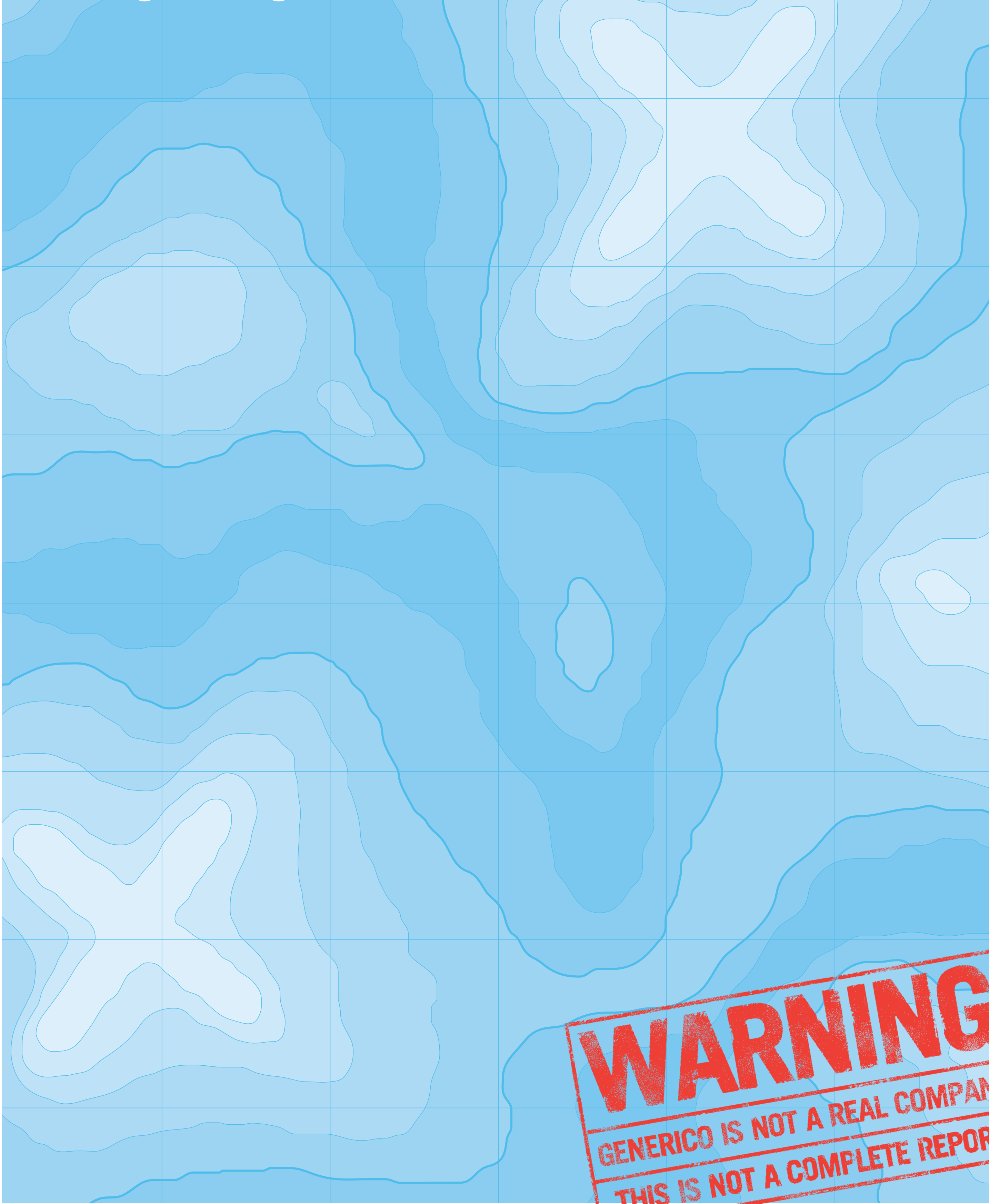
GENERICO

Generico Annual report 2007

Plotting the right course



WARNING

GENERICO IS NOT A REAL COMPANY

THIS IS NOT A COMPLETE REPORT

Generico is a leading designer and manufacturer of safety and navigation systems for the private leisure boat market in Europe and North America.

What is our investment proposition?

→ We operate in growth markets with good long-term prospects

→ In our main market, maritime all weather beacons, we are No. 2 in both Europe and North America, and we have an expanding position in the fast-growing boat positioning systems market

→ We are well placed to grow volume sales and expand market share by combining innovative products with competitive quality and pricing

We're creating value…

→ In 2007, revenue grew 21% to £209.9m

→ Pre-tax profit grew 19% to £26.0m

→ Cash added value totalled £13.4m

…but there's still more to do.

In this report we explain how the business could generate much more value for investors, and what we're doing to make it happen.

Contents

What do we do?

- → A technology company focused on the private leisure boat industry
- → Two operating divisions:
  - Main business: **All Weather Beacons (AWB)**
  - Secondary business: **Global Positioning Systems (GPS)**
- → Committed to research and innovation
- → Only sell to boat builders – they install our products in new boats

All Weather Beacons (AWB)

Safety devices that transmit a boat's location to rescue services.

96%
of 2007 revenue (2006: 99%)

97%
of 2007 operating profit (2006: 100%)

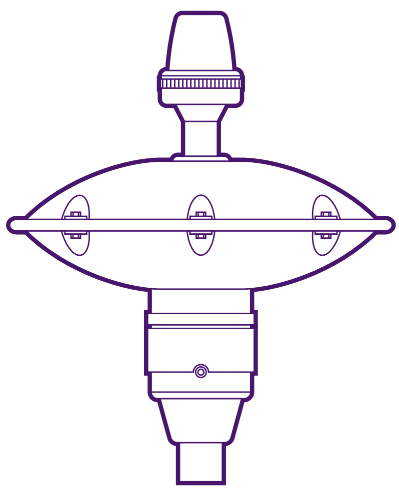
No. 2
global supplier
– 20% market share Europe
– 23% North America

Operating margins continued to slip, to 12.9% in Europe and 14.9% in North America. We are acting to reverse this trend. See page 30.

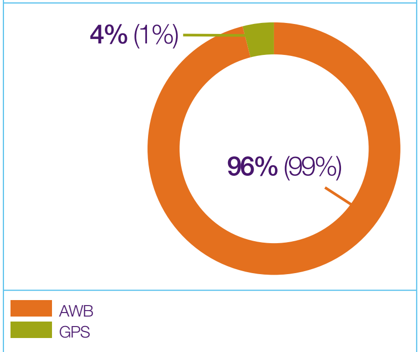
Quality continues to improve and now exceeds the industry average. However, we aim to do even better. See page 27.

Head office, R&D and manufacturing in Poole, UK. North American sales and manufacturing in Wisconsin, USA.

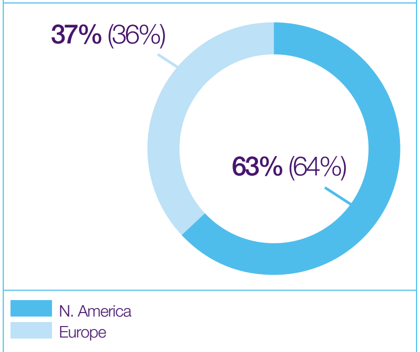
Key product
The SpotME (right) enables rescue services to locate a boat to within an area of 500m^2 – even if it is under 200m of water.



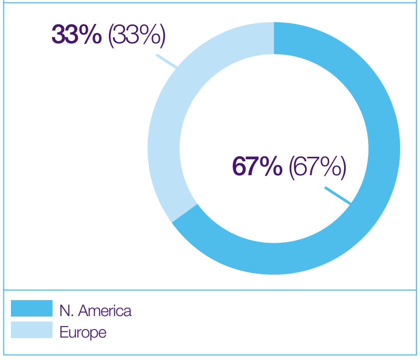
Total revenue by operating division
2007 (2006)



Geographical breakdown of revenue
2007 (2006)



PBT by geography
2007 (2006)



Global Positioning Systems (GPS)

Enable boaters to identify location and navigate accurately.

4%
of 2007 revenue (2006: 1%)

3%
of 2007 operating profit

6%
of European GPS market (2006: 3%)

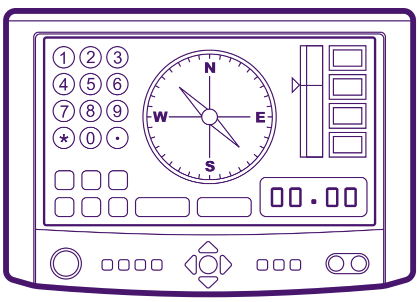
A new division formed from the acquisition of Tracker Navigation, the pioneer in low-cost leisure boat positioning devices.

Operating margins continued to improve, to 8.9% in 2007. See page 07.

Quality continues to improve: we beat our 2007 targets and have set more aggressive targets for the future. See page 35.

Head office, R&D and manufacturing in Poole, UK.

Key product
The GPS I (right) was the first GPS device to break the £500 barrier in 2004. GPS III, launching in 2008, offers more features for just £380.



What's our strategy?

Our goal is to create **shareholder value**.

To achieve this we aim to:

→ Lead in safety and navigation systems for the private leisure boat market

→ Grow revenue while improving margins

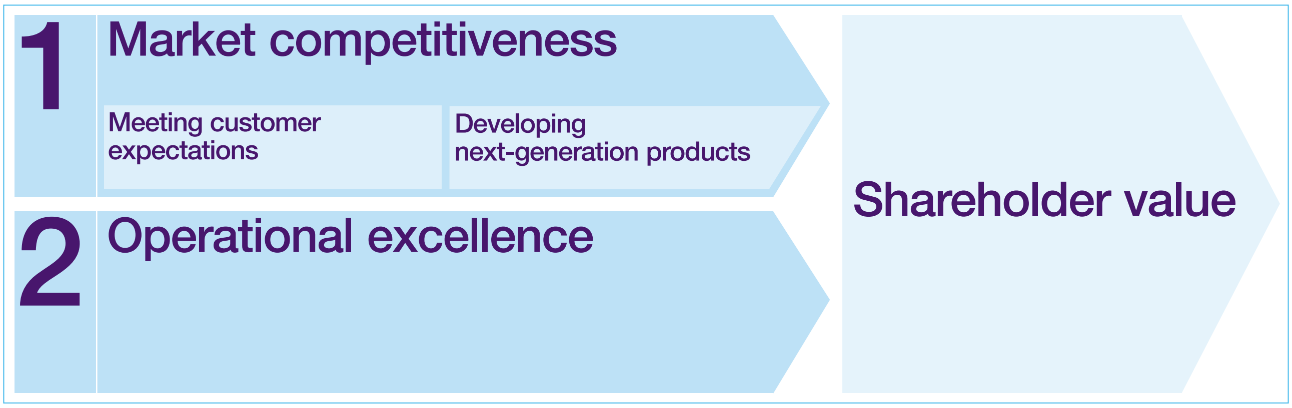
We have two strategic priorities at group level:

1 Increase **market competitiveness** by:

→ **Meeting customer expectations** through the price, quality, delivery and responsiveness of our products and service

→ **Developing next-generation products** for our existing markets and leveraging our design and manufacturing technology into new growth markets

2 Deliver **operational excellence** that increases quality while reducing costs



Measuring strategic progress

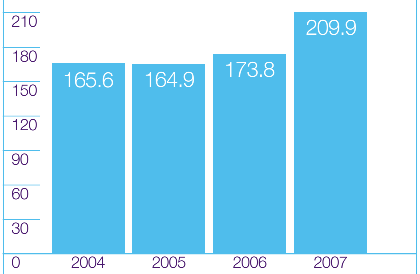
The 'output' measures shown opposite reflect overall progress towards our strategic priorities. Success in implementing these strategic priorities requires management of a number of activities. To assess the progress in these activities, management uses a broader set of key performance indicators (KPIs), which are often lead indicators of future financial performance. A summary of these KPIs is shown on pages 22 to 23.

How are we doing?

	2004	2005	2006	**2007**
Creating shareholder value				
Revenue (£m)	165.6	164.9	173.8	**209.9**
Profit for the year (£m)	16.5	16.1	15.6	**18.4**
Earnings per share (pence/share)	223	218	210	**231**
Dividend per share (pence/share)	55	55	65	**75**
Free cash flow (£m)	16.4	14.9	14.3	**14.6**
Cash added value (£m)	10.8	11.5	11.0	**13.4**
Market competitiveness				
Market share – AWB	22.6%	22.2%	22.3%	**22.0%**
Market share – GPS	–	–	3%	**6%**
Operational excellence				
Operating margin	15%	14%	13%	**13%**

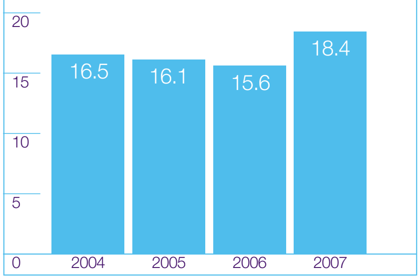
Revenue (£m)

£209.9m



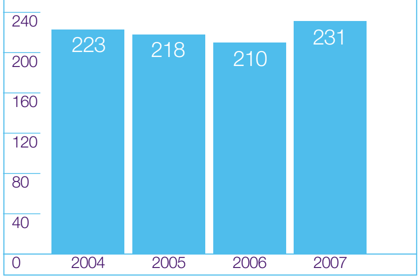
Profit for the year (£m)

£18.4m



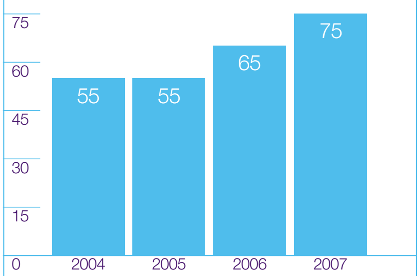
EPS (pence)

231p



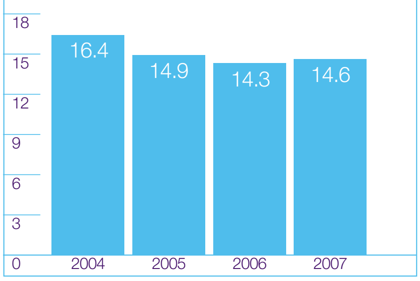
Dividends (pence)

75p



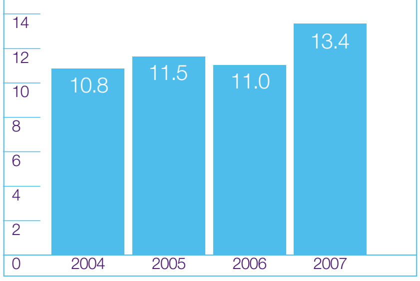
Free cash flow (£m)

£14.6m



Cash added value (£m)

£9.2m



Have we outperformed our markets?

As with many technology-based companies, our ability to create value for shareholders depends on growing unit sales and controlling costs in a declining price environment. These charts indicate the unit volume and pricing trends in our markets – and our response.

Our markets

Maritime all weather beacons

→ North American sales forecast to maintain 9% pa growth

→ European sales growth to slow to 2% pa by 2010

→ Growth in sales volume partially offset by falling prices

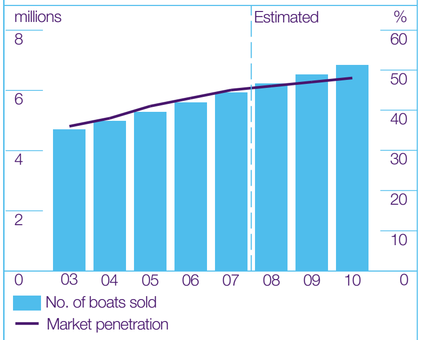
Boat positioning systems

→ European market growing fast, stimulated by falling prices

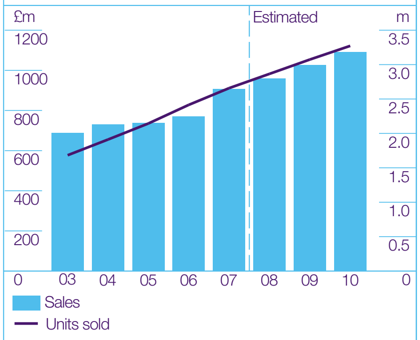
→ Growth accelerating

Our markets[1]

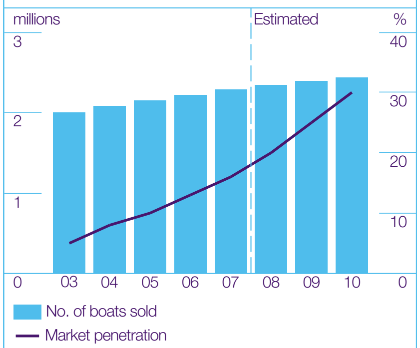
Total market penetration
Maritime all weather beacons



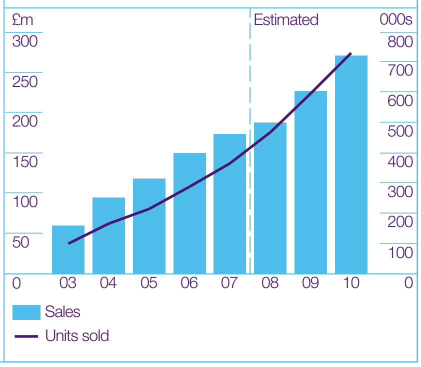
Total market sales vs units sold
Maritime all weather beacons



Total market penetration
Boat positioning systems



Total market sales vs units sold
Boat positioning systems



1 Source: The Shipping Alliance Market Review 2007

Outlook

→ Private boat sales will continue to grow, although at a declining rate

→ Increased market penetration as more new boats come with all weather beacons fitted as standard

→ North American sales forecast to maintain the 9% pa growth seen in recent years

→ Demographic trends suggest European growth in all weather beacons sales will slow to 2% pa by 2010

→ Growth in volume expected to be offset by falling prices

→ Stimulated by falling prices, the European boat positioning system market will continue growing fast

→ Expect growth (in volume) pattern to be similar to historic maritime all weather beacons trends

→ Market set to nearly double in size by 2010

→ Prices forecast to fall by 25% by 2010

Our performance

AWB

→ Outpaced European market

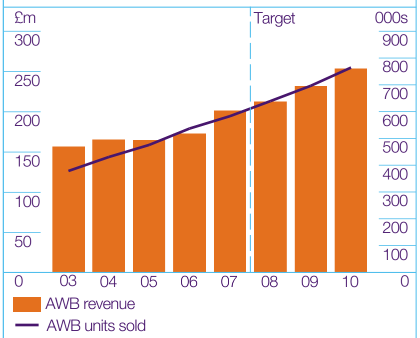
→ Grown in line with North American market

GPS

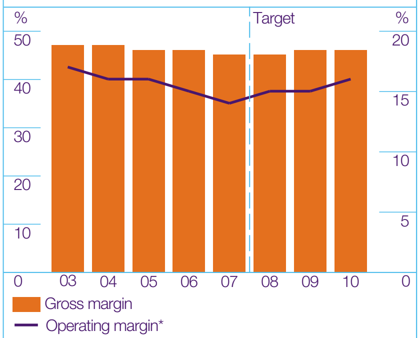
→ Building market share rapidly

Our performance

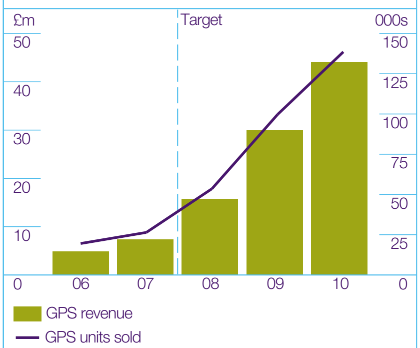
AWB units sold vs revenue



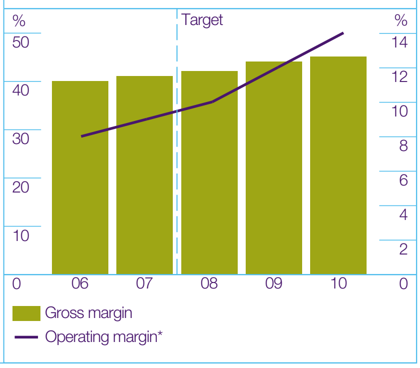
AWB margin trend



GPS units sold vs revenue



GPS margin trend



Outlook

- → Introducing new technology that improves product functionality, quality and reliability
- → By pricing competitively we aim to outpace the market growth rate in Europe and North America and increase market share
- → Targeting better margins through more efficient operations
- → By 2010 we are targeting margins of more than 13.5% in Europe and 15.5% in North America

- → Leverage our technological strength and existing customer base
- → Targeting average growth in units sold of 75% pa and market share of 18% by 2010
- → Through greater economies of scale, improvements in capacity utilisation and employee retention we are forecasting operating margins broadly in line with the AWB business in Europe by 2010

* Operating margin at an operating division level excludes head office costs

Chief Executive's statement

We had a good year in 2007, but we have the potential to do much better.

We increased revenue by 21% and pre-tax profit by 19%. We maintained the improvement in cash flow. And we increased our share of the European maritime all weather beacon market.

But it would be wrong to imply that everything in the garden is rosy. Of course, we want investors to note our strengths. But our future success will come not just from playing to our strengths, but also by addressing our weaknesses.

CEOs tend not to dwell on their companies' weak points. But I believe our most significant achievement in the past year is the action we have taken to identify and rectify vulnerabilities. This has not been about quick fixes. It has been about plotting a new course towards more rapid growth and more sustainable long-term success.

We have addressed the quality issues that have weakened our position in the huge North American market. We have invested in new technology and new product development to sustain market competitiveness, create new market opportunities and reduce our dependence on the maritime all weather beacon market. And we are driving down costs so that we can reverse falling margins while also pricing competitively. The benefits are already becoming evident in this year's trading.

'Our most significant achievement in the past year is the action we have taken to identify and rectify vulnerablilities.'

Financial results

In 2007 we increased revenue by 21% to £209.9m. This reflected particularly good growth in our core all weather beacon markets, exchange rate movements and a full year's contribution from Tracker Navigation, which we acquired in October 2006. This business, now our GPS division, has fully met our expectations: its 2007 revenue was up 35% compared with the previous 12 months, albeit from a relatively small base.

Our North American revenue benefited from exceptional exchange rate fluctuations: the 11% increase in the average sterling to US dollar rate increased our reported sales by £15.0m.

Pre-tax profit grew 19% to £26.0m. This was a respectable performance in a technology-based market where falling prices put relentless pressure on margins.

