debt and lease financing			155,501	(82,339)
Increase in short term deposits			185,000	70,000
Movement in net funds arising from cash flows			214,477	131,044
New finance leases			(124,482)	(40,219)
Movement in net funds in the year			89,995	90,825
Net funds at 1 April			207,056	116,231
<b>Net funds at 31 March</b>			<b>297,051</b>	<b>207,056</b>

(iv) Major non cash transactions

During the year the group entered into the following major non cash transactions:

- Signing up to new finance leases with an initial capital value of £124,482;

Transport Systems plc  
NOTES TO THE ACCOUNTS  
for the year ended 31 March 2006

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22 **Financial instruments**

The numeric disclosures in this note deal with financial assets and liabilities as defined in Financial Reporting Standard 13 *Derivatives and other financial instruments: disclosures* (FRS 13).

As permitted by FRS 13, short-term debtors and creditors have been excluded from the disclosures. Certain financial assets such as investments in subsidiary companies are also excluded from the scope of these disclosures.

The main risk arising from the Group's financial instruments is interest rate risk.

*Interest rate risk*

The Group's policy is to minimise the cost of borrowings above the bank's base rate. The fair values of the financial liabilities are considered to be equal to their book values. The interest rate and maturity profile of the Group's financial liabilities as at 31 March 2006 is given in note 13.

*Borrowing facilities*

The Group has no undrawn committed borrowing facilities at 31 March 2006 or 31 March 2005.

*Fair values*

There is no material difference between the book value and the fair value of the Group's financial assets or liabilities.

*Market price*

Group funds are invested in deposit accounts with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

# Transport Systems Plc

## Notice of Annual General Meeting

Notice is hereby given that the annual general meeting of Transport Systems Plc (the "Company") will be held at the offices of the Company, Forest House, Broad Quay Road, Felnax Industrial Estate, Newport, Gwent, NP19 4PN on Friday 6 October 2006 at 11.00 a.m. for the following purposes:

### Ordinary Business

1. To receive the annual accounts of the Company for the year ended 31 March 2006, together with the directors' report and the auditors' report on those accounts.
2. To declare a final dividend for the year ended 31 March 2006 of 0.275p per ordinary share, payable to shareholders on the register of members at the close of business on 3 November 2006.
3. To re-appoint Mr Christopher Powell as a director of the Company, who retires by rotation in accordance with the Articles of Association of the Company.
4. To re-appoint Mr Ian Martin as a director of the Company, who retires by rotation in accordance with the Articles of Association of the Company.
5. To re-appoint Baker Tilly, Chartered Accountants, as auditors of the Company to hold office from the conclusion of the meeting to the conclusion of the next general meeting at which accounts are laid before the Company, and to authorise the directors to fix their remuneration.

### Special Business

To consider and, if thought fit, pass the following resolutions which will be proposed as to resolution 6, as an ordinary resolution and resolution 7 and 8 as special resolutions of the Company:

6. That, in substitution for all existing and unexercised authorities, the directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of that Act) up to:
  - (a) an aggregate nominal amount of £236,034 in connection with the grant of options pursuant to the Transport Systems Plc Share Option Scheme; and
  - (b) otherwise, an aggregate nominal amount of £420,906.00provided that this authority shall expire at the conclusion of the Company's next annual general meeting, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred hereby has expired.
7. That, subject to the passing of the previous resolution, the directors of the Company be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94(2) of that Act) for cash pursuant to the authority conferred by the previous resolution as if section 89(1) of that Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:
  - (a) up to an aggregate nominal amount of £236,034 in connection with the grant of options pursuant to the Transport Systems plc Share Option Scheme; and

# Transport Systems Plc

## Notice of Annual General Meeting

in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

- (b) otherwise, up to an aggregate nominal amount of £93,534.00 representing 10% of the nominal issued share capital.

and such authority shall expire on the conclusion of the Company's next annual general meeting, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement notwithstanding that the power conferred hereby has expired.

- 8. That the name of the Company be changed to "Forest Support Services Plc".

Registered office:

Forest House  
Broad Quay Road  
Felnex Industrial Estate  
Newport  
Gwent  
NP19 4PN

14 September 2006

BY ORDER OF THE BOARD

.....  
Rose-Marie Sexton  
Secretary

### NOTES:

A member entitled to attend and vote at the meeting convened by the notice set out above is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.

A form of proxy is provided with this notice and instructions for use are shown on the form. To be valid, completed forms must be received by the Company's registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham Kent BR3 4TU, not later than 48 hours before the time appointed for the meeting or adjourned meeting or, in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting, not later than 24 hours before the time appointed for the taking of the poll at which it is to be used. Deposit of a form of proxy shall not preclude a member from attending and voting in person at the meeting or any adjournment of the meeting.

In accordance with regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members as at close of business on 20 July 2004 or, if the meeting is adjourned, members entered on the Company's register of members 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their respective names at that time. Changes to entries on the register after close of business on 20 July 2004 or, if the meeting is adjourned, on the register 48 hours before the time fixed for the adjourned meeting, will be disregarded in determining the rights of any person to attend and vote at the meeting.