'This was a respectable performance in a technology-based market where falling prices put relentless pressure on margins.'

Operating margins have continued to tighten. At the same time we have been investing heavily for the future. Our spending on R&D more than tripled to £4.9m last year, and will rise further: we aim to invest 10% of revenue on R&D by 2010. As our revenue grew, working capital rose by £1.7m, excluding exchange-related movements. In addition, we invested £0.8m more than in 2006 in upgrading production facilities to increase capacity, quality and efficiency (from £5.7m to £6.5m). Despite this, through strong revenue growth, we achieved a 22% increase in cash added value, our preferred measure of value creation, to £13.4m. Our economic return increased from 19% in 2006 to 23% – comfortably above our estimated weighted average cost of capital (9.8%) and well above our historic levels.
For more details on value creation, see page 40.

Dividend

Implementation of our strategy is progressing as planned, and delivering the results we promised. We are therefore recommending a dividend of 75 pence/share, payable to ordinary shareholders, an increase of 15%.

Chief Executive's statement continued

Strategy

Our strategy aims to create shareholder value by increasing **market competitiveness,** by meeting customer expectations and developing next-generation products, and delivering **operational excellence** – For details, see page 04.

I am delighted by the progress we have made on all fronts in the past year – particularly by our work to identify and remove impediments to further success through our Fast Forward programme. Launched in 2007, this is designed to support both elements of our strategy by delivering improvements in quality and delivery while reducing operating costs. For details, see page 20.

It is clear that we have not been meeting customer expectations consistently on quality – particularly in North America, where this has cost us our coveted market leadership. We have been taking rigorous action on quality under our Fast Forward programme. As a result, our AWB division is already ahead of industry quality norms in Europe and in line with the average in North America. Our goal is to move rapidly to clear industry leadership. For details, see page 27.

Customers' expectations are a moving target: to stay competitive we must keep developing next-generation products that offer ever better performance and value. In recent years we have focused too much on improving our existing lines. We have begun to increase the percentage of revenue arising from new products, but it remains far too low. In 2007 we enhanced our new product development process: by 2012, our target is to generate 20% of revenue from new products less than two years old – compared with 8% in 2007.

'To stay competitive we must keep developing next-generation products.'

The acquisition of Innovsea has given us exciting new technology to exploit. As a result, we are developing new all weather beacon models that will make us more price competitive and have the potential to take us into new markets – including jet skis and skidoos, mountain biking, climbing and hiking. For details, see page 29.

This could further advance the diversification of the business, which is already making good progress through the rapid growth of our GPS division. For details, see page 34. It makes sense for us to broaden into new markets where our technology and skills are relevant – not only to spread risk, but also because our ambition is ultimately to grow the group at a faster pace than the growth rate of the maritime all weather beacon market will allow.

New technology will help us to keep offering more performance for less cost – a competitive necessity in markets where prices are always trending downwards. But how will we protect our margins? Here, too, we must own up to not working hard enough.

Our margins have slipped for five years in a row. We do not have to accept this as a fact of life: our Fast Forward programme has identified ample opportunity for reducing production costs. We are targeting a steady increase in margins from 2008 onwards. For details, see page 07.

Acquisitions

We acquired Innovsea in July 2007 for £4m and have integrated it into our AWB division. It was a small business, employing just 40 people, but it has developed technology that will be invaluable for miniaturising our next generations of all weather beacon and, potentially, positioning system products. This technology is protected by several patents that should secure us significant competitive advantage.

People

The skills, knowledge and dedication of our staff are important to us. We are grateful to them for what they have achieved this year, and determined to earn their loyalty. This is not philanthropy. We have identified our current levels of staff turnover as an unnecessary waste of expertise and money: a single percentage point improvement in staff retention would bring a 0.75% increase in operating margin. We urgently need to increase staff commitment and loyalty, so to support Fast Forward we have introduced the ORTS employee incentive scheme. For details, see page 20.

Corporate reporting

This year's annual report looks very different from its predecessors. It reflects our desire to achieve the highest standards of governance and openness with investors. We believe the International Accounting Standards Board's Management Commentary Discussion Paper points the way forward in corporate reporting and we have used it as our guide. We hope this will help investors to assess our strategy and performance.

Outlook

We spent 2007 bolstering our strong points and addressing the weaker ones. As a result, Generico is now a considerably more robust business. Our markets continue to grow; and, although they remain extremely competitive, we have honed our competitive edge.

We are not content to be No. 2 in our key markets: market leadership in maritime all weather beacons offers significant marketing and credibility benefits that we can use to support other business streams, particularly our GPS business. We are just one percentage point behind the all weather beacons leader in Europe, and two points behind in North America. In both markets, leadership is within our grasp if we stay focused on our strategic objectives. In the newer positioning systems market we are very much a challenger brand, but with rapidly growing sales and market share.

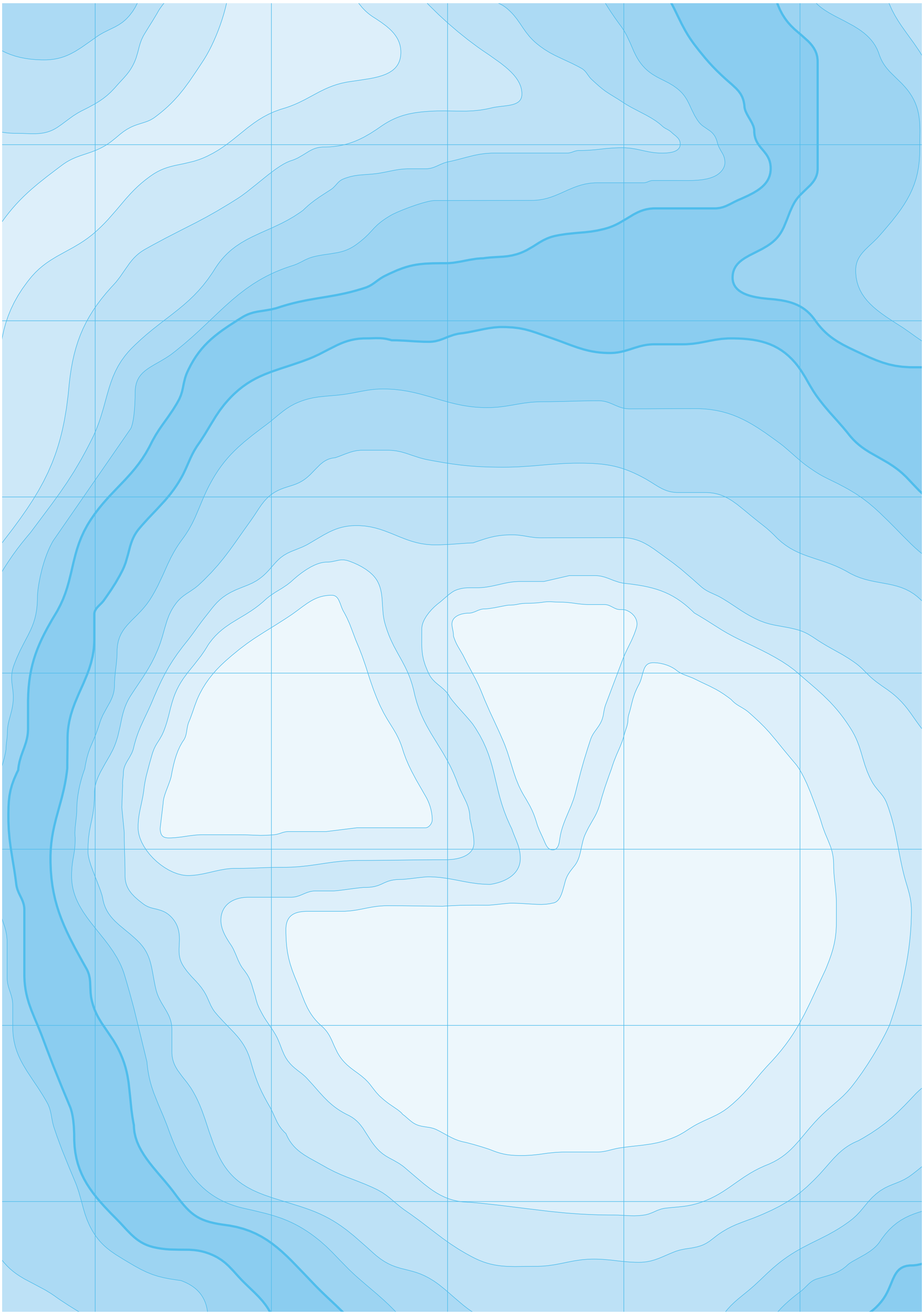
In the past year we have firmly established our new strategy, GPS division, product development process, Fast Forward programme and employee incentive scheme. The benefits will be increasingly apparent from 2008 onwards, in both revenue growth and profitability.

'Our markets continue to grow; and, although they remain extremely competitive, we have honed our competitive edge.'

'In both markets, leadership is within our grasp if we stay focused on our strategic objectives.'

Gene Rico

Gene Rico
Chief Executive



Our markets

We operate in markets that offer excellent growth opportunities for innovative, efficient businesses.

In this section we address the following questions:

→ What are our markets?

→ Why are they attractive to us?

→ What are the challenges – particularly in growing margins when prices are falling?

→ What do we need to succeed?

Key points:

→ Leisure boat sales are growing

→ More new boats have weather beacons and positioning systems

→ Cheaper technology means prices are falling

→ Strong growth in sales volume but pressure on margins

Our markets

What are our markets?

We operate in North America and Europe, with some 63% of our revenue and 67% of profits coming from North America.

Maritime all weather beacons

Maritime all weather beacons enable rescue services to locate boats rapidly and accurately in all weather conditions. They are vital safety equipment for all types of leisure craft, both powered and sail. We sell them to leisure boat builders, who include them in their specifications to meet growing consumer demand and to demonstrate their commitment to boaters' safety.

We are committed to offering products with the highest levels of fault tolerance and accuracy. Because of this we currently sell only to original equipment manufacturers (OEMs) rather than targeting the retrofit market. As OEMs design their new boat lines with a specific beacon in mind, this strategy gives us a degree of visibility in demand.

New technology is making it possible to design devices suitable for retrofitting that will meet our exacting performance standards. We are currently developing a device for the retrofit market – estimated to be about twice the size of the OEM market but with lower margins – for launch in 2010.

Demand is growing faster in North America than in Europe, where demographic trends are less favourable. As a result, we expect North America's share of our AWB division's revenue to reach 67% over the next three years.

'Demand is growing faster in North America than in Europe, where demographic trends are less favourable.'

Boat positioning systems

Boat positioning system devices operate in a similar way to those made for cars, enabling boaters to identify their location and navigate accurately to their chosen destination. In October 2006, we completed our acquisition of Tracker Navigation, a leading manufacturer of an innovative positioning system device designed specifically for leisure boats. This formed the kernel of our growing GPS division, which currently serves the OEM segment of the European leisure boat market.

Until relatively recently, the cost of positioning system devices discouraged manufacturers from including them in the specifications of all but the most luxurious leisure boats. In 2004, Tracker Navigation changed the rules of the game by launching the first positioning system device to break the £500 price barrier. This has transformed OEMs' interest in building positioning system devices into their designs.

Our GPS division maintains a leading position in accessibly priced positioning system technology, a growing proportion of the overall boat positioning system market.

'Our GPS division maintains a leading position in accessibly priced positioning system technology, a growing proportion of the overall positioning system market.'

For more information, go to: **www.generico.co.uk/ourmarkets**

Why are these markets attractive?

There are two key reasons why we believe these markets offer us attractive long-term opportunities:

i. The growth in leisure boat sales

ii. More new boats have all weather beacons and positioning systems fitted as standard

i. Growth in leisure boat sales

We anticipate modest but steady growth in new boat sales in Europe, and high single digit growth in North America. Two macroeconomic trends underpin this growth:

→ **Growing personal disposable income**

The relationship between disposable income and new boat sales is shown in the charts (right). A rise in the pace of growth in disposable income acts as a significant lead indicator of future demand for new boats.

In Europe the mature economies – the prime boat-buying markets – remain sluggish with low single-digit growth in both disposable income and boat sales. Growth in Central and Eastern European economies is increasing, but we do not expect this to be significant in the short term.

In North America, disposable income has been growing at mid to high single-digit rates in recent years. Although growth in boat sales is unlikely to continue at the 7% level seen in 2007, we do not expect it to fall below 6.5% in the next three years.

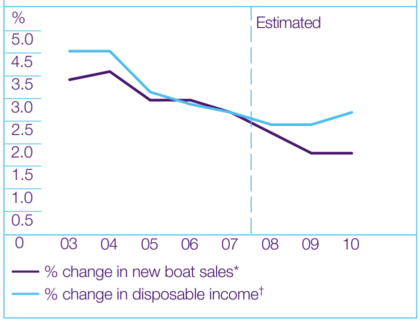
→ **Demographic change**

The prime boat-buying years are between the ages of 50 and 65. Demographic trends of our two major markets indicate the potential customer base in these peak boating years.

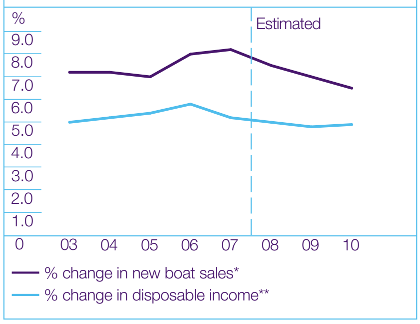
In Europe, the ‘baby boomers’ are already midway through the prime boat-buying years. The number of people in this age group is likely to begin declining over the next few years.

North America has a more youthful population, with a very attractive demographic profile: over the coming years a growing portion of its citizens will enter the prime boat-buying age group.

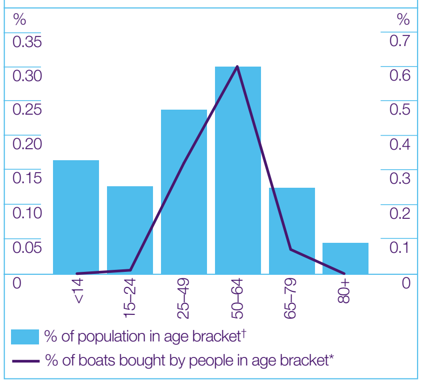
Disposable income vs new boat sales (Europe)



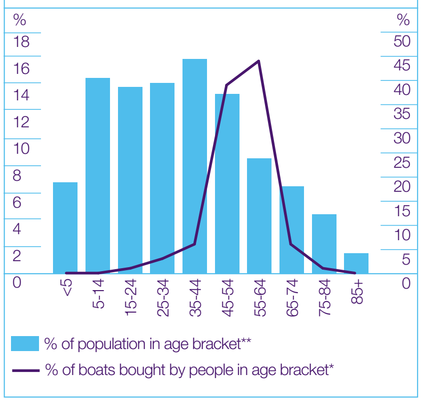
Disposable income vs new boat sales (North America)



Demographic profile of boat buyers (Europe)



Demographic profile of boat buyers (North America)



* Source: The Shipping Alliance Market Review 2007
† Source: EuroStat Yearbook 2007
** Source: US Department of National Statistics 2004

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Our markets continued

ii. More new boats have these types of products fitted as standard

The proportion of new leisure boats fitted with all weather beacons and positioning systems has been growing steadily. We expect that growth to continue, albeit more slowly in Europe.

All weather beacons Several factors are increasing the proportion of new leisure boats fitted with all weather beacons as standard:
→ An increasing safety culture
→ A more litigious environment, particularly in the US
→ Significant reductions (>20%) in insurance premiums for boats with all weather beacons
→ Charter companies insisting on fitted all weather beacons.

Positioning systems In the automotive market, the falling price of boat positioning system units has brought rapid growth in sales. We expect the leisure boat positioning systems market to follow a similar trend. New players, including our GPS division, have been applying the advanced technology available in the auto industry to develop reliable positioning systems devices costing under £500. In Europe, we expect the proportion of new boats fitted with positioning systems to double from 15% in 2007 to 30% in 2010. This implies annual volume growth of over 20% for the next three years.

'In the automotive market, the falling price of boat positioning system units has brought rapid growth in sales.'

Challenges and success factors

Can profitable pricing be sustained?

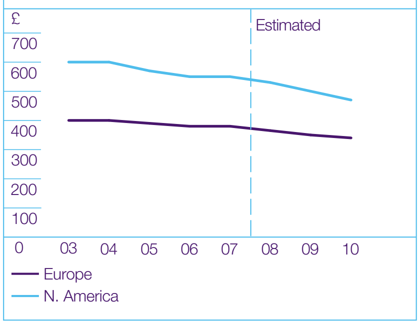
As in most technology-based markets, all weather beacon and positioning system prices tend to fall over time. While added functionality can offset some of these pressures, the challenge for us is to predict price declines and adjust our cost base accordingly.

All weather beacons In Europe, prices have remained relatively stable, declining by just 5% in the past five years. While added product functionality may account for part of this stability, the competitive pressures in Europe have not been as great as in other markets. In late 2006 the supply of weather beacons tightened when one of Europe's top five manufacturer's, Balise Group, went bankrupt. This helped to lessen pricing pressures in the short term. However we believe price competition will return to this market and forecast a decline of 10% over the next three years.

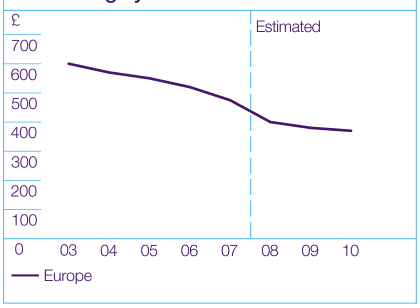
In North America, stronger competition drove an 8% price decline between 2004 and 2007. Prices are forecast to decline by a further 15% over the next three years. For details of our pricing strategy see page 28.

Positioning systems The introduction of new, mass market positioning systems devices has transformed the market's pricing structure. We expect further price falls totalling nearly 20% over the next three years, and are structuring our cost base accordingly. Having pioneered the drive towards accessibly-priced systems, we are confident that we will continue to compete successfully in this environment.

Relative price benchmark*
All weather beacons



Relative price benchmark*
Positioning systems



* Source: The Shipping Alliance Market Review 2007

How will we increase revenue?

We continue to invest significantly in our dedicated AWB and GPS sales teams. Their knowledge of their own products combined with our 24/7 customer service and strong technical support leads us to believe the quality of our sales team is unparalleled.

The formation of our GPS division has created opportunities for both divisions to cross-sell to each other's customers. We are now training both sales teams in each others' product ranges to provide maximum value for customers and exploit opportunities for cross-selling.

By leveraging the GPS division's existing and future relationships we aim to increase our AWB division's opportunities to tender for new product lines – initially in Europe and eventually in North America once we have received regulatory approval for our positioning system products there. Similarly, in Europe our GPS division has gained access to our AWB division's extensive sales contacts. The tables (right) indicate the scale of opportunities for cross-selling.

Do we have the right resources and relationships?

To perform successfully in our markets, we must successfully manage all the critical resources and relationships set out in the table below. In 2007 we took action to improve performance in all of them.

Top 10 boat manufacturers (Europe)

	% market share	AWB division client	GPS division client
Pugwash Pros	15	3	3
Patjan Leisure	10		
Regal Yachts	8		3
ANE Boats	7	3	
King Boats	5	3	
London Lasers	5		
Boat Makers	4	3	
Swift Sails	3	3	
Graily UK Ltd	3		
Other	40		

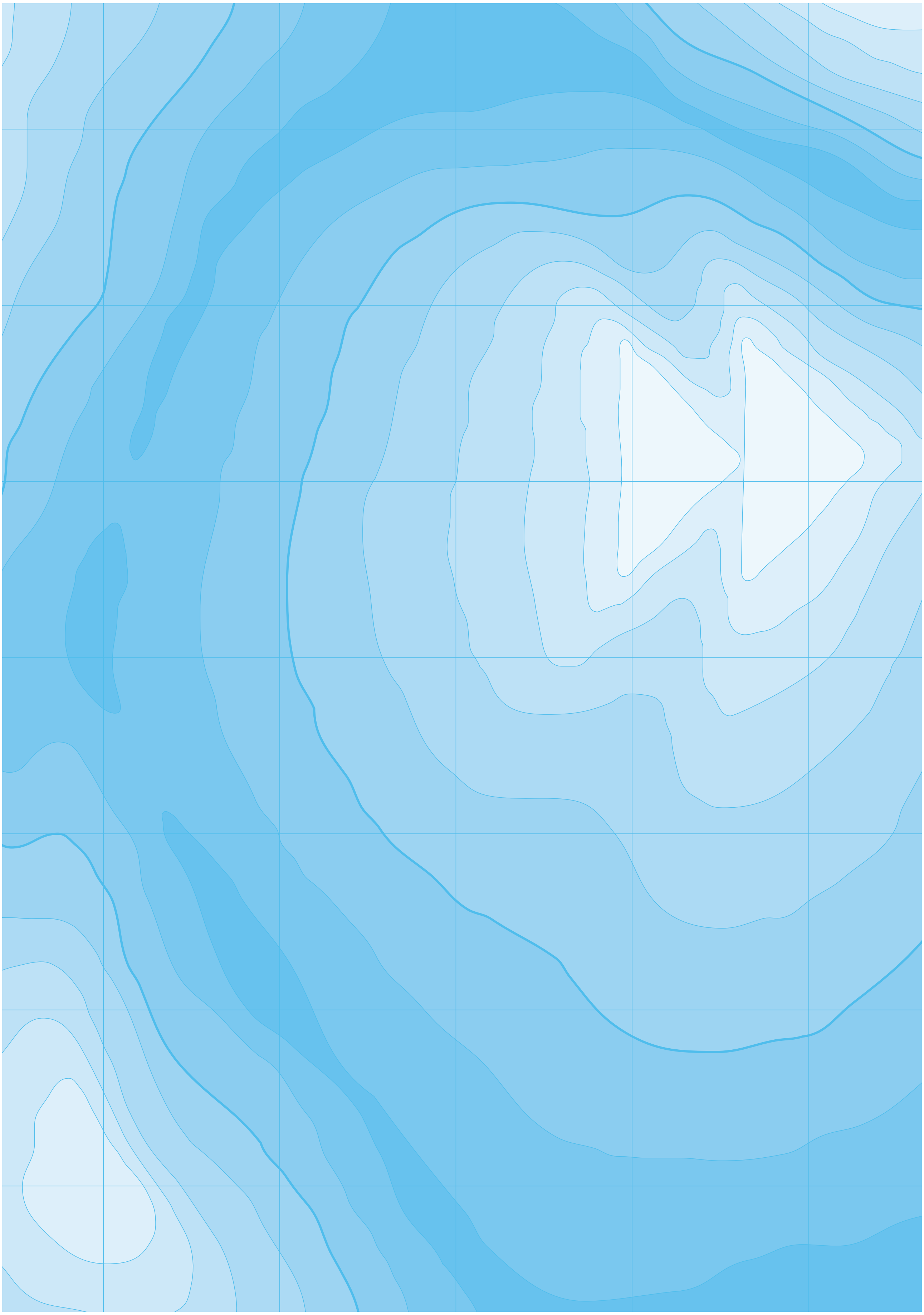
Source: The Shipping Alliance Market Review 2007

Top 10 boat manufacturers (North America)

	% market share	AWB division client
MOAT Inc	10	3
Pugwash Pros	8	3
GL Leisure	8	
Cape Cod Cruisers	7	
California Sails	7	
ANE Boats	5	3
Patjan Leisure	4	
Boat Makers	3	3
Swift Sails	2	3
Other	46	

Source: The Shipping Alliance Market Review 2007

Resource/relationship	Requirement	Action in 2007
Our customers, the boat builders Their customers, leisure boat buyers	They expect innovation, quality and reliability at competitive prices	Fast Forward programme. Innovsea acquisition. Enhanced new product development programme
Our suppliers	We need quality components, reliably delivered at competitive prices	Fast Forward programme. Supplier charter has tied supplier remuneration to product quality performance
Our employees	We need to train and motivate them to produce quality products with increasing operational efficiency	Fast Forward programme. ORTS employee incentive scheme
Our R&D processes	We need to keep our product ranges innovative and competitive	Enhanced new product development programme
Our manufacturing and testing processes	We need to keep improving operational efficiency	Fast Forward programme



Our group strategy

We're confident about our prospects because we have a clear and straightforward strategy. See page 04.

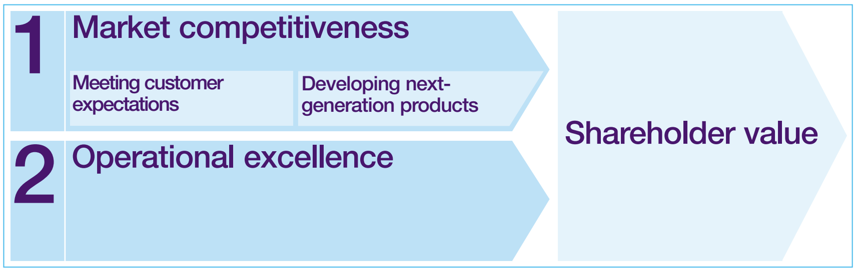
In this section we address the following questions:

- → How are we making the strategy a reality?
- → How do we measure success?
- → Are we making progress on our strategy?
- → How are we addressing the risks that might derail our strategy?

Key points:

- → Launched Fast Forward programme to transform culture
- → Incentivised our people to excel
- → Enhanced new product development
- → Defined and now monitor key performance indicators vs targets
- → Identified and addressed main risks

Our group strategy



How are we making the strategy a reality?

We've put the business on Fast Forward
In 2007 we introduced our Fast Forward programme, which is designed to transform the culture of the whole business.

It will increase our **market competitiveness** by ensuring that we meet the standards of quality and reliability that customers expect, at the prices they expect to pay.

It will deliver **operational excellence,** reducing production costs so that we can improve margins to create more shareholder value while keeping our prices competitive – even in a falling price environment.

And it will further **increase shareholder value** by reducing inventory, downtime levels, lead times and space used – so increasing our capital efficiency.

It has made a good start, achieving its first-year goals:

→ Priority action plan agreed by the board

→ ORTS incentive plan introduced group-wide (see below)

→ 15% of products and 20% of manufacturing lines covered

→ 10% of our suppliers have agreed to participate.

We're incentivising our people to excel
Fast Forward is supported by our innovative Ownership Reward Training Safety (ORTS) incentive plan. Introduced in 2007, ORTS is designed to accelerate culture change and encourage our machine operators to implement Fast Forward.

Ownership: We want to make best use of our operators' knowledge. Management and operators work in teams to improve their units' quality levels – hourly targets are reinforced through shop-floor team meetings before and after shifts.

Reward: We have an operators' bonus plan tied to the economic profit of their plant and offer cash bonuses for ideas that lead to production process improvements.

Training: We plan to train all staff, both production and support, to improve the quality and efficiency of their workflows.

'In 2007 we introduced our Fast Forward programme, which is designed to transform the culture of the whole business.'

'We plan to train all staff, both production and support, to improve the quality and efficiency of their workflows.'

Safety: Few things destroy company loyalty faster than a poor health and safety environment. So we are working hard to maintain our record of safety improvement. We monitor our health and safety performance on each line and shift, and aim to take remedial action after every incident or near miss.

We've stepped up new product development

In our market, constant improvements in technology quickly make products obsolete.

To date, most of our R&D investment has been focused on improving existing products. As a result only 8% of our revenue has come from new products introduced in the past two years.

In response to these pressures we have reinvigorated and restructured our new product development (NPD) programme. Our target is for new products to generate 20% of revenue by 2012.

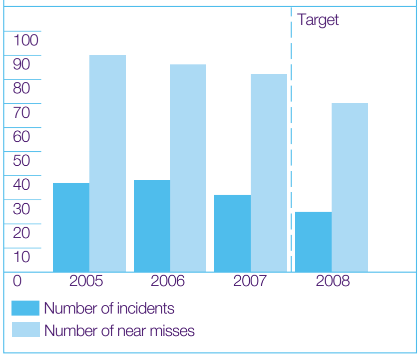
In July 2007 we acquired Innovsea, a small business with exciting patented 'micro AWB' technology. Innovsea's expertise will improve our innovation performance in the short term, although it may take three to four years to realise the full benefits. For an overview of our AWB development pipeline, see page 29.

We are committed to spending 10% of revenues on R&D by 2010 – which we believe will make us the largest R&D investor in the maritime all weather beacons industry. To ensure that we invest judiciously, we have established processes to:

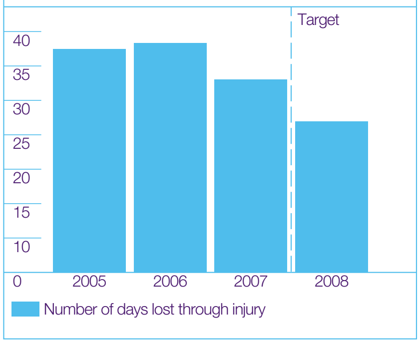
- → Back the projects that yield the highest risk-adjusted economic returns
- → Establish clearly defined milestones for each project
- → Assign a cross-function team to monitor the progress of each project

We have worked hard over the past year to embed all existing R&D activities into this disciplined NPD structure.

Number of incidents and near misses

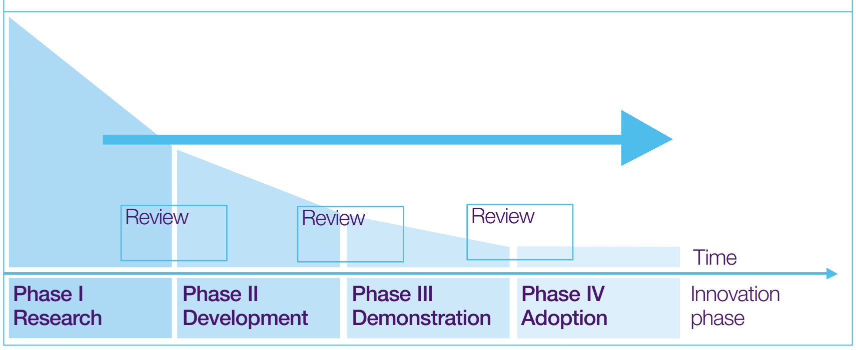


Number of days lost through injury



'We are committed to spending 10% of revenues on R&D by 2010 – which we believe will make us the largest R&D investor in the maritime all weather beacons industry.'

New product development process



For more information on our NPD programme, go to: **www.generico.co.uk/innovation**

Strategy progress statement

To implement our strategy successfully, we need to be able to measure our progress.
Responsibility for developing and implementing each of our two strategic priorities have been assigned to a specific management board director whose remuneration is linked to achieving operational objectives. The table below summarises the key performance indicators for each strategic priority, with a measure of our performance to date. We also indicate potential challenges to success and the action we are taking to overcome them.

Strategic priority	Key performance indicators – Metrics	Definition/source
1 Market competitiveness Accountable director: Robert Black See pages 26 and 34.	**Market share – AWB, GPS**	Based on our share of European and North American sales by volume, as reported by the Shipping Alliance Market Review
Meeting the expectations of our customers	**Customer retention***	The percentage of active customer accounts retained (active customer = one that has made a purchase within the preceding 12 months)
	Number of new boat lines – AWB, GPS	The number of new boat lines featuring our products
Developing next generation products	**Percentage of revenue generated from new products†**	New product = one which has been introduced within the previous two years
	Product pipeline†	The number of products in the pipeline due to be launched in the following two years
2 Operational excellence Accountable director: Sarah Collins See pages 30 and 36.	**Operating margin – AWB, GPS**	Operating margin, at the operating division level, is the ratio of operating profit to revenue expressed as a percentage excluding head office costs
	Raw material cost per unit – AWB, GPS	This represents the average material cost per unit
	Stock waste/total stock*	This metric is calculated on an hourly basis per shift as waste is collected in the refuse skips
	Employee retention*	Calculated using the formula: (# staff leaving/average headcount)*100

* Systems are not currently in place to capture this measure for GPS. We intend to report this information for GPS in 2008.
† Information is only reported at group level.

Performance

Market share – AWB (%)

05	22
06	22
07	22
08 target	22

Market share – GPS (%)**

05	2
06	3
07	6
08 target	10

Customer retention (%)

05	94
06	95
07	93
08 target	94

Number of new boat lines – AWB (%)

05	5
06	5
07	4
08 target	6

Number of new boat lines – GPS (%)**

05	2
06	3
07	8
08 target	15

Revenue from new products (%)

05	5
06	6
07	8
08 target	9

Product pipeline (number)

05	0
06	1
07	1
08 target	3

Operating margin – AWB (%)

05	16
06	15
07	14
08 target	14

Operating margin – GPS (%)**

05	3
06	6
07	9
08 target	10

Raw material cost per unit – AWB (£)

05	131
06	127
07	126
08 target	120

Raw material cost per unit – GPS (£)**

05	250
06	220
07	200
08 target	175

Stock waste/total stock (%)

05	1.60
06	1.65
07	1.65
08 target	1.35

Employee retention (%)

05	22
06	25
07	28
08 target	25

Potential challenges/ response

→ Disappointing product performance
Fast Forward and ORTS programmes focus on quality, R&D focus on performance

→ Client dependency
enhanced marketing effort

→ Loss of skilled staff
ORTS incentive scheme and share options

→ Loss of technological advantage
Increased R&D spend

→ Imitation products
Patent protection

See page 28.

→ Loss of skilled operators
ORTS incentive scheme

→ Dependence on key suppliers
Tendering for additional suppliers

See page 32.

** We have presented trend data for GPS for three years even though we only purchased the company in October 2006.

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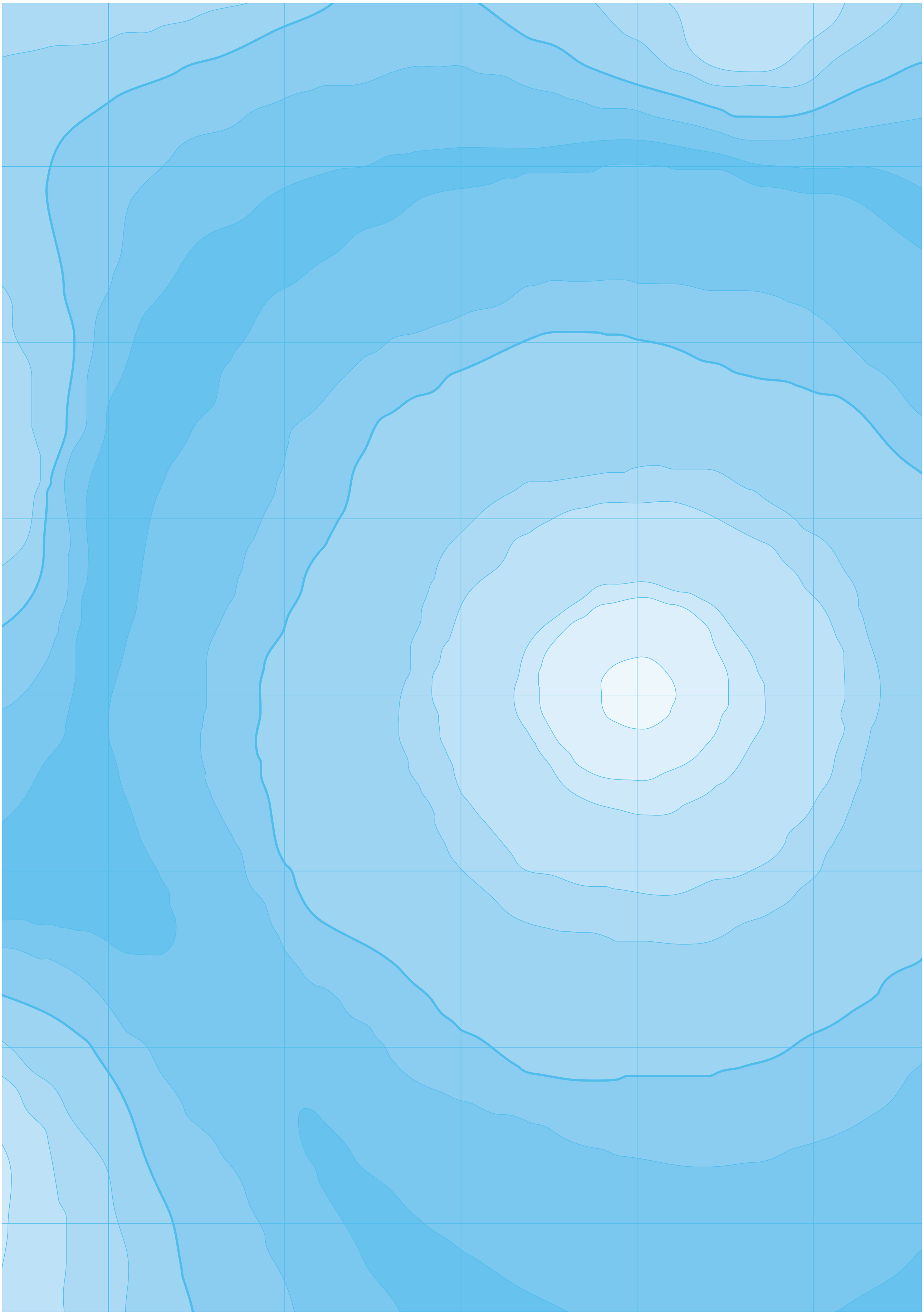


Our strategy in action

We're encouraged by our AWB division's revenue growth, but to build market share we need to improve both competitiveness and operational effectiveness.

The GPS division's share and margins are growing well, in a fast-expanding market, and we aim to keep both growing strongly.

In this section we address the following questions:

→ What are we doing to deliver our strategy in each division?

→ How will we increase sales volumes, keep pricing competitive, grow margins and develop the next-generation of products?

Key points

Delivering value through:

Market competitiveness

AWB – competing aggressively on price, quality and delivery

GPS – growing sales, market share, new features

Operational excellence

AWB – halting decline in margins

GPS – growing operating margins

Our strategy in action

All Weather Beacons (AWB)

We are acting to grow sales, market share and profits in both North America and Europe. The keys to success: improved quality, new products and reduced operating costs that support competitive pricing while increasing margins.

Market competitiveness

Market share – a mixed picture

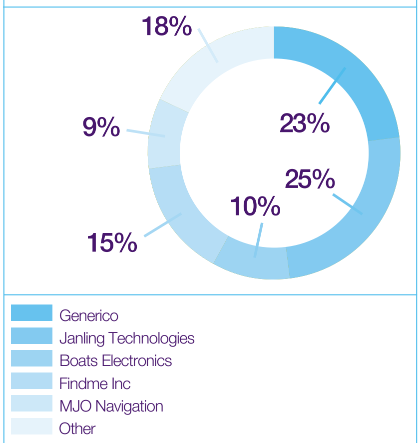
In North America, our market share has declined from 25% in 2005 to 23% in 2007. This was due largely to the loss of preferred supplier status with one of our major customers, as a result of concerns about product quality. We are making good progress in addressing these concerns through our Fast Forward programme.

In Europe, we have increased our market share from 18% in 2005 to 20% in 2007. This reflects both sales into new boat lines and our success in bidding for contracts from former customers of Balise Group, which ceased trading in 2006.

How we plan to improve our market competitiveness

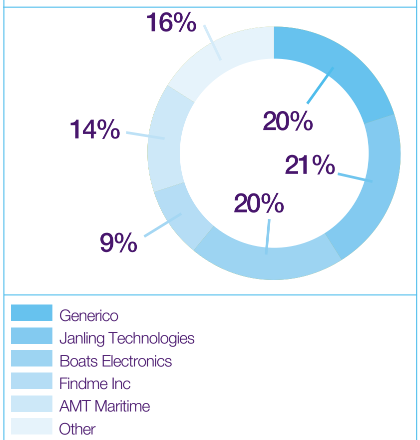
We aim to be boat builders' supplier of choice by **meeting customer expectations** of our current products and services, and **developing next-generation products**.

Market share of top five competitors (North America) 2007



Source: The Shipping Alliance Market Review 2007

Market share of top five competitors (Europe) 2007



Source: The Shipping Alliance Market Review 2007

Meeting customer expectations

We use our customer retention rate and the number of new boat lines launched with our products fitted as standard to measure our success in meeting customer expectations.

As our strategy progress statement on pages 22 and 23 illustrates, on both measures we are doing well in Europe but need to do better in North America.

Despite continued investment in customer service we are falling short of our target in North America, on both measures. Clearly, it is not enough to have a responsive, informative sales team. We are working to improve our performance on other critical factors that influence purchasing decisions: **quality, on-time delivery and pricing**. These are the top three factors identified in the most recent of our annual customer surveys. We have set improvement targets for all three in our Fast Forward programme. We are also working harder to communicate the improvement to customers.

Quality

Improved quality not only raises customer perceptions of our products but also reduces the costs arising from product defects during the two-year warranty period. We measure production quality in terms of parts per million defect rate (PPM): for example, one defective product per 100 delivered equates to a PPM of 10,000 (1% of 1 million).

We measure the defect rate at two points: defects identified on delivery to customers, and 'in-situ' defects arising under warranty.

As the charts show, in Europe delivery defect rates are below the industry average and we are targeting even better performance under the Fast Forward programme. In North America, where average PPMs are higher than in Europe, we are improving our performance; but in 2007 we had only just achieved the industry average for delivery defects. Under Fast Forward we aim to outperform the broader industry and achieve levels comparable to those we are achieving in Europe.

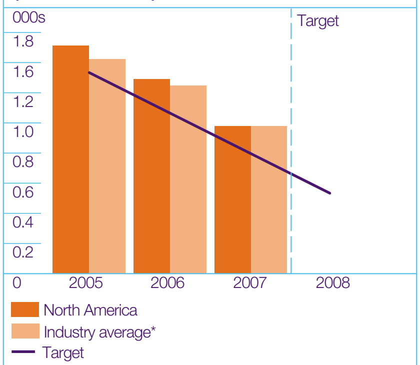
Over the longer term we aim to match the auto industry, where manufactured products are now achieving PPMs of less than 50 PPM (0.0005%). We have set interim targets towards this goal.

Top five influences on boat builders' purchasing decisions
(assuming suitable specification/performance)

Factor	Cited by (%)
Quality/reliability	96
On-time delivery	80
Competitive price	74
Functionality	63
Innovative design	55

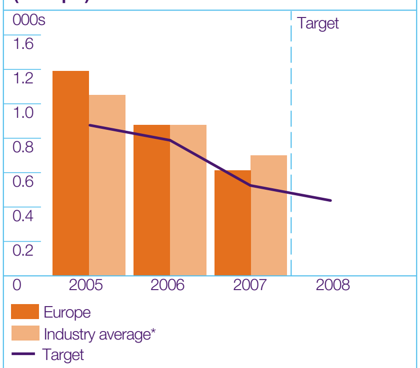
Source: Generico customer survey 2007

Parts per million defect rate (North America)



*Source: The Shipping Alliance Market Review 2007

Parts per million defect rate (Europe)



* Source: The Shipping Alliance Market Review 2007

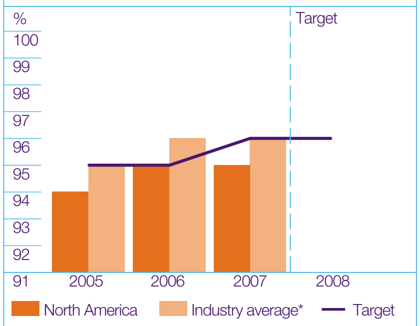
Our strategy in action
AWB continued

Delivery
Our customers want delivery on time in full (OTDIF): a 100% OTDIF rating means delivering the correct volumes of the ordered products to the correct site within a specified two-hour window. In Europe our on-time deliveries are well above the industry average, though still behind our ambitious targets. In North America our distribution channel is lagging both industry norms and our targets, as a result of difficulties with implementation of our ON TIME software system. We expect these to be resolved this year.

Pricing
Customers benchmark our prices against industry averages. In Europe, our strategy is to offer superior products at average prices. Our prices have closely tracked the falling average over the past five years and we aim to continue this trend in the future.

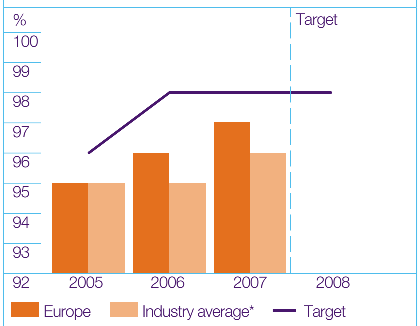
In North America we have recently changed our pricing strategy. In the past we have been able to charge above-average prices for superior products. But increased competition in the marketplace has made this strategy unsustainable, particularly given our recent quality and reliability issues. We now aim to match market pricing levels.

AWB On time deliveries (North America)



* Source: The Shipping Alliance Market Review 2007

AWB On time deliveries (Europe)



* Source: The Shipping Alliance Market Review 2007

Facing up to our challenges

Risk	Impact	Actions	Performance
Product performance Products fail to gain appropriate safety certification, or malfunction in an emergency situation.	Damage to reputation and sales.	New product development process includes controls to ensure compliance. Fast Forward focuses on defect reduction and ORTS incentives reward reduction in defects.	In-situ failure rate has been falling since 2006. In Europe AWB it was below the industry average in 2007, while in North America it was slightly above.
Client dependency Over-reliance on too few customers.	Limits our pricing flexibility, strengthens their negotiation capability and increases our exposure to their success/failure.	Investment in client relationship management. Active targeting of new customers. Target maximum of 15% of total revenue from any one client by 2012.	In 2007 one customer accounted for 20% of AWB revenue – no others exceeded the 15% target.
Loss of skilled staff The pool of highly skilled people from which we might recruit continues to fall as the number of engineering graduates declines.	We are particularly exposed to the risk of losing key intellectual capital.	Long-term share options. University sponsorship.	Share option scheme under ORTS incentive plan now matches industry average. We are currently sponsoring student research programmes at four universities.
Loss of technological advantage Technology in competitors' products becomes superior to ours.	Loss of competitiveness, products become obsolete.	Implementation of new product development programme. Increased R&D spend, and appointment of R&D project management specialist to improve returns.	30% increase in number of basic prototypes in 12 months. R&D project manager has made savings of £140,000 in the R&D pipeline.
Imitation products Unauthorised parties may misappropriate our intellectual property or proprietary information.	Loss of competitiveness.	Patents.	Patent control activities increased in 2007, two litigation cases pending.

Developing next-generation products

The table shows the current position for the four products in our development pipeline.

Maintaining leadership

Phases				Market potential	Milestones	Launch date	Comments
I	II	III	IV				
		SpotME III		Will supersede the SpotME II.	Finish beta testing in September 2009.	January 2010	The SpotME III offers even greater accuracy (within $50m^2$ vs today's $500m^2$) – particularly important for night rescue operations. We do not expect competitors to match this for at least two years. Superior accuracy will allow us to maintain or improve our margins.

New markets for beacons

Phases				Market potential	Milestones	Launch date	Comments
I	II	III	IV				
	X4			Standalone beacon for existing second hand private leisure boat market. We aim to meet a £400 price point and estimate that a 5% penetration of the existing fleet suggests a market potential of £90m.	Plan to start beta testing in January 2009.	July 2011	Second hand sales represent two-thirds of the total private leisure boat market. Existing retrofit all weather beacons available to this market have suffered from relatively high cost and low overall accuracy. But the X4, applying Innovsea's proven micro technology, is designed to offer accuracy of $250m^2$ vs today's $1,000m^2$. Design work is focused on reducing production costs so that we can combine an attractive selling price with margins comparable to our existing models. This is a new market for us, but we believe we are well positioned to succeed.

New market opportunities

Phases				Market potential	Milestones	Launch date	Comments
I	II	III	IV				
		K2		New markets for existing technology such as skidoo and jet ski markets. Production of skidoos worldwide is 70,000pa: jetski market is estimated at about 120,000pa.	Finish beta testing in July 2009.	January 2010	By applying our beacon technology and reducing the size of the product, the K2 will bring all weather beacon security to new markets such as skidoos and jet skis. These are growing markets where there is potential for higher margins, as competition is expected to be very low. Early consultations with manufacturers suggest that the K2 might become a standard feature on products in these markets.
SpotME Nano				A combined wristwatch/ beacon based on our new Innovsea micro technology, this has enormous potential in many outdoor leisure markets.	Enter Phase II in March 2010.	tbc	We have applied for patent protection and have already attracted interest from one of the world's leading watch manufacturers.

Our strategy in action
AWB continued

Operational excellence

We are encouraged by our prospects and progress in our maritime all weather beacon markets. But we will only achieve superior shareholder returns if we manage our operations effectively. Our primary measure of performance in this area is the division's operating margin.

In 2004, this stood at 15% in Europe and 17% in North America. The difference reflected higher levels of wastage and employee turnover in Europe compared to North America. Since then we have continued to drive out costs in both regions, but not enough to fully offset the decline in prices.

As a result, our 2007 operating margin was 13% in Europe and 15% in North America. This is unacceptably below both our historical average and our 2007 targets. The primary goal of our Fast Forward programme is to improve margins, and we are targeting margins in excess of 13.5% in Europe and 15.5% in North America by 2010.

Delivering operational excellence

We have identified three focus areas for the AWB division: raw material costs, wastage and employee retention.

Raw material costs

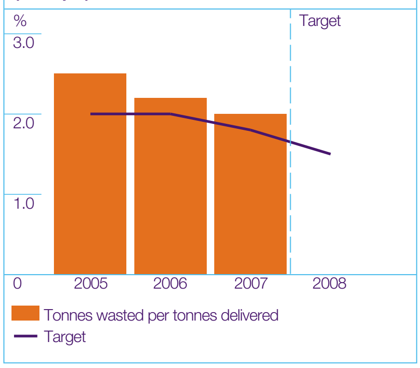
In both North America and Europe, the reductions we have achieved in raw material costs have not fully offset the declines in prices. We believe we can reduce these costs more aggressively through better product design and changes to materials handling and procurement.

Wastage

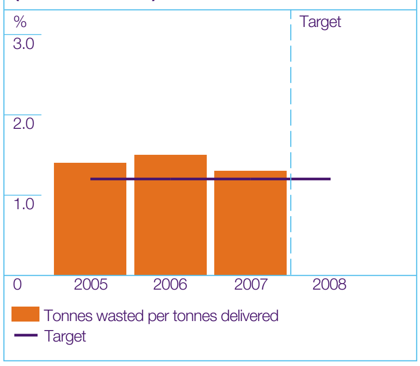
The amount of material wasted in our European operations far exceeds North American levels. The Fast Forward programme has found that this offers scope for significant 'quick wins'.

The Fast Forward and ORTS incentive programmes will drive substantial change in working practices. We are highlighting to our teams that waste means throwing profit into the skip. In our European plant, for example, a reduction in waste from 2% to the targeted 1.5% would save £400,000 a year.

Material wastage (Europe)



Material wastage (North America)



Employee retention

In 2007, employee turnover reached 35% in Europe and 22% in North America.

The cost of this turnover is high. We invest an average of £35,000 in recruiting each employee and giving them their operational or functional training. In addition, it takes six months for a new recruit to reach average levels of productivity and almost nine months for them to achieve operational excellence. That is why employee retention is a key concern for senior management: it has been a specific responsibility of our HR Director, Richard Wright, since his appointment to the management board in May 2006.

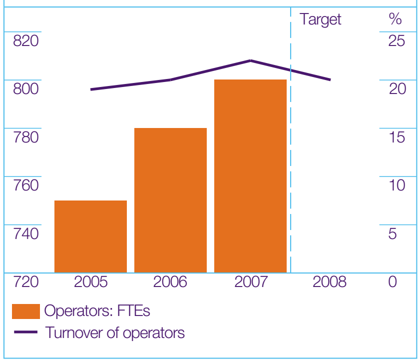
The ORTS programme (described on page 20) was launched in 2007 to support Fast Forward. By engaging and empowering our operators we believe it will also significantly reduce employee turnover – both by giving greater recognition to operators' contribution and through the deferred share options element, which is designed to increase loyalty.

In Europe, the competitive labour market combined with concerns over working hours has resulted in increased employee turnover. And the loss of experienced operators in 2006 and 2007 has resulted in a fall in the average length of service of our employees. This represents a substantial economic cost to the business. However, the success of the ORTS roll-out suggests that our targets for substantial improvement in 2008 are achievable.

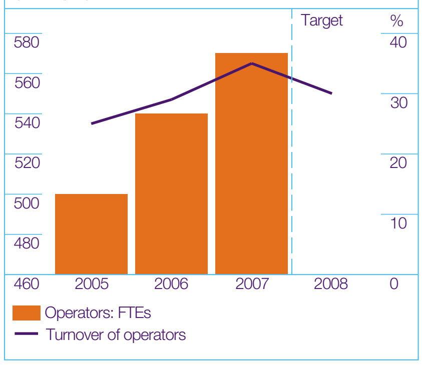
In North America, turnover rates are lower and we are confident that we can make further reductions over time. While the average length of service has declined in recent years, this is largely because we have been recruiting new operators to meet product demand. Through ORTS, we believe we will achieve a lower drop-out rate from these recruits than in previous years, and so are targeting higher average length of service for 2008. By 2012 we are targeting 15% turnover – which would cut costs by £300,000 a year.

Risks relating to employees and supply chain are detailed on the next page.

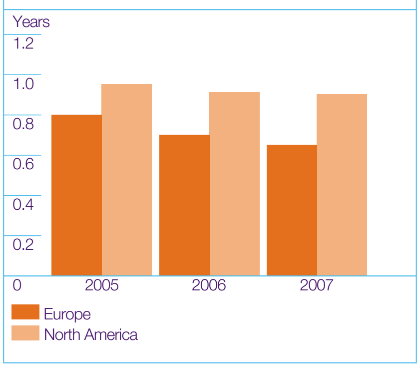
Employee turnover (North America)



Employee turnover (Europe)



Average length of service



'We invest an average of £35,000 in recruiting each employee and giving them their operational or functional training.'

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Our strategy in action
AWB continued

Facing up to our challenges

Risk	Impact	Actions	Performance
Loss of operators and technical support staff Our ability to meet customer expectations and maximise margins depends largely on our ability to attract and retain operations and technical support staff.	Reduced margins and increased defects – we estimate that a 1% fall in employee retention will result in a 0.75% fall in operating margin.	ORTS scheme launched in 2007 – see page 20 for details. Five employees a year are given the opportunity of a six-month secondment to another area of the business. Following the acquisition of Innovsea we are including our new R&D facilities in this scheme.	In North America turnover increased from 24% in 2006 to 25% in 2007. In Europe it increased from 32% to 37%. As ORTS becomes firmly established in the group, we are targeting a reduction in staff turnover.
Supply chain dependency Our weather beacon products rely on several key externally sourced components.	Reliance on any one supplier limits our flexibility to negotiate prices and delivery schedules to meet customer demands.	A strategy of having three suppliers for each critical component.	We currently have only two suppliers for each critical component – we are tendering for a third supplier for one component and aim to have three suppliers for all critical parts by the end of 2009.

Outlook

The pace of our profit growth will depend on our ability to increase unit sales, combined with our ability to sustain or increase margins despite falling prices. We are now making good progress on both fronts.

Existing contracts

Once one of our beacons has been specified for a boat line, we have a degree of security in terms of forward sales: a typical boat line has a life of three to five years. Although customers are increasingly revising or requoting contracts after the first year, our increased focus on customer service and product quality gives us confidence that we will meet or exceed the requirements of our existing contracts. Based on our current 'near booked' business levels, we believe this will enable us to gain a greater proportion of the beacon business from our existing client base.

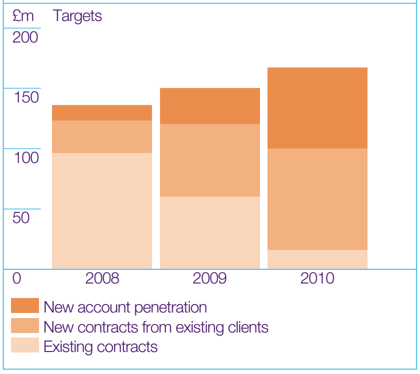
New account penetration

In both Europe and North America we currently sell beacons to only half the top 10 boat manufacturers. We see substantial opportunities to increase the number of major accounts that we serve. In 2007 we recruited four experienced boat sales people specifically to strengthen our existing relationships and potential new customers with a broader base of major boat builders.

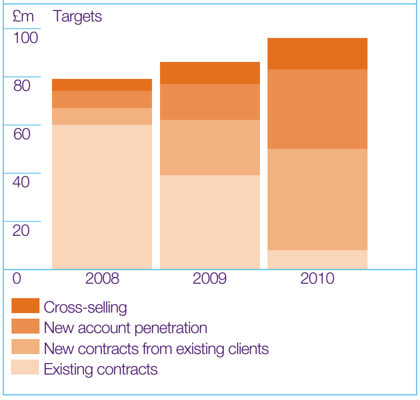
Cross-selling

We also aim to cross-sell to customers of our GPS division in Europe for whom we don't currently provide beacons. By leveraging the existing relationship GPS has with these manufacturers we aim to increase the number of new product lines for which we are given the opportunity to tender. Our aim is to win 30% of all beacon proposals we are asked to tender for from our GPS customer base. Our GPS division aims to enter the North American market once it has received regulatory approval for its positioning system products there. This will result in further cross-selling opportunities. For more details see pages 17 and 37.

Source of revenue (North America)



Source of revenue (Europe)



Our strategy in action

Global Positioning Systems (GPS)

In 2007, its first full year of operation, our GPS division contributed 4% of total revenue and 3% of total operating profit. We believe it has the potential to increase its contribution substantially over the next few years.

Market competitiveness

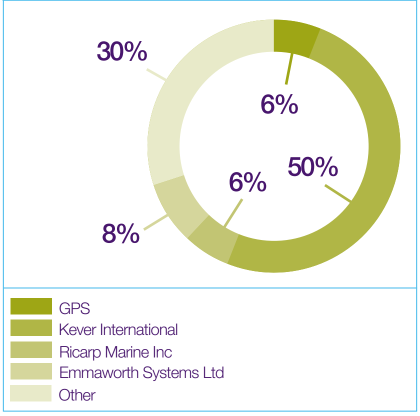
In just four years since the business was originally founded as Tracker Navigation, our GPS division has built a 6% share of the European boat positioning system market.

We believe we can grow that share to 10% in 2008. Our current products are highly competitive and we intend to maintain our price leadership by driving prices further downwards this year. No new rival products were shown or previewed at the crucial EuroBoat trade exhibition in November 2007. In addition, Kever International, the leading supplier of boat positioning system devices to boat manufacturers, has announced its intention of focusing on higher value systems for commercial and luxury craft.

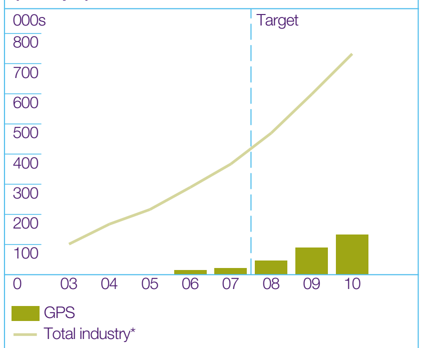
We continue to invest significantly in our GPS sales team, and are now training both our AWB and GPS sales teams in each other's product offerings to exploit opportunities for cross-selling. Both AWB and GPS sales staff are now incentivised to promote our positioning system products. We follow-up sales with 24/7 customer service and strong technical support.

In 2007 we were supplying only two of the top 10 boat builders, although these are both among the largest in Europe. One has been a customer since Tracker Navigation launched its first product in 2004; the other became a customer last year. However, the number of boat lines fitted with our positioning systems increased from three in 2006 to eight in 2007 – and both customers plan to include our positioning system devices in forthcoming new lines.

Relative market share 2007



Number of units sold (Europe)



* Source: The Shipping Alliance Market Review 2007

> 'Our current products are highly competitive and we intend to maintain our price leadership by driving prices further downwards this year.'

Meeting customer expectations

Quality

In 2007, the division outperformed its internal target of 10,000 PPMs, matching the industry norm for defects delivered. However, we intend to set the industry standard for quality and reliability. Under our Fast Forward programme we are working towards a target of 2,500 by 2012.

Our 2007 in-situ defect rate of 470 PPMs was better than industry norms. But it was behind our target in 2007, and well behind the levels being achieved in our AWB division. Fast Forward will drive further improvement this year, towards a 2012 target of 350.

Delivery

In 2007 we integrated our ON TIME system into the GPS division. We are currently testing the system for monitoring delivery performance and intend to report this information in 2008.

Pricing

Our pricing strategy is aggressive, in order to drive rapid growth in unit volume. Tracker Navigation's first product, the GPS I, rocked the boat positioning system market in 2004 with an entry price of £470 – undercutting the industry average by £100. Since then we have remained below the industry average as prices have fallen. In 2008 we aim to increase market share by launching the GPS III at just £380: a 19% price reduction in just four years.

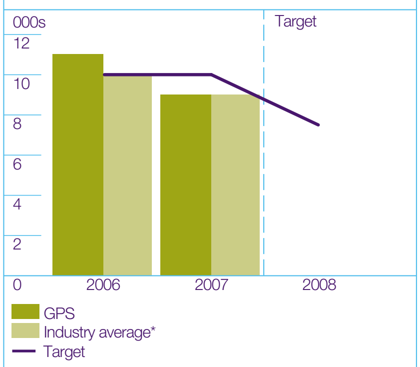
Developing next-generation products

GPS III is now in the final Phase IV (Adoption) of our development process, for launch in November 2008. Introducing our innovative AB1 low cost technology, it is designed to set a new benchmark in pricing and performance.

In Phase II (Development) is the GPSMet – a radical step forward in positioning system functionality. This combines navigation information with meteorological data in a single display, to give boaters unprecedented confidence and security. Beta testing begins this year, towards a planned January 2010 launch.

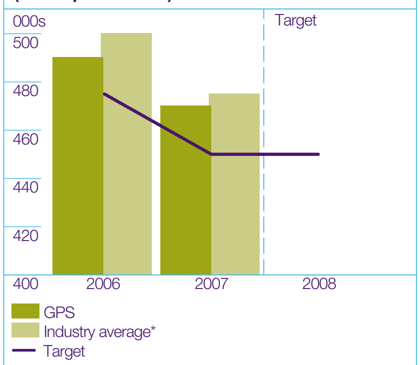
'We intend to set the industry standard for quality and reliability.'

Parts per million defect rate



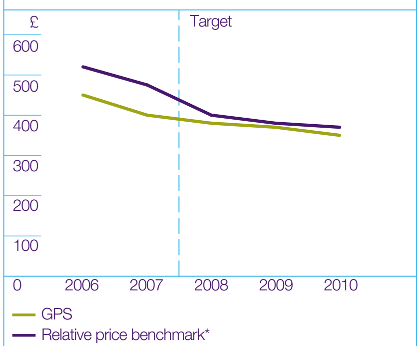
* Source: The Shipping Alliance Market Review 2007

In situ failures (Parts per million)



* Source: The Shipping Alliance Market Review 2007

Average price per unit



* Source: The Shipping Alliance Market Review 2007

Our strategy in action
GPS continued

Delivering operational excellence

Tracker Navigation broke even, ahead of expectations, in 2004. It achieved a 6% operating margin in 2006, the year it was acquired, and increased this to 9% last year. We expect Fast Forward to drive further growth in the short to medium term – bringing operating margin broadly into line with the AWB division at around 14% – mainly through improvement in capacity utilisation, employee retention and raw material purchasing.

Capacity utilisation

Our plant is currently running at 50% capacity on a single shift, with scope for increasing to two and, eventually, three shifts. We estimate that every 10 percentage point increase in capacity utilisation will increase our operating margin by 20 percentage points. If demand grows higher than expected, we will be able to use some of the AWB division's infrastructure to relieve product assembly pinch points. Initial estimates suggest that this could increase capacity by a further 15%. We will review the need for new production space during 2008.

Year	Market share target	Capacity utilisation
2008	10%	100% single shift
2009	15%	100% double shift
2010	18%	100% triple shift

Employee retention

At acquisition, Tracker Navigation had just 10 head office staff and 30 full time operators. In under two years the GPS division has doubled the number of operators to 60 in order to support our increase in production. Given the cost and time needed to train each employee, high employee retention is critical to guarantee meeting customers' delivery requirements. As part of the overall integration process we extended our ORTS incentive plan (see page 20) to the GPS division in October 2007. We will report performance in meeting our retention goals next year.

'We estimate that every 10 percentage point increase in capacity utilisation will increase our operating margin by 20 percentage points.'

Raw material purchasing

We estimate that we can reduce the GPS division's production unit costs by 15% simply by buying its raw materials through our group procurement channels. We intend to review and if necessary reassign all supply contracts within the next 12 months.

Facing up to our challenges

Please see tables on pages 28 and 32.

'In under two years the GPS division has doubled the number of operators to 60 in order to support our increase in production.'

Outlook

The boat positioning systems market looks exceptionally attractive, and our products lead the technological revolution that is driving growth in demand.

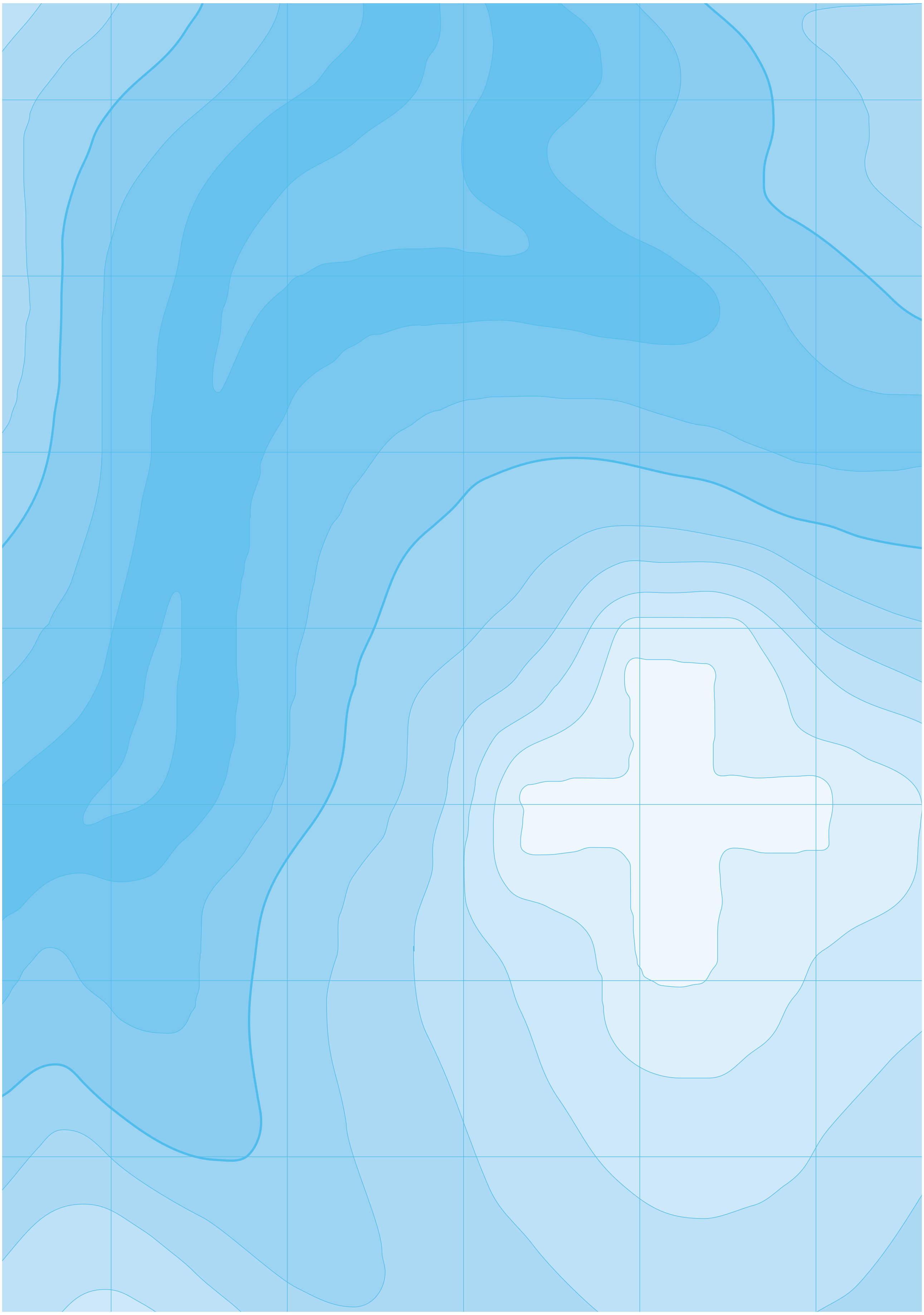
In its first few years after start-up, Tracker Navigation struggled to build the resources required to grow sales as rapidly as this exciting new market might allow. By joining Generico, it has gained access to our extensive network of sales contacts in many of Europe's major boat builders. Combined with an aggressive pricing policy and continued quality improvement, this offers the prospect of significant increases in unit volumes and market share.

At the same time, the Fast Forward programme and introduction of our new AB1 technology will allow continued good margin growth alongside competitive pricing.

We are currently seeking approval for our positioning systems products in North America, with a view to entering that market in 2010. Initially we intend to sell through our existing AWB division sales team and we plan to cross-sell between both divisions' existing and new customers. As with all weather beacons, the large North American market has the potential to provide around twice as much of our revenue as Europe, at significantly higher margins. To date there has been less intense competition in the North American market, and this is reflected in significantly higher prices.

'The boat positioning systems market looks exceptionally attractive.'

'Our products lead the technological revolution that is driving growth in demand.'



Our delivery of value

We're achieving our goal of creating value, so that we can fund investment in further growth while paying a fair return to shareholders.

In this section we address the following questions:

→ How do we measure value creation?

→ Have we created value for shareholders?

→ What has driven our revenue growth?

→ How sensitive are our forecasts?

→ What have we done with the cash generated?

Key points:

→ Significant increase in revenues

→ Decline in margins

→ Continued increase in value created

→ Committed to investing for future growth

Our delivery of value

How do we measure value creation?

We are focused on creating value for our shareholders. In this section we will review our progress and present management's expectations for value creation in future years.

In assessing whether the group has created value, we recognise the importance of understanding whether the after tax returns are sufficient to cover the returns required from all our capital providers.

Traditional financial measures take into account the returns paid to a company's debt holders, but fail to take into account a charge for the returns that shareholders expect to receive on their investment. For this reason, we assess the group's performance in creating value using two measures: Cash Added Value and Economic Return.

'We assess the group's performance in creating value using two measures: Cash Added Value and Economic Return.'

What is Cash Added Value?

Cash Added Value (CAV) allows us to assess whether the returns generated on the average capital base that has been invested is sufficient to meet the return requirements of our investors (debt and equity). It is thus an absolute measure: a positive CAV means that value has been created.

What is Economic Return?

The measure of Economic Return expresses this CAV figure as a percentage of the average capital base.

'Cash Added Value allows us to assess whether the after tax returns generated on the capital that has been invested is sufficient to meet the return requirements of our investors.'

The rate of return that investors expect

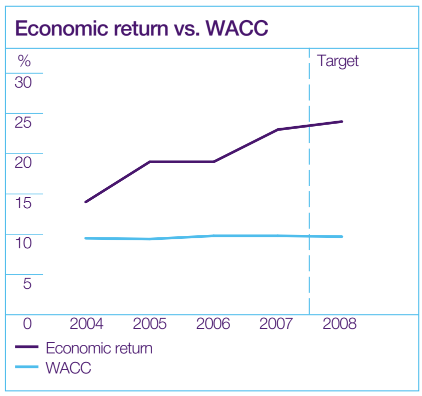
The Weighted Average Cost of Capital (WACC) indicates the total return that can be expected from the total capital invested in the business. It is calculated by weighting the cost of debt financing and the cost of equity financing by the amount of debt and equity used to finance activities.

We have calculated our WACC assuming a risk free rate of 4.8%, an equity risk premium of 6%, and an average cost of debt of 8%.

Have we created value in 2007?

Historically, our economic return has comfortably exceeded our WACC. As the chart shows, this gap has widened in 2007 through continued growth in revenue and a conscious decision to reduce our debt burden.

With the positive CAV figure and economic return in excess of the group's WACC, we continue to create value and meet the return requirements of investors. As our strategic actions take effect, we expect to continue to create value in the future.



Our delivery of value

Overview of our economic performance

	2004 actual £'000	2005 actual £'000	2006 actual £'000	2007 target £'000	2007 actual £'000	2008 target £'000
Revenue						
AWB Europe	47,923	52,792	60,895	68,000	69,498	76,000
AWB North America	117,676	112,111	111,649	124,000	131,614	137,000
GPS			1,298	8,000	8,779	18,000
Total	165,599	164,903	173,842	200,000	209,891	231,000

Principal reasons for revenue movement vs 2007 target
→ Greater than expected market share, following bankruptcy of competitor.
→ North America sales beat target primarily because of favourable exchange rate movement. Excluding this factor, North America sales fell short of target and overall market growth, due to earlier quality and pricing issues which have weakened customer relationships and sales volume growth.
→ Boat positioning systems market and GPS division sales have continued to perform broadly in line with expectations.
→ For more detail, see *What's driving our revenue growth?* on page 42.

	2004 actual £'000	2005 actual £'000	2006 actual £'000	2007 target £'000	2007 actual £'000	2008 target £'000
Gross profit	77,352	76,449	79,101	92,000	94,458	104,000
Gross margin	47%	46%	46%	46%	45%	45%
Operating margin	15%	14%	13%	14%	13%	14%

Principal reasons for margin movement vs 2007 target
→ Gross margin was below expectations due to continuing fall in beacon prices in both North America and Europe.
→ Operating margin down from 13.4% to 12.9%, reflecting a reduced gross margin as well as increased investment in research and development.

	2004 actual £'000	2005 actual £'000	2006 actual £'000	2007 target £'000	2007 actual £'000	2008 target £'000
Investment in R&D	1,799	1,658	1,529	3,500	4,867	10,000

Principal reasons for R&D movement vs 2007 target
→ Customer expectations and slowing growth in our core markets have made us reconsider our R&D priorities. We have increased investment and refocused activity on developing new products as well as improving existing lines.
→ Acquisition of Innovsea has provided an additional uplift to R&D activity.

	2004 actual	2005 actual	2006 actual	2007 target	2007 actual	2008 target
Working capital as percentage of revenue	20%	20%	20%	19%	18%	18%
Financial net debt to capital*	203%	141%	68%	50%	43%	38%
Return on invested capital*	25%	29%	27%	28%	31%	32%

Principal reasons for capital movement vs 2007 target
→ We continue to reduce the debt burden, and decided to pay off £4.0m in 2007 – more than originally planned.
→ ROIC exceeded target due to sales outperformance.

Non-GAAP measures*	2004 actual £'000	2005 actual £'000	2006 actual £'000	2007 target £'000	2007 actual £'000	2008 target £'000
Free cash flow	16,441	14,864	14,328	14,500	14,645	14,800
Capital base	74,636	61,304	56,715	58,000	59,156	62,000
WACC	9.5%	9.4%	9.8%	9.7%	9.8%	9.7%
Cash added value	10,817	11,478	11,025	12,000	13,399	15,000
Economic returns	14%	19%	19%	20%	23%	24%

Principal reasons for value creation movement vs 2007 target
→ Free cash flow increased broadly in line with the increase in profit for the year.
→ Cash added value and economic return increased and exceeded the WACC. However, the rate of growth did not match our growth in sales as we continued to invest heavily in the future (eg through our R&D pipeline).

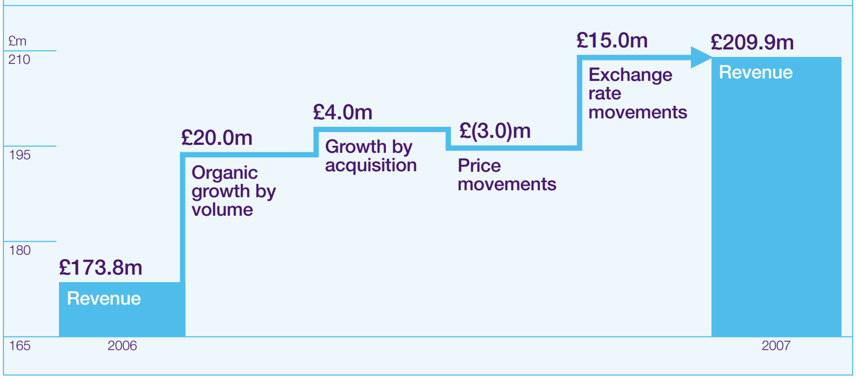
* See page 74 for a reconciliation of non-GAAP measures to GAAP figures.

Our delivery of value continued

What's driving our revenue growth?

In 2007 our revenue grew 21% from £173.8m to £209.9m. The primary drivers for this growth included the continued growth in our core all weather beacon markets, our acquisition of Tracker Navigation in 2006 and exchange rate movements on our North American sales. The chart shows how these and other factors contributed to our performance.

Primary drivers for revenue growth



Organic growth by volume

Underlying revenue growth of 12% reflected continued penetration of beacon products into the private leisure boat market, our increased market share in the market in Europe and the continuing success of our GPS business. This was slightly offset by lower than expected revenue growth and a fall in market share in North America.

Growth by acquisition

Acquisitions and disposals can often distort the view of the change in performance from one year to the next and so we regard it as helpful to show their impact on revenue separately. The acquisition of Tracker Navigation boosted our 2007 revenue by £4.0m. We acquired the company at the beginning of October 2006, so only three months of its revenue were included in our 2006 figures. To give a more realistic view of our underlying revenue growth in 2007 we separately identify the equivalent of nine months worth of 2006 revenue from our GPS division as representing growth by acquisition.

Price movements

Increasing competition and improvements in technology continue to put pressure on the prices of our products in each of our markets. In 2007 we experienced an 11% fall in average prices across the group, which effectively reduced our revenue by £3.0m.

Exchange rate movements

Because some 63% of our business is denominated in US dollars, the strengthening of the US dollar in 2007 increased the sterling value of our revenue. For 2007 our US dollar financial results were translated at an average rate of £1=$1.76, compared with £1=$1.99 in 2006. This represents an 11.6% increase in the average sterling to US dollar exchange rate, which increased our reported revenue by £15m.

'The primary drivers for revenue growth included the continued growth in our core all weather beacon markets, our acquisition of Tracker Navigation in 2006 and exchange rate movements on our North American sales.'

Modelling the future

We believe that the strategic action we are taking is making the business increasingly robust. As a result, our vulnerability to unexpected events should diminish over time. We intend to publish the following 'sensitivity' tables each year so that investors can track the potential impact of deviations from our strategic plan.

They highlight the key elements around each strategic priority that have the greatest impact on our performance. For each element they assess the financial impact of 'best case' and 'worst case' variations from our base case assumptions. The assumptions underpinning our base case represent a conservative assessment of the opportunities for growth in both revenue and gross profit and are used to determine the group's targets included in this report.

Management rewards and incentives are highly geared to achieving a Total Shareholder Return in excess of a pre-determined peer group and the best-case outcomes illustrated here. These scenarios also influence our risk management processes and the controls we put in place to mitigate the downside risks.

We believe the assumptions underpinning the base case scenarios throughout this report, as well as the best and worst case scenarios set out here, are reasonable.

'We believe that the strategic action we are taking is making the business increasingly robust.'

Market competitiveness

Base case 2008
→ Declining growth in boat sales, but increasing market penetration of maritime all weather beacons
→ Generico share of beacon market grows 1 percentage point (pp) in Europe, stable in North America
→ Boat positioning systems market grows by 30% and Generico captures 10% of the market
→ Beacon price levels remain stable, positioning system prices fall 16%
→ 30% of the 10 contracts out for tender are won, including a positioning system contract from an existing AWB customer. Customer retention improves in North America as quality issues are addressed, but falls in Europe to historical levels as a series of existing contracts come to the end of their life

Best case 2008	Worst case 2008
→ Quality and customer initiatives boost North America sales faster than expected and market share increases by 1pp while share of European market increases by 2pp → 40% of the contracts out for tender are won, including one AWB contract from an existing GPS customer and two GPS contracts from existing AWB customers → GPS captures 12% of boat positioning system market → AWB customer retention levels in Europe remain at prior-year levels	→ Europe market share remains stable → Poor customer response to quality and North America customer initiatives leads to further 1pp fall in market share → 20% of contracts out for tender won and AWB customer retention levels remain at historically low levels in North America → Take-up of boat positioning systems is slower than expected, with market growth of 15% → GPS market share increases by 2pp to 8%

	Change in assumption from base case (for FY 2008 only)	Financial impact
Market share	+/–1pp	+/–£11m (sales)
Revenue growth	+/–10%	+/–£3m (gross profit)

Our delivery of value continued

Operational effectiveness

Base case 2008 → Operational effectiveness initiatives begin to have a positive impact on the margins in AWB and they begin to stabilise after five years of decline → Raw material costs fall to £80 per unit in Europe and $160 per unit in North America, but the fall in Europe is not enough to offset the fall in prices so margins tighten → Continuing economies of scale in the GPS division result in 1pp margin improvement		
Best case 2008 → Operational effectiveness initiatives have greater than expected impact: cost savings from better material handling and employee retention bring 0.5pp and 1pp improvement in the AWB division's gross and operating margins respectively → Greater economies of scale from integrating our GPS division's practices with those of AWB result in 3pp improvement in GPS operating margins	**Worst case 2008** → Operational effectiveness initiatives cost more than expected to implement and take longer to deliver results, so AWB gross and operating margins continue to fall – down 1pp and 1.5pp respectively → GPS gross and operating margins remain at historic levels as a result of delay in consolidating GPS and AWB purchasing systems and capacity utilisation levels stall at 50%	
	Change in assumption from base case (for FY 2008 only)	Financial impact
Operating margin	+/–1pp	+/–£2.3m (gross profit)

Currency

Base case 2008 → Average sterling to US dollar exchange rate remains stable in 2008		
Best case 2008 → The average exchange rate increases by 5%	**Worst case 2008** → The average exchange rate decreases by 5%	
	Change in assumption from base case (for FY 2008 only)	Financial impact
US dollar exchange rate	+5%	+£2.3m (gross profit)
	–5%	–£1.9m (gross profit)

For more information, go to: **www.generico.co.uk/ir/sensitivitymodel**

How have we used the cash generated?

In line with our strategy, we plan to use the cash generated to fund organic growth and future acquisitions. We will also continue using some of it to strengthen the balance sheet by paying down debt and reducing the pension deficit. Some £5.2m (35% of free cash flow) will go to give shareholders an immediate return on their investment through dividends.

Our key cash measure for assessing operational performance is free cash flow. This is the amount of cash generated by the group after paying out the costs to keep the business running. We consider funding organic growth and reducing the pension deficit as ongoing activities and therefore these are included in the calculation of free cash flow.

Significant cash costs relating to ongoing activities

	2007 £'000	2006 £'000
Funding organic growth		
Purchase of property, plant and equipment	**6,539**	5,742
Research and development	**4,867**	1,529
Reducing the pension deficit		
Cash contribution to cover current accounting pension charge	**2,300**	1,700
Additional cash contribution to reduce IFRS pension deficit	**1,600**	1,500
Total cash contribution to the pension funds	**3,900**	3,200

Ongoing activities

Funding organic growth

Over the past two years we have invested £12m in plant and equipment to add capacity and improve the efficiency of our manufacturing operations. Our growth plans and the operational improvement elements of Fast Forward will demand increased levels of investment for the next two years.

We have also invested £4.9m (2006: £1.5m) in R&D, which is intended to generate future growth. Our enhanced new product development programme will require increased investment, and we have committed budgets of £10m in 2008 and £18m in 2009.

'We see pension plan deficits as debt-like in nature.'

Reducing the pension deficit

We recognise our responsibility to fund defined benefit pension plan deficits. We see these deficits as debt-like in nature, and have included the pension deficit in our analysis of net debt on page 56 of the accounts. The deficit is calculated under current IFRS using the SORIE approach, which recognises all of the deficit in the balance sheet at the year end date. The total IFRS deficit is £14.8m, of which £11.1m relates to the UK pension fund (see Note 15 for further disclosures relating to the defined benefit plans). For further discussions on the pension deficit see box-out on the next page.

Our delivery of value continued

Calculating the pension deficit

The methodology set out under IFRS to calculate the pension deficit is just one of a number of ways of calculating the deficit at a point in time. Looking at the UK defined benefit plan, the formal funding valuation undertaken every three years also includes two further views of the pension deficit – the funding deficit and an estimate of a buy-out deficit (see page 65 for further information on the funding deficit). Furthermore, the UK Pension Protection Fund (PPF) provides a further view of the pension deficit. The PPF has been set up to provide insurance for pension plans whose employer becomes insolvent. The cost of this insurance is largely met by levies on defined benefit pension plans.

A buy-out valuation will almost always be the highest estimate of the pension deficit, as it assumes that the entire liability will be settled in one payment with all obligations transferred to an insurance company. A common criticism of the buy-out valuation is that there are only a limited number of organisations that will buy-out pension liabilities. The full cost of buy-out would only be known if quotes were obtained from insurance companies. Payment of the buy-out would be triggered if the plan was wound up.

IFRS pension deficit volatility

Under IFRS, the pension deficit is likely to be volatile, and may in the future be very different from the 31 December 2007 position. This is in part due to the mismatch between the assets, which are 54% invested in equities as at 31 December 2007, and the liabilities which are bond like in nature. As an indication of the potential variability of pensions deficits under IFRS, the chart opposite sets out how the aggregate UK pension deficit of the FTSE 350 has developed over the period September 2003 to September 2006. After a period of relative stability to the end of 2005, the deficit fluctuated markedly in 2006, reflecting the significant movements in bond and equity markets in 2006.

Mortality tables

All of these valuations are calculated using a number of assumptions. The assumptions used to calculate the IFRS deficit, and the sensitivities to those assumptions, are set out in pages 61 and 62. One of the key assumptions relates to the longevity of pensioners. As this is the first year we have disclosed this information we have set out below a detailed discussion on the use of mortality tables, focusing on the UK plan. In the future, this information will be provided on our website at www.generico.co.uk/pensions/mortality.

Step 1

Mortality tables are produced by the actuarial profession on a periodic basis, say once a decade, with the last UK '92' series being published in 1999. The objective of these tables is to estimate the expected longevity of a given population for an extended period into the future. In putting together these tables, the actuaries take into account the most recent experience in mortality rates but also factor in expected improvements in mortality rates.

Step 2

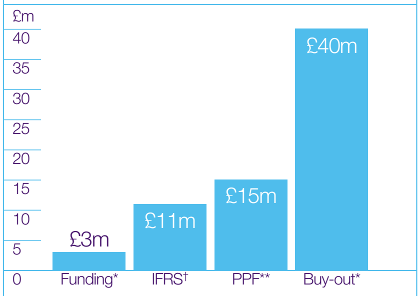
Studies in the UK undertaken in 2002 showed that the improvements for a cohort of people born around 1930 have been even greater than expected. Accordingly, the base 92 tables are then adjusted to allow for this effect (referred to as the medium cohort adjustment).

Step 3

Furthermore, as the mortality tables are based on a population with different characteristics from those within the group's own employee and pensioner populations, an adjustment is made to reflect these differences. In our case, a greater percentage of employees and pensioners are blue collar workers. Studies suggest that the mortality rates for blue collar workers are not improving as quickly as for the general population as a whole. Accordingly, the UK mortality rates have been adjusted using a scaling factor of 118.75% to reflect a lower expected level of longevity amongst the blue collar membership.

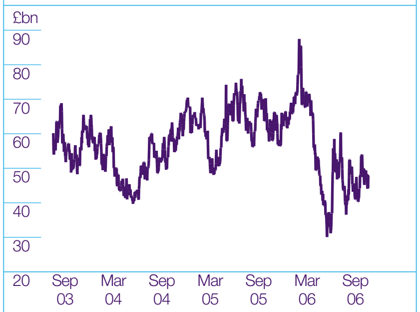
An example of how this impacts the UK male life expectancy at 65 is shown in the graph.

Range of pension deficits for UK plan



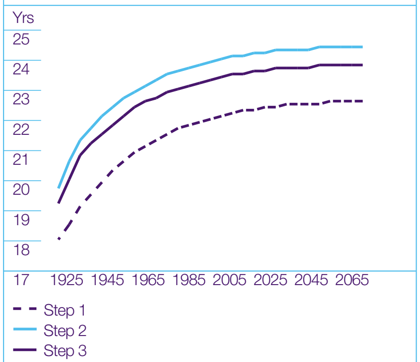
* As at 1 July 2007
† As at 31 October 2007
** As at 31 December 2007

FTSE 350 IFRS pension scheme deficits



Source: WXY Partnership Annual Review

UK male life expectancy at 65 against year of birth



Source: WXY Partnership Annual Review

Distribution of free cash flow

Over the past few years, we have used the free cash flow to fund acquisitions, pay down debt and reward our shareholders.

Funding future acquisitions

We have made two acquisitions in 2006 and 2007 – Tracker Navigation and Innovsea – costing a total of £4.9m net of cash/debt acquired. We intend to make further acquisitions in the coming years and are currently looking to identify suitable targets.

Paying down debt

Our aim is to maintain an appropriate mix of equity and debt to ensure an efficient capital structure consistent with our desired investment grade. Our debt capacity is assessed within this aim. We monitor borrowing facilities against forecast requirements and take timely action to put in place, renew or replace credit lines. Our policy is to reduce financing risk by diversifying our funding sources and by staggering the maturity of our borrowings.

We manage the group's net borrowing requirement through a portfolio of long-term borrowings, including loan notes, together with short-term finance. In 2007 one loan note was issued: a £2.0m, 15 year, 4.35% coupon bond.

The group's long-term borrowing have contractual maturity dates between 2008 and 2022. This includes two loan notes which, although maturing in 2017 and 2022, may be redeemed by Generico at any time, and in particular, in the event of any accelerating event that would increase the cost of funding for the group. Generico's long-term debt rating is AA from Standard and Poor's and Aa2 from Moody's Investor' Services.

During the year we used £4m (2006: £8.5m) of our after tax free cash flow to pay off our overall debt.

Rewarding shareholders through dividends

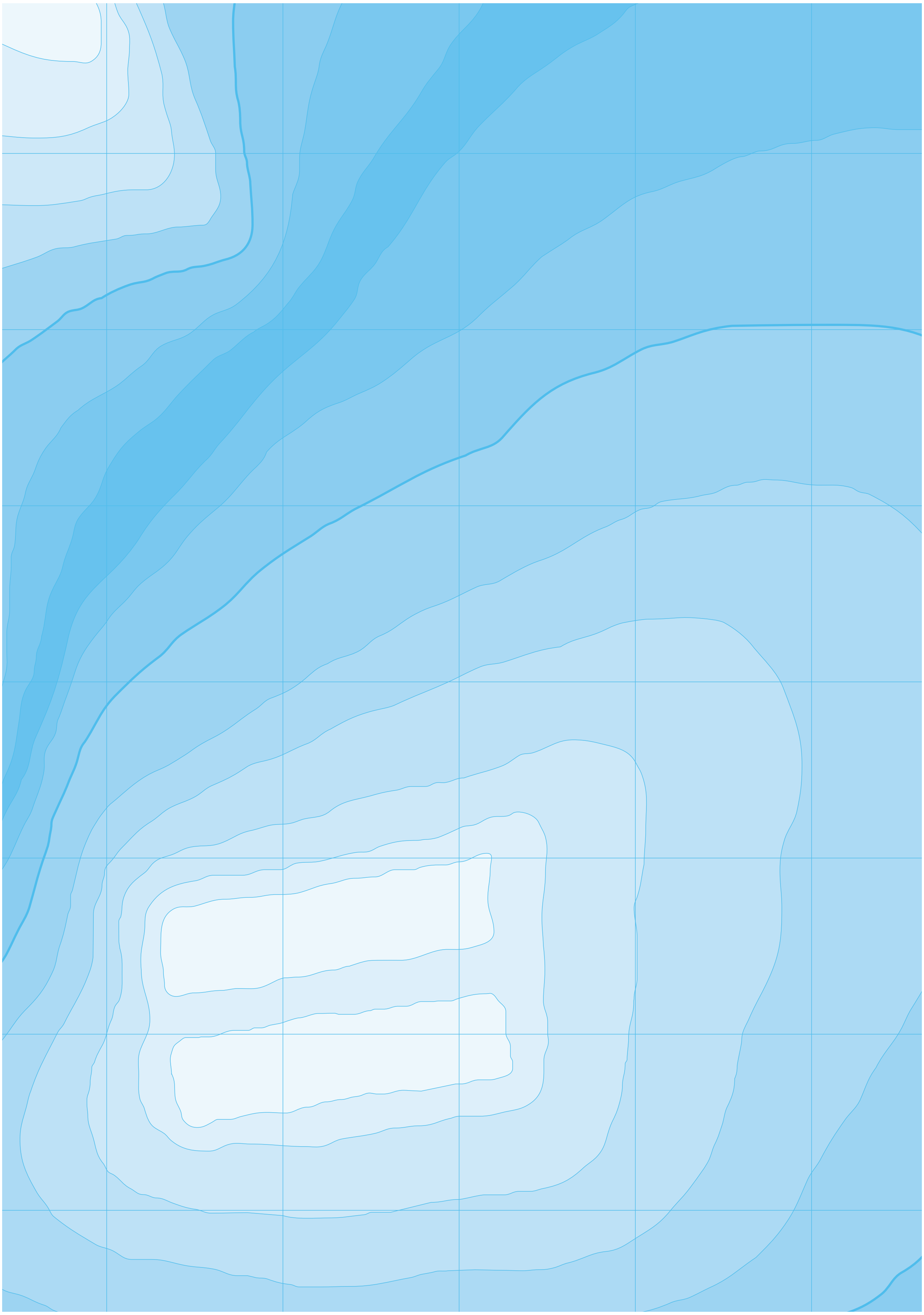
We have paid out £5.2m in dividends, an increase of 30% on 2006.

We aim to grow the dividend steadily and progressively in line with the group's overall long-term cash generation. At this time there are no plans to change the equity base in the immediate future.

Distribution of free cash flow

	2007 £'000	2006 £'000
Free cash flow	**14,645**	14,328
Acquisitions	**(4,000)**	(916)
Paying down debt	**(4,000)**	(8,473)
Dividends	**(5,200)**	(3,960)
Increase in cash	**1,445**	979

'Our aim is to maintain an appropriate mix of equity and debt.'



Our accounts

Key points

→ Revenues increased by 21% to £209.9m

→ Profit for the year up by 28% to £18.5m

→ Continuing decrease in net debt

Special features of our accounts

→ Notes provided are those relevant to illustrating specific proposals for disclosure

→ The notes featured are highlighted in **bold**

→ Box-outs presented to provide further analysis of figures or explain technical terms

→ Used box-outs sparingly to avoid clutter

→ Accounts feature a number of non-GAAP measures used by management which are clearly identified using the icon NON-GAAP

→ Analysis of debt provided to give a clear summary of management's view of the group's net indebtedness

→ Greater granularity of segmental analysis and costs

→ In-depth discussion to allow the reader to understand the group's pension liabilities and the sensitivities underlying them

Profit and loss account

for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000	*Percentage change*
Revenue		**209,891**	173,843	*21%*
Cost of sales	**3**	**(115,433)**	(94,742)	
Gross profit		**94,458**	79,101	*19%*
Gross margin		***45%***	*46%*	
Administration and distribution expenses	**3**	**(67,405)**	(55,790)	
Operating profit		**27,053**	23,311	*16%*
Operating margin		***13%***	*13%*	
Finance costs	5	**(1,049)**	(1,404)	
Finance income	5	**1**	1	
Profit before tax		**26,005**	21,908	*19%*
Income tax expense	6	**(7,521)**	(6,333)	
Profit for the year		**18,484**	15,575	*19%*
After-tax profit percentage		***9%***	*9%*	
Attributable to:				
Equity holders of the parent		**18,484**	15,757	
Earnings per share				
– basic for profit for the year (pence/share)		**231.05**	210.47	
– diluted for profit for the year (pence/share)		**231.05**	210.47	
Proposed dividends (pence/share)		**75.00**	65.00	

For an analysis of what is driving revenue growth see page 42

EBITDA: **NON-GAAP**	Note	2007 £'000	2006 £'000
Operating profit		**27,053**	23,311
Add back: Depreciation and amortisation	8	**6,088**	5,489
EBITDA		**33,141**	28,800
Percentage change		***15%***	

Earnings per share (EPS) is calculated as follows:	2007	2006
Profit attributed to the equity holders (£)	**18,484,000**	15,575,000
Divided by: Average shares in issue in period	**8,000,000**	7,400,000
EPS (pence/share)	**231.05**	210.47

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Statement of total recognised income and expense (SORIE)

for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Exchange differences on translation of foreign operations	19	**4,109**	(2,354)
Deferred tax credit/(debit) on exchange differences	19	**(1,233)**	706
Actuarial (losses) on post-retirement benefits		**(4,700)**	(100)
Deferred tax credit on actuarial losses	19	**1,410**	30
Net income recognised directly in equity		**(414)**	(1,718)
Profit for the year		**18,484**	15,575
Total recognised income for the year		**18,070**	13,857
Attributable to:			
Equity holders of the parent		**18,070**	13,857

Other changes in equity	Issued capital	Share premium	Retained earnings	Total equity
As at 31 December 2005	2,300	2,200	19,409	23,909
Shares issued during the year as part of the acquisition of Tracker Navigation	200	800	–	1,000
Total recognised income and expense in 2006	–	–	13,857	13,857
Ordinary dividends paid	–	–	(3,960)	(3,960)
As at 31 December 2006	2,500	3,000	29,306	34,806
Total recognised income and expense in 2007	–	–	18,070	18,070
Ordinary dividends paid	–	–	(5,200)	(5,200)
As at 31 December 2007	**2,500**	**3,000**	**42,176**	**47,676**

Actuarial gains/(losses) on post-retirement benefits	Note	2007 £'000	2006 £'000
UK defined benefit plan	**15**	**(4,300)**	200
US defined benefit plan	**15**	**100**	400
US post-retirement medical	**16**	**(500)**	(700)
Total		**(4,700)**	(100)

Balance sheet
as at 31 December 2007

	Note	2007 £'000	2006 £'000
Assets			
Non-current assets			
Intangible assets	7	**6,799**	2,809
Property, plant and equipment	8	**62,216**	57,947
Total non-current assets		**69,015**	60,756
Current assets			
Inventories	9	**23,304**	21,560
Trade and other receivables	10	**26,466**	22,812
Cash and cash equivalents	12	**1,520**	20
Total current assets		**51,290**	44,392
Total assets		**120,305**	105,148
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital and capital reserves	17	**5,500**	5,500
Retained earnings	18	**42,176**	29,306
Total equity		**47,676**	34,806
Non-current liabilities			
Deferred tax	6	**17,457**	17,384
Provisions		**18,537**	14,882
Interest-bearing loans and borrowings	**24**	**14,711**	12,110
Current liabilities			
Trade and other payables	13	**11,528**	9,650
Income tax	6	**1,789**	1,917
Interest-bearing loans and borrowings	**24**	**4,582**	10,527
Provisions	**14**	**4,025**	3,872
Total liabilities		**72,629**	70,342
Total equity and liabilities		**120,305**	105,148

Intangible assets	Note	2007 £'000	2006 £'000
Patents, brands and customer lists	7	**2,569**	2,479
Goodwill	7	**4,230**	330
Total intangible assets	7	**6,799**	2,809

Provisions	Note	2007 £'000	2006 £'000
Warranties	**14**	**2,687**	2,582
Pensions deficit	**15**	**14,800**	11,400
Other post-employment benefits	**16**	**1,050**	900
Total non-current provisions		**18,537**	14,882

Cash flow statement

for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Cash flows from operating activities			
Profit before tax and finance cost		**27,053**	23,311
Depreciation and amortisation	8	**6,088**	5,489
Loss on disposal of plant		**250**	180
Operating cash flows before changes in working capital and provisions		**33,391**	28,980
(Increase) in net current assets	**20**	**(1,661)**	(840)
Additional cash contribution to reduce accounting pension deficit		**(1,600)**	(1,400)
Increase/(decrease) in provisions		**(634)**	648
Cash generated from operations		**29,496**	27,388
Interest paid	5	**(1,049)**	(1,404)
Interest received	5	**1**	1
Income tax paid		**(7,399)**	(6,013)
Net cash flows from operating activities		**21,049**	19,972
Cash flows from investing activities			
Proceeds from disposal of plant		**135**	98
Purchase of property, plant and equipment	8	**(6,539)**	(5,742)
Acquisition of subsidiaries (net of cash or debt acquired)	25	**(4,000)**	(916)
Net cash flows from investing activities		**(10,404)**	(6,560)
Cash flows from financing activities			
Dividends paid to equity holders of the parent	**21**	**(5,200)**	(3,960)
Receipt of new bank loans	**22**	**2,000**	4,527
Repayment of bank loans	**22**	**(6,000)**	(13,000)
Net cash flows from financing activities		**(9,200)**	(12,433)
Net increase in cash and cash equivalents		**1,445**	979
Cash and cash equivalents at 1 January		**20**	(959)
Cash and cash equivalents at 31 December	12	**1,465**	20

Movement in net debt NON-GAAP	Note	2007 £'000	2006 £'000
Net increase in cash and cash equivalents		**1,445**	979
Decrease in financing net debt (excluding cash and cash equivalents)		**3,399**	8,831
(Increase) in operating net debt		**(545)**	(8,023)
(Increase)/decrease in other debt-like liabilities		**(2,380)**	1,190
Decrease in net debt		**1,919**	2,977

Total cash contributions to pension funds	Note	2007 £'000	2006 £'000
Cash contribution to cover current year charge	15	**2,300**	1,700
Additional cash contribution to reduce accounting pension deficit	15	**1,600**	1,400
Total funding	**15**	**3,900**	3,100

Analysis of net debt NON-GAAP	Note	2007 £'000	2006 £'000
Financing net debt			
Cash and cash equivalents	12	**(1,520)**	(20)
Overdrafts	12	**55**	–
Borrowings		**19,738**	23,137
Financing net debt		**18,273**	23,117
Operating net debt			
Operating leases	**22**	**14,370**	13,825
Operating net debt		**14,370**	13,825
Other debt-like liabilities			
Pension deficit	**15**	**14,800**	11,400
Deferred tax asset on pension deficit	6	**(4,440)**	(3,420)
Net debt-like liabilities		**10,360**	7,980
Total net debt (change in year £1,919)	**23**	**43,003**	44,922
Deduct:			
Subordinated loan note		**(500)**	(500)
Operating leases that are off balance sheet		**(14,370)**	(13,825)
Total net debt reflected in the balance sheet in accordance with GAAP		**28,133**	30,597

NON-GAAP

Net debt is a non-GAAP measure as it is not defined in IFRS. However, we believe that it is an important measure as it shows the group's aggregate net indebtedness to banks and other external financial institutions, those providing lease finance and other debt-like liabilities. We consider operating leases of five years or more, as part of operating debt.

Under IAS 32 certain financial instruments, which we view as part of our financing net debt, are required to be presented as equity. Similarly, we see other financial instruments required to be presented as borrowings under GAAP, as part of our equity. To give our view of net debt, certain instruments have therefore been included or excluded as appropriate. Currently, we believe there is one such instrument, as explained below:

Subordinated loan note: This is included in net debt because we believe that reflects its substance. The subordinated loan notes are undated with a 5.5% fixed coupon that can be deferred at the discretion of management. As a result of applying IAS 32 this instrument is classified as equity for GAAP purposes. We intend to pay the 5.5% coupon each year, and expect to call the rest in 2011. As a result, we see this instrument as part of our financing net debt.

	Note	2007 £'000	2006 £'000
Borrowings in accordance with GAAP	**24**	**19,238**	22,637
Subordinated loan note		**500**	500
Borrowings in accordance with the company's definition of net debt		**19,738**	23,137

Notes to the financial statements

for the year ended 31 December 2007

1 Accounting policies

WARNING

WE HAVE NOT INCLUDED ALL NOTES

Pension

The group operates two **defined benefit plans**, one in the UK and one in the US. In both plans, assets are set aside in separate trustee administered funds to meet future liabilities. The UK scheme was closed to new members on 1 January 2007.

The group also provides **post-employment healthcare benefits** to its retired employees in the US. Unlike the pension plans, no assets are set aside in a separate fund to provide for the future liability.

In the primary financial statements the following accounting treatment is followed:

Annual costs charged to profit and loss

The annual cost in respect of the pension plans and post-employment healthcare benefits consists of the following:

Current service cost
Plus: **Past service cost***
Charged to operating profit
Interest costs
Less: **Expected return on plan assets†**
Charged to finance cost
Total pension and healthcare costs

***Past service costs** are charged to the profit and loss account in full, unless the changes to the benefits are conditional on the employees remaining in service for a specified period of time (the **vesting period**). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

†**Expected return on plan assets** relates only to the assets held by the pension plans. There are no related assets that fund the provision of post-employment healthcare benefits. An explicit allowance for administration expenses, investment expenses and the UK Pension Protection Fund levy is deducted from the expected return on plan assets.

Explanations

A **defined benefit plan** is a pension plan where the rules of the scheme determine how much pension members will receive during retirement, dependent on a number of factors. The relevant factors in both the Generico schemes are: final salary at retirement age, number of years of service and age at retirement.

Post-employment healthcare benefits are provided to retired employees in North America conditional on the employee having remained in service up to retirement age and the completion of a minimum service period.

The **current service** cost (as calculated by the actuary) is the increase in the **present value of the pension plan and post-employment healthcare liabilities** resulting from employees' service in the current period.

The **present value of the plan liabilities** is calculated by independent actuaries, WXY partnership, using the **projected unit credit method** by discounting the estimated future cash outflows. The discount rate used to calculate the present value back to the balance sheet date is set with reference to the interest rate on high-quality corporate bonds (AA rating) that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Past service costs are the additional costs to the plan when the trustees change the terms of the benefits with respect to previous years service.

The **interest cost** represents the increase in the **present value of the plan liabilities** as the benefits are one period closer to being paid out. This is a consequence of the idea that an amount payable today is a bigger burden than the same amount payable in the future.

The **vesting period** is the period of time before an employee is entitled to benefits as a result of age and or service.

The **expected return on plan assets** represents the expected income from plan assets as at the beginning of the year.

1 Accounting policies continued

Amounts recognised in the statement of recognised income and expense

As is common practice in the UK, the group has chosen to recognise all **actuarial gains and losses** relating to the pension plans and the post-employment health care benefits immediately in the statement of recognised income and expense (SORIE).

Pension deficit shown in the balance sheet

The pension deficit represents the amount by which the **present value of the plan liabilities** exceeds the **fair value of the plan assets** held in trustee-administered funds. The value of both the assets and pension liabilities are calculated using the guidance in IAS 19 at the balance sheet date. That is, the pension deficit is calculated as follows:

Plan liabilities	
Less: **Fair value of plan assets**	
Equals pension deficit	

Provision for post-employment healthcare benefits shown in the balance sheet

The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. That is, the present value of the healthcare costs, as calculated by an independent actuary, ZZZ Ltd, is recognised as a provision in the balance sheet.

Annual cash contributions (funding)

The amount charged to the profit and loss account does not usually equal the annual cash contributions to the defined benefit plans. Annual cash contributions are determined based upon periodic actuarial valuations and local regulatory requirements.

WARNING
WE HAVE NOT INCLUDED ALL NOTES

Actuarial gains and losses can be experience adjustments (that is, the effects of differences between the previous actuarial assumptions and what has actually occurred) or the effects of changes in actuarial assumptions.

The **projected unit credit method** is the required actuarial method used to calculate pensions and similar obligations under IAS 19 and measures the pensions obligations accrued as at the balance sheet date, making allowance for anticipated increases in salaries.

The **fair value of the plan assets** is calculated using various methods depending on the type of assets held. The group holds three types of plan assets, namely: quoted equity investments; quoted bonds and property (all of which is not related to the group). IAS 19 does not provide specific guidance as to how fair value is determined for plan assets and, as such, it is necessary to look to other standards. Quoted equity investments and quoted bonds are valued at the quoted market price in accordance with IAS 39. Properties are valued based on the current market price of a similar property in the same location and condition, based on independent valuations.

Notes to the financial statements continued

2 Segment information

(a) Primary segment – by business unit

The group determines its reportable segments based on the structure of the internal financial reports that are used by senior management for decision-making purposes. As at 31 December 2007, the group is organised into two main business segments:

(i) Manufacture and sale of all weather beacons (AWB) in both Europe and North America. AWB devices transmit a boat's location to rescue services.

(ii) Manufacture and sale of global positioning systems (GPS) in Europe. GPS devices enable boaters to identify their location and navigate easily and accurately.

	2007 £'000					2006 £'000				
	AWB			GPS		AWB			GPS	
	Europe	North America	Total	Europe	Total	Europe	North America	Total	Europe	Total
Revenue	69,498	131,614	201,112	8,779	209,891	60,896	111,649	172,545	1,298	173,843
Cost of goods sold	(38,919)	(70,808)	(109,727)	(5,706)	(115,433)	(34,101)	(59,732)	(93,833)	(909)	(94,742)
Gross profit	30,579	60,806	91,385	3,073	94,458	26,795	51,917	78,712	389	79,101
Administrative and distribution expenses	(21,632)	(41,138)	(62,770)	(2,288)	(65,058)	(18,575)	(34,851)	(53,426)	(311)	(53,737)
Segment operating profit	8,947	19,668	28,615	785	29,400	8,220	17,066	25,286	78	25,364
Head office costs					(2,347)					(2,053)
Operating profit					27,053					23,311
Net finance costs					(1,048)					(1,403)
Profit before tax					26,005					21,908
Goodwill	3,900	–	3,900	330	4,230	–	–	–	330	330
Other segment assets	54,158	55,635	109,793	3,659	113,452	52,279	48,731	101,010	2,856	103,866
Total segment assets	58,058	55,635	113,693	3,989	117,682	52,279	48,731	101,010	3,186	104,196
Head office assets					2,623					952
Total assets					120,305					105,148
Total segment liabilities	22,928	8,377	31,305	2,529	33,834	16,797	9,190	25,987	2,177	28,164
Head office liabilities and tax					38,795					42,178
Total liabilities					72,629					70,342
Depreciation and amortisation	2,952	3,062	6,014	74	6,088	2,027	3,445	5,472	17	5,489
Capital investment	2,381	4,073	6,454	85	6,539	2,247	3,482	5,729	13	5,742
Acquisition of subsidiary	4,000	–	4,000	–	4,000	–	–	–	916	916
Return on net assets employed, before tax	25.4%	35.1%	34.7%	53.8%	26.6%	17.8%	47.9%	33.7%	10.9%	33.4%
Free cash flow by segment	8,543	15,991	24,534	889	25,423	6,603	16,059	22,662	895	23,557
Head office, financing and tax cash flows					(10,778)					(9,229)
Total free cash flow*					14,645					14,328

* Free cash flow is a NON-GAAP measure, see Note 21 for a reconciliation to GAAP measure.

2 Segment information continued

(b) Secondary segment – by geography

The group's main business segment, AWB, operates in two geographical areas, Europe and North America, while GPS only operates in Europe.

	Year ended 31 December 2007 £'000			Year ended 31 December 2006 £'000		
	Europe	**North America**	**Group total**	Europe	North America	Group total
Revenue	**78,277**	**131,614**	**209,891**	62,194	111,649	173,843
Segment assets	**64,670**	**55,635**	**120,305**	56,417	48,731	105,148
Capital investment	**2,466**	**4,073**	**6,539**	2,260	3,482	5,742

This segment information should be read in conjunction with the information set out on pages 26 to 33 relating to All Weather Beacons, and on pages 34 to 37 for Global Positioning Systems.

3 Costs breakdown

Cost of sales	Note	**2007 £'000**	2006 £'000	% *change*
Raw materials		**90,473**	72,712	*24%*
Cost of warranties	**14**	**4,730**	4,154	*14%*
Inventory write-down		**421**	–	
Wages and salaries		**9,962**	9,120	*9%*
Operating lease payments		**1,124**	892	*26%*
Post retirement benefits*		**1,541**	1,246	*24%*
Depreciation and amortisation†		**5,214**	4,830	*8%*
Other		**1,968**	1,788	*10%*
Total cost of sales		**115,433**	94,742	*22%*

Administration and distribution expenses	Note	**2007 £'000**	2006 £'000	% *change*
Distribution and storage		**41,841**	36,347	*15%*
Advertising		**3,824**	2,998	*28%*
Charge for bad debts	**11**	**2,574**	1,096	*135%*
Marketing staff		**3,145**	3,011	*4%*
Management, accounting and administrative staff		**5,580**	4,998	*12%*
Post-retirement benefits*		**1,059**	654	*62%*
Depreciation and amortisation†		**874**	659	*33%*
Research and development		**4,867**	1,529	*218%*
Lease of office building and equipment		**1,131**	1,360	*(16%)*
Termination of lease		**–**	1,035	
Audit fee		**854**	761	*12%*
Other		**1,656**	1,342	*23%*
Total administration and distribution costs		**67,405**	55,790	*21%*
†Depreciation and amortisation total	8	**6,088**	5,489	*11%*
Pension costs	**15**	**2,600**	1,900	*37%*
Post retirement healthcare	**16**	**0**	100	
***Total post-retirement benefits**		**2,600**	2,000	*30%*

The inventory write-down and the lease termination costs are unusual items of expenditure, not expected to recur regularly.

Notes to the financial statements continued

11 Allowance for bad debts

	2007 £'000	2006 £'000
At 1 January	**1,913**	1,650
Acquisition of subsidiary	**–**	1,523
Realised bad debts	**(2,711)**	(2,308)
Exchange adjustment	**93**	(48)
Bad debt expense		
Additional provisions made during the year on both existing and new debtors*	**2,870**	1,430
Provision not required as debt was paid or credit worthiness of debtor improved*	**(296)**	(334)
At 31 December	**1,869**	1,913
***Total bad debt expense**	**2,574**	1,096

Provision has been made in respect of debts where objective evidence indicates that the group will not be able to collect all amounts due. Examples of such objective evidence include significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and/or where the debtor defaults or is consistently late in paying off the amounts owing to the group.

14 Warranty provision

	2007 £'000	2006 £'000
At 1 January	**6,454**	5,089
Acquisition of subsidiary	**–**	1,316
Realised warranty claims	**(5,214)**	(3,706)
Exchange adjustment	**742**	(399)
Warranty expense		
Additional warranty provisions made during the year†	**5,231**	4,961
Provision not needed as warranty period expired or claims experience has improved†	**(501)**	(807)
At 31 December	**6,712**	6,454
†Total warranty expense	**4,730**	4,154
Current	**4,025**	3,872
Non-current	**2,687**	2,582
Total warranty provision	**6,712**	6,454

Provision has been made in respect of actual warranty and potential warranty claims on the basis of past experience for goods and services sold. As the warranty period is for two years, it is expected that all costs related to such claims will have been incurred within two years of the balance sheet date.

15 Pensions

As discussed in Note 1, the group operates two defined benefit pension plans, one in the UK and one in the US. Both plans are valued under IAS 19 by WXY Partnership using the projected unit credit method.

Pensions deficit included in the balance sheet:

	31 December 2007			31 December 2006		
	UK £'000	**US £'000**	**Total £'000**	UK £'000	US £'000	Total £'000
Market value of plan assets:						
Equities	**46,000**	**12,400**	**58,400**	34,400	10,600	45,000
Bonds	**32,600**	**6,800**	**39,400**	41,400	5,800	47,200
Property and other	**8,300**	**2,700**	**11,000**	6,600	2,400	9,000
	86,900	**21,900**	**108,800**	82,400	18,800	101,200
Present value of plan liabilities	**(98,000)**	**(25,600)**	**(123,600)**	(90,500)	(22,100)	(112,600)
Pension deficit in the balance sheet	**(11,100)**	**(3,700)**	**(14,800)**	(8,100)	(3,300)	(11,400)

Amounts charged to the profit and loss account with respect to defined benefit pensions:

	Year ended 31 December 2007			Year ended 31 December 2006		
	UK £'000	**US £'000**	**Total £'000**	UK £'000	US £'000	Total £'000
Current service cost	**1,600**	**700**	**2,300**	1,300	500	1,800
Past service cost	**200**	**100**	**300**	100	–	100
Charged to operating profit	**1,800**	**800**	**2,600**	1,400	500	1,900
Interest cost	**4,700**	**1,500**	**6,200**	4,700	1,400	6,100
Expected return on plan assets	**(5,000)**	**(1,500)**	**(6,500)**	(4,800)	(1,500)	(6,300)
Charged/(credited) to finance expense	**(300)**	**–**	**(300)**	(100)	(100)	(200)
Total	**1,500**	**800**	**2,300**	1,300	400	1,700

Amounts recognised in the SORIE:

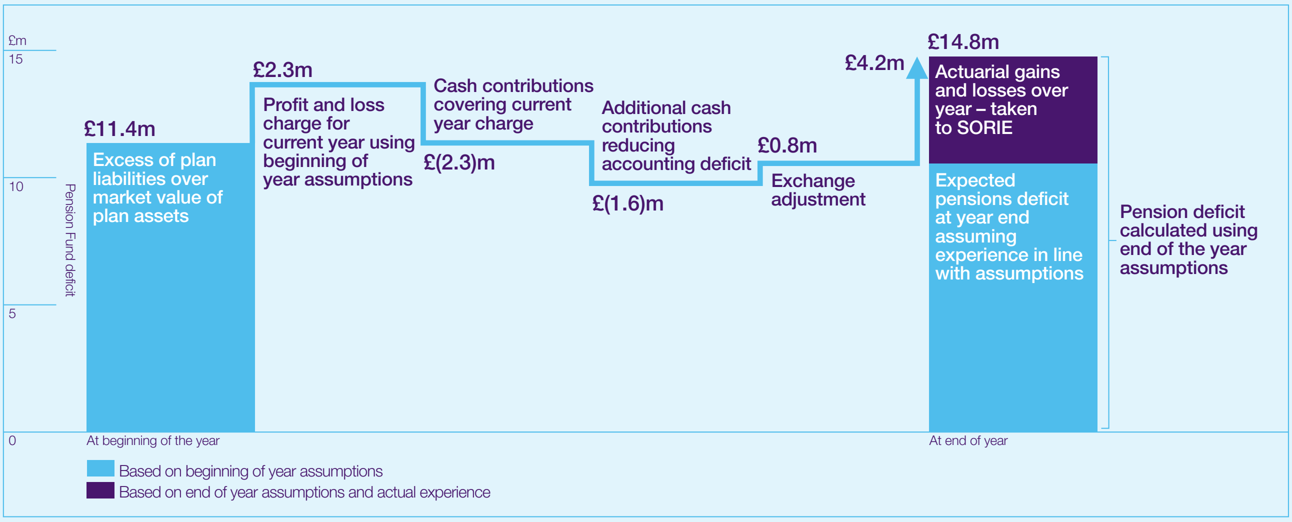
	Year ended 31 December 2007			Year ended 31 December 2006		
	UK £'000	**US £'000**	**Total £'000**	UK £'000	US £'000	Total £'000
Experience adjustments on plan assets	**1,600**	**400**	**2,000**	2,000	600	2,600
Changes in assumptions on plan liabilities	**(7,000)**	**(1,000)**	**(8,000)**	–	–	–
Experience adjustments on plan liabilities	**1,100**	**700**	**1,800**	(1,800)	(200)	(2,000)
Total	**(4,300)**	**100**	**(4,200)**	200	400	600

Notes to the financial statements continued

15 Pensions continued

Development of pensions deficit during the year

Under IAS 19, the pensions cost is calculated based on assumptions made at the start of the year. If experience over the year is in line with assumptions made at the start of the year, the pension deficit would grow by any excess of the profit and loss charge over the cash contributions paid. Actuarial gains and losses due to differences between actual experience and the assumptions made are recognised immediately outside the profit and loss account in the SORIE.



Principal actuarial assumptions at balance sheet dates:

	31 December 2007		31 December 2006		31 December 2005	
	UK	**US**	UK	US	UK	US
Inflation rate	**2.8%**	**3.5%**	2.8%	3.5%	2.8%	3.5%
Expected rate of salary increases	**4.6%**	**4.5%**	4.5%	4.5%	4.5%	4.5%
Expected rate of pension increases	**2.8%**	**0.0%**	2.8%	0.0%	2.8%	0.0%
Discount rate	**4.8%**	**6.0%**	5.4%	6.1%	4.8%	6.1%
Number of years a current pensioner is expected to live beyond age 65:						
→ Men	**21.2**	**17.7**	19.2	17.7	19.2	17.7
→ Women	**24.0**	**20.6**	22.0	20.6	22.0	20.6
Number of years future pensioners currently aged 45 are expected to live beyond age 65						
→ Men	**22.4**	**19.8**	19.9	17.7	19.9	17.7
→ Women	**25.1**	**22.0**	22.8	20.6	22.8	20.6
Expected return on plan assets	**6.3%**	**7.3%**	6.5%	7.5%	6.7%	7.0%
Analysed as:						
Equities	**7.5%**	**8.6%**	8.0%	8.8%	8.3%	8.9%
Bonds	**4.6%**	**5.3%**	5.2%	5.5%	5.6%	5.5%
Property and other	**6.0%**	**6.6%**	6.5%	6.8%	6.8%	6.9%

Assumptions used to calculate 2006 and 2007 present value of plan liabilities.

Assumptions used to calculate 2006 and 2007 charge to the profit and loss account with respect to defined benefit plans.

15 Pensions continued

The expected return on plan assets assumption was determined by considering the expected returns available on the assets underlying the current investment policy, namely:

→ Bonds – based on the gross redemption yields on both corporate and government bonds in the relevant territory at the balance sheet date, weighted by the holding in each class

→ Equities and property – for the UK (US) plan assumes outperformance of 3.5% (4.0%) and 2.0% (2.0%) per annum respectively above the yield on long dated government bonds at the balance sheet date

The expected return on plan assets is stated gross of administration expenses and the levy payable to the Pensions Protection Fund in the UK and the Pension Benefit Guaranty Corporation in the US – see page 64 for more details.

Demographics assumptions:

	UK	US
Basic mortality table used	PA 92	UP-94
Based upon mortality experience of:	UK insured pensioner mortality between 1991-1994	US uninsured pensioner mortality between 1988-1994
Year the mortality table was published	1999	1985
Allowance for future improvements in longevity	Year of birth projections, with medium cohort improvements with adjustments to reflect expected scheme experience	Projection scale AA projected to 2008 for pensioners and 2026 for non-pensioners
Allowance made for members to take a cash lump sum on retirement	All members are assumed to take 25% of their benefit in the form of cash	N/A

As this is the first year we have disclosed information relating to the assumptions regarding the longevity of pensioners, we have provided an expanded discussion on mortality tables, focusing on the UK plan as it has the highest deficit on page 46 of the annual report.

Sensitivities:

Sensitivity of 2007 pension liabilities and cost to changes in assumptions are as follows:

Assumption	Assumption change	Impact on:	Estimated increase/ (decrease) (%)	Estimated increase/ (decrease) impact (£'000)
Pensions				
Discount rate	Increase by 0.5%	Pension liabilities	(9%)	(11,000)
		Pension cost	(35%)	(800)
Expected rate of salary increases	Increase by 0.5%	Pension liabilities	3%	4,000
		Pension cost	17%	400
Expected rate of pension increases	Increase by 0.5%	Pension liabilities	3%	4,000
		Pension cost	17%	400
Life expectancy	Increase by one year	Pension liabilities	4%	5,000
		Pension cost	17%	400

Notes to the financial statements continued

15 Pensions continued

Membership details as at 31 December 2007:

	UK	US
Active workers	700	175
Total pensionable salary roll	£14.7m	£4m
Average age	40	42
Average service in plan	11 years	12 years
Number of deferred members	400	121
Total deferred benefits (at date of leaving scheme)	£1.5m	£0.4m
Average age	38	34
Number of pensioners	200	43
Total pensions in payment	£1.6m	£0.5m

Investment strategy:

The Trustees of the UK plan are responsible for setting the investment strategy for the UK plan after consultation with the sponsoring company and professional advisers. The company sets the investment strategy of the US plan. The following investment approach is being taken in each territory:

	UK	US
Equity/bond/property split	50/40/10	60/30/10
Within equities:		
– Home/overseas split	80/20	70/30
Within bonds:		
– Index-linked/fixed income split	30/70	20/80

The plan assets do not include any of the group's financial instruments, nor any property occupied by, or other assets used by, the group. The property holding includes a small holding of cash.

The actual return on plan assets during the year was £8.5m (2006: £7.7m).

Cash funding:

Accounting costs do not impact on the incidence or amount of cash contributions for defined benefit plans. Future cash contributions are determined based upon periodic actuarial valuations and local regulatory requirements.

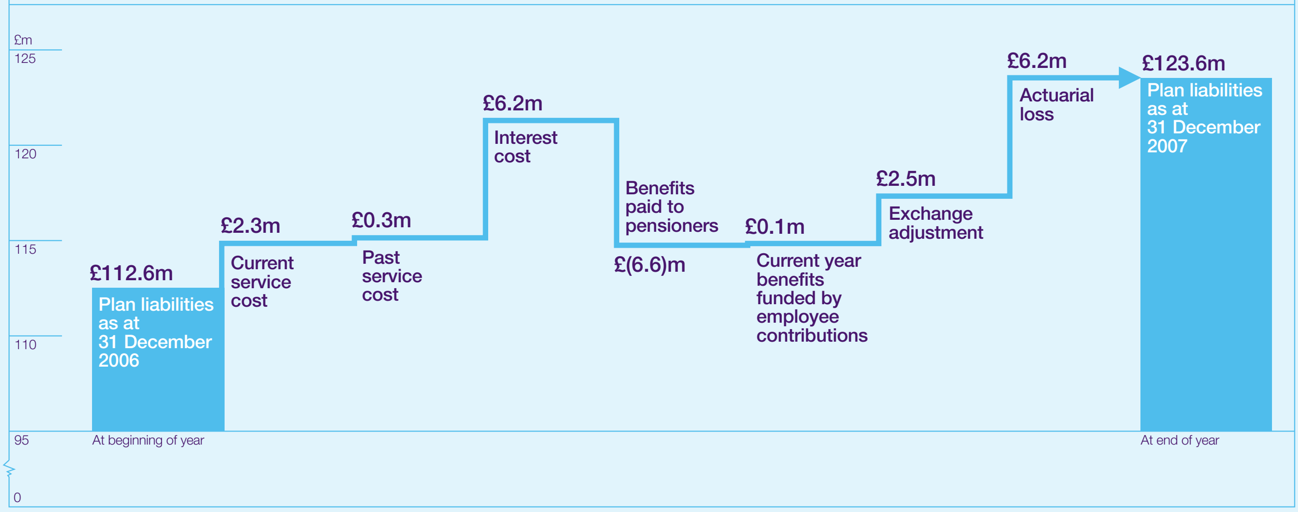
	UK	US
Date of last formal funding valuation	1 July 2007	1 June 2007
Surplus/(deficit)	(£3m)	£2m
Funding approach	Assumes that plan assets will outperform government bonds by 2.0% per annum pre-retirement and 0.5% post-retirement	Assumes that plan assets will outperform government bonds by 3.5% per annum
Contribution rate agreed to meet the cost of benefits accruing, plus related expenses	14% of pensionable salary	12% of pensionable salary
Lump sum contributions per annum to remove the deficit	£1.1m per annum	£200,000 per annum
Period over which the deficit is expected to be removed	1 January 2008 to 1 January 2011	N/A
Expected contributions during 2008	£3.2m	£0.5m
Expected 2008 levy	£50,000*	Negligible
Payable to	Pension Protection Fund	Pension Benefit Guaranty Corporation

*The Dun & Bradstreet failure score underlying the levy is 96 out of 100.

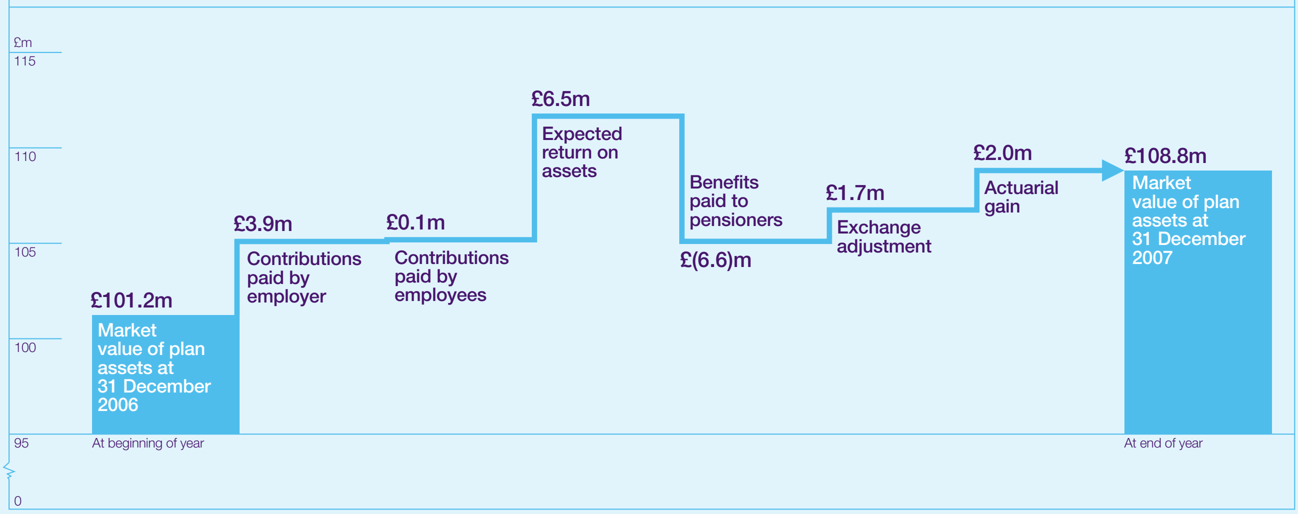
15 Pensions continued

The graphs below set out source of the changes during the year in both plan liabilities and assets.

Change in the pension plan liabilities



Change in market value of pension plan assets



Analysis of the movement in the pension deficit:

	2007			2006		
	UK £'000	**US £'000**	**Total £'000**	UK £'000	US £'000	Total £'000
At beginning of year	**(8,100)**	**(3,300)**	**(11,400)**	(9,200)	(3,900)	(13,100)
Total expense	**(1,500)**	**(800)**	**(2,300)**	(1,300)	(400)	(1,700)
Contributions	**2,800**	**1,100**	**3,900**	2,200	900	3,100
Exchange differences	**–**	**(800)**	**(800)**	–	(300)	(300)
Actuarial gain/(loss)	**(4,300)**	**100**	**(4,200)**	200	400	600
At end of year	**(11,100)**	**(3,700)**	**(14,800)**	(8,100)	(3,300)	(11,400)

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Notes to the financial statements continued

15 Pensions continued

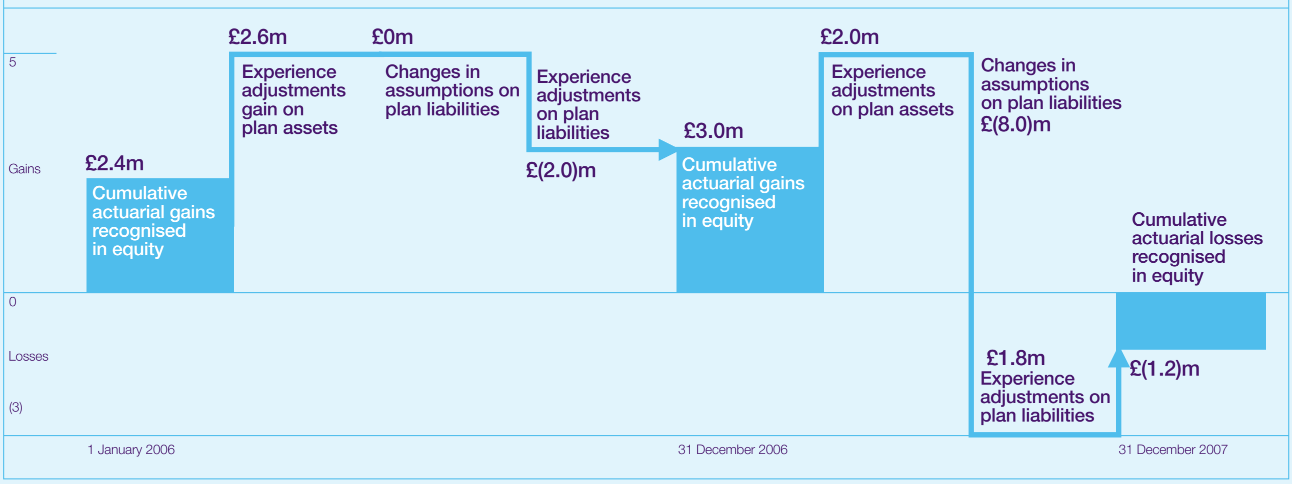
Analysis of the movements in the present value of the plan liabilities:

	2007 UK £'000	2007 US £'000	2007 Total £'000	2006 UK £'000	2006 US £'000	2006 Total £'000
At beginning of year	**90,500**	**22,100**	**112,600**	87,200	22,800	110,000
Current service cost	**1,600**	**700**	**2,300**	1,300	500	1,800
Past service cost	**200**	**100**	**300**	100	–	100
Interest cost	**4,700**	**1,500**	**6,200**	4,700	1,400	6,100
Actuarial loss/(gain)	**5,900**	**300**	**6,200**	1,800	(1,000)	800
Contribution paid by employees	**100**	**–**	**100**	100	–	100
Benefits paid	**(5,000)**	**(1,600)**	**(6,600)**	(4,700)	(1,500)	(6,200)
Exchange differences	**–**	**2,500**	**2,500**	–	(100)	(100)
At end of year	**98,000**	**25,600**	**123,600**	90,500	22,100	112,600

Analysis of the movements in the market value of plan assets:

	2007 UK £'000	2007 US £'000	2007 Total £'000	2006 UK £'000	2006 US £'000	2006 Total £'000
At beginning of year	**82,400**	**18,800**	**101,200**	78,000	18,900	96,900
Expected return on assets	**5,000**	**1,500**	**6,500**	4,800	1,500	6,300
Actuarial gain/(loss)	**1,600**	**400**	**2,000**	2,000	(600)	1,400
Contributions paid by employer	**2,800**	**1,100**	**3,900**	2,200	900	3,100
Contributions paid by employees	**100**	**–**	**100**	100	–	100
Benefits paid	**(5,000)**	**(1,600)**	**(6,600)**	(4,700)	(1,500)	(6,200)
Exchange differences	**–**	**1,700**	**1,700**	–	(400)	(400)
At end of year	**86,900**	**21,900**	**108,800**	82,400	18,800	101,200

Cumulative actuarial gains and losses recognised in equity



15 Pensions continued

History of experience gains and losses

All experience adjustments are recognised directly in equity, net of related tax.

History of experience gains and losses	2005	2004	2003
Experience adjustments arising on plan assets:			
Amount (£000)	1,200	2,000	2,300
% of plan assets	1%	2%	3%
Changes in assumptions arising on present value of plan liabilities:			
Amount (£000)	2,000	–	–
% of present value of plan liabilities	2%	–	–
Experience adjustments arising on present value of plan liabilities:			
Amount (£000)	(3,300)	(2,000)	1,100
% of present value of plan liabilities	(3%)	(2%)	1%
Present value of plan liabilities	(110,000)	(105,700)	(97,200)
Market value of plan assets	96,900	93,000	88,000
(Deficit)	(13,100)	(12,700)	(9,200)

16 Other post-employment benefits

As discussed in Note 1, the group provides post-employment healthcare benefits to its retired employees in North America. The present value of the healthcare costs is calculated by independent actuaries, ZZZ Ltd. In calculating this value, the actuary makes a number of assumptions with regard to the factors that will affect future costs of providing healthcare benefits. The principal assumptions made by the actuary were:

	31 December 2007	31 December 2006	31 December 2005
Inflation rate	**3.5%**	3.5%	3.5%
Discount rate	**6.0%**	6.1%	6.1%
Expected increase in medical costs	**12%pa for first five years decreasing to to 9%pa**	11%pa for first five years decreasing to 8%pa	10%pa for first five years decreasing to 7%pa

Sensitivity to changes in assumptions in the actuarial valuations as 31 December 2007 is as follows:

Assumption	Assumption change	Impact on:	Estimated impact (%)	Estimated impact (£'000)
Post-retirement benefits				
Discount rate	Increase by 0.5%	Post employment healthcare liabilities	(7%)	(75)
		Healthcare costs	(10%)	(15)
Expected rate of increase in medical costs	Increase by 1.0%	Post employment healthcare liabilities	12%	130
		Healthcare costs	22%	33

Notes to the financial statements continued

16 Other post-employment benefits continued

The amount recognised in the profit and loss account is determined as follows:

	2007 £'000	2006 £'000
Current service cost	**200**	100
Past service credit	**(200)**	–
Charged to operating profit	**–**	100
Interest cost	**150**	200
Total	**150**	300

Changes in the present value of the benefit liability were as follows:

	2007 £'000	2006 £'000
At beginning of year	**900**	600
Current service cost	**200**	100
Past service cost/(credit)	**(200)**	–
Interest cost	**150**	200
Actuarial loss/(gain) (recognised in SORIE)	**500**	700
Benefits paid	**(600)**	(500)
Exchange differences	**100**	(200)
At end of year	**1,050**	900

Cumulative actuarial gains and losses recognised in equity:

	2007 £'000	2006 £'000
At beginning of year	**900**	200
Changes in assumptions	**400**	300
Experience adjustments	**100**	400
At end of year	**1,400**	900

History of experience gains and losses

All experience adjustments are recognised directly in equity, net of related tax.

History of experience gains and losses	2007	2006	2005	2004	2003
Changes in assumptions on plan liabilities:					
Amount (£000)	**400**	300	100	50	10
% of present value of plan liabilities	**38%**	33%	14%	10%	3%
Experience adjustments arising on present value of plan liabilities:					
Amount (£000)	**100**	400	(200)	(50)	(10)
% of present value of plan liabilities	**10%**	44%	(29%)	(10%)	(3%)
Present value of plan liabilities	**1,050**	900	700	500	300

WARNING
WE HAVE NOT INCLUDED ALL NOTES

20 Cash flow movements in net current assets

	2007 £'000	2006 £'000
(Increase) in inventory	**(1,744)**	(126)
(Increase) in trade and other receivables	**(1,795)**	(625)
Increase/(decrease) in trade and other payables	**1,878**	(89)
(Increase) in net current assets	**(1,661)**	(840)

Cash flow movements relate to normal trading activities and accordingly exclude acquisitions.

21 Free cash flow NON-GAAP

Free cash flow is the amount of cash generated by the group after paying out the costs to keep the business running. These would include operating costs, interest payments on bank loans and bonds, research and development, tax and all net capital investment (as we consider such costs as replacement investment). Although it is a non-GAAP measure, we use free cash flow as a key measure in order to assess operational performance. It is calculated by taking the net increase in cash and cash equivalents less cash flows from financing activities (excluding interest paid), less the acquisition or disposal of group undertakings and dividends in order to assess operational performance.

	2007 £'000	2006 £'000
Net increase in cash and cash equivalents	**1,445**	979
Receipt of new bank loans	**(2,000)**	(4,527)
Repayment of bank loans	**6,000**	13,000
Dividends paid	**5,200**	3,960
Acquisitions of subsidiaries (net of cash or debt acquired)	**4,000**	916
Free cash flow	**14,645**	14,328

22 Analysis of changes in net debt NON-GAAP

Changes in financing net debt	2007 £'000	2006 £'000
At beginning of year	**23,117**	32,927
Movement on overdrafts	**55**	(979)
Increase in cash deposits	**(1,500)**	–
Repayments of debt	**(6,000)**	(13,000)
Raising new debt	**2,000**	4,527
Exchange difference on US debt	**601**	(358)
At end of year	**18,273**	23,117

Changes in operating net debt	2007 £'000	2006 £'000
At beginning of year	**13,825**	5,802
Operating lease payments	**(2,255)**	(2,252)
Payment to terminate lease	**–**	(1,035)
New operating leases	**2,800**	11,310
At end of year	**14,370**	13,825

For an analysis of the changes in other debt-like liabilities (ie pension deficit) see Note 15.

Notes to the financial statements continued

23 Analysis of expected repayments of net debt NON-GAAP

	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total £'000
Financing net debt*	(1,465)	4,183	–	500	4,527	10,528	**18,273**
Operating net debt	2,563	2,678	2,243	1,641	1,641	3,604	**14,370**
Other debt-like liabilities†							
– Pensions' contributions	1,100	1,100	1,100	–	–	11,500	**14,800**
– Related tax reduction	(330)	(330)	(330)	–	–	(3,450)	**(4,440)**
Net other debt-like liabilities	770	770	770	–	–	8,050	**10,360**
Total net debt	1,868	7,631	3,013	2,141	6,168	22,182	**43,003**

*Repayments of financing net debt are based on our expectation of when the company's debt will be repaid as set out in Note 24. The 'negative' payment in the first year represents the net cash position at 31 December 2007, as no financing debt repayments are expected within twelve months of the year end.

†Repayments of the pension deficit reflect the excess of expected cash contributions over the expected accounting profit and loss charge for the next three years. Cash contributions are based upon the funding valuation, not the IAS 19 pensions deficit. The deficit under the funding valuation is expected to be cleared by 1 January 2011.

24 Borrowings

Issuer	Issue date	Maturity date	Currency	Maturity type	Issuer	2007 £'000	2006 £'000
Short-term borrowings							
Puttable loan note	2006	2012	Sterling	Puttable	Generico Plc	**4,527**	4,527
6.54% callable loan note	1997	2017	Sterling	Callable	Generico Plc	**–**	6,000
						4,527	10,527
Long-term borrowings							
5.5% preference share	1997	2019	Sterling	Bullet	Generico Plc	**5,000**	5,000
4.45% revolving bank loan	2002	2012	Sterling	Revolver	Generico Plc	**4,183**	4,183
6.75% bullet loan	2004	2021	US dollar	Bullet	USA sub	**3,528**	2,927
4.35% callable loan note	2007	2022	Sterling	Callable	Generico Plc	**2,000**	–
						14,711	12,110
Total borrowings						**19,238**	22,637

The group's debts are subject to covenants, representations and warranties commonly associated with investment grade borrowings on our committed 2012 £4.183m revolving credit facility, our £2.0m 4.35% 2022 loan note and our $8.0m 6.75% 2021 bullet loan note.

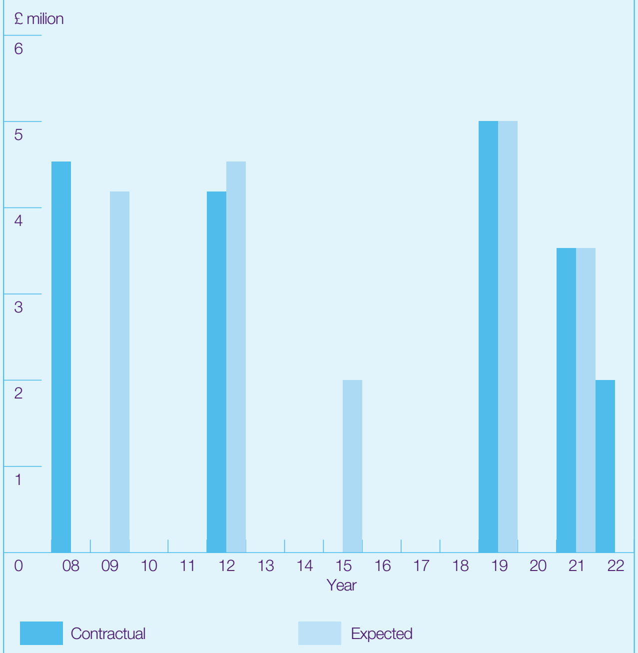
In addition the group is subject to one financial covenant under our committed £4.183m facility. The ratio of net debt to consolidated EBITDA must not exceed 2.5 times and the ratio of operating profit to net interest charge must not be less than 3.0 times. Throughout 2007, we have been comfortably within these limits.

Interest-bearing loans and borrowings	2007 £'000	2006 £'000
Overdraft	**55**	–
Short-term borrowings as above	**4,527**	10,527
	4,582	10,527

24 Borrowings continued

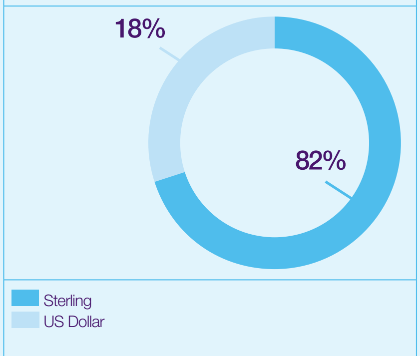
	Debt maturity – first contractual date	NON-GAAP	Debt maturity – expected*
Year	Amount £'000	Year	Amount £'000
2008	**4,527**	2008	
2009		2009	**4,183**
2010		2010	
2011		2011	
2012	**4,183**	2012	**4,527**
2013		2013	
2014		2014	
2015		2015	**2,000**
2016		2016	
2017		2017	
2018		2018	
2019	**5,000**	2019	**5,000**
2020		2020	
2021	**3,528**	2021	**3,528**
>2022	**2,000**	>2022	

Borrowing maturity analysis

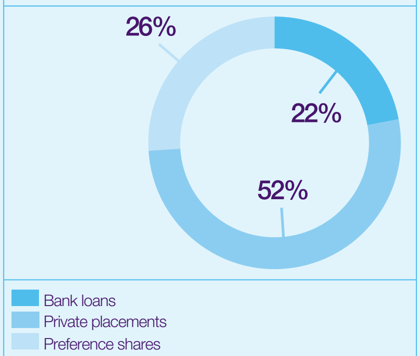


*Expected debt maturity is based upon our expectation of when the company's debt will be repaid. The difference between the contractual and expected debt maturity tables is primarily as a result of our expectation of when we will call the callable debt instruments, which in accordance with IFRS 7 are disclosed at the first date the company is contractually obligated to settle in cash, i.e. the maturity date. Although expected debt maturity is a non-GAAP measure, we believe it gives a more realistic profile of when debt will mature.

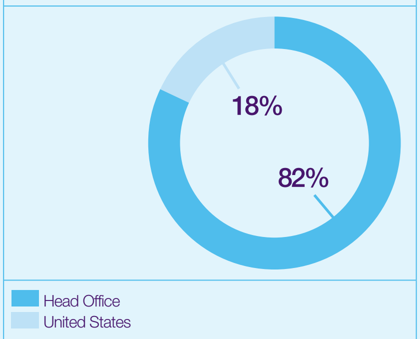
Borrowings – by currency



Borrowing by source



Borrowings by business unit



Glossary

All Weather Beacons (AWBs)	AWBs emit continuous navigation signals that can be picked up by satellites in order to pinpoint the location of the user.
Adjusted after tax EBITDA	Our approximation of cash inflow from operating activities, less net capital investment, non-borrowing related finance charges and a notional tax charge.
Average length of service	Calculated as the number of full time equivalent (FTE) employees divided by the accumulated number of constant years of service. We include in this sum all casual workers, but exclude contractors, consultants and agency staff.
Capital base	We calculate the capital base, a non-GAAP measure, using the following formula: Capital base = the average financial net debt and management view of equity of the group. See page 74.
Cash Added Value	This equals the adjusted after tax EBITDA minus a charge for the capital employed. This charge equals the average invested capital ('capital base') multiplied by the weighted average cost of capital.
Client dependency	The percentage of total revenue attributed to a client during the financial year.
Competitors	We monitor our performance against a peer group of companies in each region comprising: **AWB**: MJO Navigation; Janling Technologies; Findme Inc; Boats Electronics; AMT Maritime **GPS**: Ricorp Marine Inc; Kever International; Emmaworth Systems Ltd
Cost of equity	This is calculated using the Capital Asset Pricing Model (CAPM). The formula that we use is: $ER_i = R_f + \beta_i (ER_m - R_f)$ where: ER_i = the return expected on asset i R_f = the risk free rate β_i = the beta of asset i (a measure of its riskiness relative to the market) ER_m = the return expected from the market.
Customer retention	We calculate this by applying the formula: (1 – active customer accounts lost)/total number of active customer accounts*100. An active customer is one that has made a purchase within the preceding 12 months.
Days lost through injury	This is presented as an absolute number. We include all days or part days that are lost through work-related injuries. This figure will also include any long-term disabilities within the workforce.
EBITDA	A non-GAAP measure representing earnings before interest, tax, depreciation and amortisation.
Economic return	The measure of Economic Return expresses the Cash Added Value amount as a percentage of the average book value of investment.
Employee turnover	We calculate staff turnover using the following formula: (leavers/average headcount)*100
Fast Forward programme	Programme designed to transform the culture of the whole business and improve both quality of products and productivity. The programme is based on the well established Six Sigma principles for process improvement and defect elimination.
Free cash flow	The amount of cash generated by the group after paying out the costs to keep the business running. We calculate this as the net increase in cash and cash equivalents less cash flow from financing activities (excluding interest paid), less the acquisition or disposal of group undertakings and dividends.
Full time equivalents (FTEs)	We calculate the number of full time equivalents (FTEs) using the following definitions: Total FTE – To sum FTEs over the firm, we sum the total hours worked including overtime and divide this by the contractual hours per person. Part-time – The hours that a part-time person works is pro-rata-ed to calculate FTE eg a person working 30 hours versus a 40 hour full time week is deemed to be a 0.75 FTE. Employees – We include in this sum all casual and temporary staff, but exclude contractors, consultants and agency staff.
Global Positioning Systems (GPS)	GPS devices enable boaters to identify their location and navigate easily and accurately.
Gross margin	Gross margin is defined as turnover less the cost of sales, divided by the turnover, multiplied by 100.
Incidents	A health and safety incident is recorded every time that an injury occurs to an employee, a contractor, or a member of the public who comes into contact with an employee or contractor who is on company business. Incidents include near misses.

Market growth/share	May be calculated by revenue or volume. Given the declining price environment we are currently experiencing, we have used the volume based data produced by the Shipping Alliance.
Market penetration	The percentage of new private leisure boats sold that feature AWB and/or GPS products produced by the Shipping Alliance.
Near misses	Our health and safety process codifies any incident that comes close to injuring any member of staff, contractor or member of the public. A near miss is an event that, if repeated, would probably result in injury.
New boat lines	The number of new boat lines launched during the financial year that feature our products as standard.
Net debt	Shows the group's net indebtedness to banks and other external financial institutions, those providing lease finance and other debt-like liabilities. See page 55 for an analysis of the constituent elements of net debt.
% of revenue generated from new products	A new product is one that has been introduced within the past two years.
On-time delivery	The percentage of total deliveries where the correct volumes of the ordered products were delivered to the correct site within a specified two hour window as measured by the company's ON TIME software system.
Operating margin	Operating margin is a measure of the proportion of our revenue left over after paying for both cost of sales and administration and distribution expenses. It is calculated as operating income divided by revenue, expressed as a percentage.
Organic growth	The rate of business expansion through increasing the volume of sales as opposed to mergers, acquisitions and takeovers. Organic growth rate also excludes the impact of foreign exchange and price movements.
Ownership, reward training and incentive plan (ORTS)	ORTS is the group's innovative incentive plan that was developed to respond to a clear need to safely engage and empower our employees in order to reduce costs of recruiting and training new employees. It forms part of the implementation of our Fast Forward programme.
Parts per million (ppm) defect rate	The number of defective products delivered to the customer scaled up to 1 million. For example 1% of products defective per 100 equates to 10,000 ppm (1% of 1 million).
Pension deficit	Represents the amount by which the present value of the group's pension plan liabilities exceeds the fair value of the pension plan assets held in trustee-administered funds.
Personal disposable income	The income households receive from firms, plus transfer payments received from the government, minus direct taxes paid to the government. It is the income that households have available for spending or saving. Statistics on personal disposable income are sourced from the UK government's national statistics website, www.statistics.gov.uk, and the US Bureau of Economic Analysis website, www.bea.gov.
Product pipeline	The number of products in the pipeline that are scheduled to be launched in the next two years.
Relative price benchmark	To compile our relative price index, we compare our average price per unit to the average price per unit for each of the contracts awarded by the top ten boat manufacturers. We update this as each contract is awarded.
Return on invested capital	This is calculated using the formula: Profit for the year after tax/(Financing net debt + equity) This is commonly used by the investment community to assess the returns that management have achieved on the capital that has been invested in the company.
Raw material cost per unit	The total cost of raw materials used in a production run divided by the number of products produced.
Stock waste/total stock (%)	This metric is automatically calculated hourly as waste is collected in the refuse skips allowing immediate action to be taken to resolve issues.
Weighted Average Cost of Capital (WACC)	This is a measure of the cost of the capital employed by the company. It recognises the different costs of debt and equity and weights those costs according to the proportion used by the group. It is calculated using the formula: $WACC = MV_E/(MV_D + MV_E)*R_E + MV_D/(MV_D + MV_E) * R_D$ Where: MV_E = market value of equity MV_D = market value of debt R_E = cost of equity R_D = cost of debt

Reconciliation of Non-GAAP Measures

We use both GAAP and Non-GAAP measures to assess performance.

Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than generally accepted accounting principles (GAAP) do not have standardised definitions under GAAP and are unlikely to be comparable to similar measures used by other companies.

GAAP and related Non-GAAP measures used in the Annual Report

	Page	2007	2006
Revenue (a)	51	**209,891**	173,842
Inventory	53	**23,304**	21,560
Trade and other receivables	53	**26,466**	22,812
Trade and other payables	53	**(11,528)**	(9,650)
Working capital* (b)		**38,242**	34,722
Reported shareholders equity	53	**47,676**	34,806
Less: subordinated loan	55	**(500)**	(500)
Less: Goodwill	53	**(4,230)**	(330)
Management's view of equity* (c)		**42,946**	33,976
Financial net debt per management* (d)	55	**18,273**	23,117
Closing debt and equity		**61,219**	57,093
Opening debt and equity		**57,093**	56,336
Capital base* (e)		**59,156**	56,715
Profit for the year* (f)	51	**18,484**	15,575
Operating profit	51	**27,053**	23,311
Add back: Depreciation and amortisation	51	**6,088**	5,489
EBITDA*	51	**33,141**	28,800
Deduct: Net capital investment		**(6,404)**	(5,644)
Add: Financing credit not related to borrowings (ie pension credit to finance expense)	61	**300**	200
Adjusted EBITDA before tax*		**27,037**	23,356
Deduct notional tax at 29%		**(7,841)**	(6,773)
Adjusted after tax EBITDA* (g)		**19,196**	16,583
Charge for capital* (WACC x capital base)		**(5,797)**	(5,558)
Cash added value* (h)		**13,399**	11,025
Ratio analysis*			
Working capital as percentage of revenue (b/a)		**18%**	20%
Financial net debt to capital (d/c)		**43%**	68%
Return on Invested Capital (f/e)		**31%**	27%
Economic return (h/e)		**23%**	19%

* These are non-GAAP amounts or non-GAAP measures.

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