Solid State PLC
05 July 2006

SOLID STATE PLC

PRELIMINARY ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2006

CHAIRMAN'S STATEMENT

Trading Review

Solid State Supplies

During the course of 2005 and in common with other distributors Solid State Supplies suffered the loss of three component franchises, as the market in electronic component distribution continues to consolidate. We have since taken steps to both replace these lines and broaden our product offering with the appointment of a Business Development Manager. The first phase of this process is now complete and we will sign further lines during the first half of this fiscal year. We continue to reduce costs where appropriate without compromising customer service levels.

In addition, the re-branding of the group we believe will increase customer awareness of our produce range and assist us in increasing sales. I am pleased to report that trading conditions have improved since March and our book to bill ratio for the first two months of the year amounted to 1.20 to 1.00 and the signs are that market conditions will remain buoyant throughout this financial year.

Steatite and Wordsworth Technology

The re-organisation of Steatite and Wordsworth was completed in January 2006 on time and within budget. The improved efficiencies projected have already shown a positive result to the businesses.

Year on year sales growth of the continuing business was 6.8% over the corresponding period in the prior year.

Costs have remained under close scrutiny and the companies have prepared themselves for the introduction of RoHs (Restriction of Hazardous Substances) registration which comes into effect in July 2006 minimizing risks to the business.

The result is that a strong platform for maximizing profit and increasing sales is in place and the companies are confident in achieving their goals moving forward. Our business strategy is to continue to focus on demand creation for value added own brand products increasing market share and consolidating their position.

Dividends

In view of the substantial costs incurred in recent months with the re-organisation of Steatite and Wordsworth Technology the Directors have decided that no final dividend should be declared for the year ended 31st March 2006. This means that the total dividend in respect of the year is 0.5p compared with 3.5p per share last year.

Summary

We have recorded a good start to the new financial year at both sites and the Board believes we are in a strong position to develop during the current financial year and beyond.

Peter Haining

Chairman

5 July 2006

MANAGING DIRECTOR'S REVIEW

The audited loss before tax of the Group was £60,000 (2005: profit of £315,000) after charging non-recurring expenses of £119,000 comprising relocation expenses of £89,000 and an ex-gratia payment to a former director of £30,000, and after charging goodwill amortisation of £71,000 (2005: £35,000).

The difficulties experienced in the electronic component distribution business illustrate the importance of the Group's strategy in diversifying into manufacturing, commenced in 2002 with the acquisition of the Steatite business and strengthened in 2005 with the acquisition of Wordsworth Technology Limited. In the year ended 31st March 2006, over 60% of the group turnover was generated by these businesses, whereas in the previous year Solid State Supplies had accounted for 56% of group turnover.

Following the loss of three significant franchises in 2005, the Board took the decision that investment should be made to restore the core electronic component distribution business to profitability and the results to date have been positive. Book to bill ratio is always a key indicator of trading trends, and a ratio of 1.20 to 1.00 for the first three months of the new financial year is a strong indication that the steps being taken which have included strengthening the sales team, the appointment of a Business Development Manager and actively seeking new lines to broaden the overall product range are now giving positive results. A process of tightening stock control has been in place for many years, but the current expansion is being achieved with stock at historically low levels thus improving financial efficiency.

The relocation of Wordsworth Technology Limited to Steatite's existing premises at Redditch at the end of 2005 was achieved with a minimum of disruption to trade and the two businesses are now operating side by side. This has enabled significant savings in overheads, principally staff costs and premises expenses, in the order of £30,000 per month, and both businesses have been able to benefit from the close relationship with the other in terms of customer base, and technical expertise.

For some time the impending Restriction of Hazardous Substances regulations have cast a shadow on the electronic component industry in the UK with uncertainty over the detailed scope of the new regulations and areas to be exempted, and until recently a lack of urgency to react to the new regime on the part of overseas suppliers, particularly in the USA. Careful control of non-compliant stock levels at all sites has enabled the Group to prepare successfully for the implementation in July 2006.

Cash flow has been carefully controlled throughout the last year with the result that borrowing has been comfortably within available limits throughout. Invoice discounting in place at Steatite and Wordsworth allows increases in working capital requirements arising from increased trading levels to be absorbed without stretching available resources. The purchase of Wordsworth for cash consideration has increased borrowing levels significantly but repayments scheduled to medium term loans of £260,000 in the current year and £331,000 in the following year will result in a significant overall reduction in borrowing levels.

The new year has started well with turnover in excess of £3.2m in the first three months and strong booking levels.

Gary Marsh
Managing Director
5 July 2006

Enquiries:

Solid State plc

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CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2006

	2006	2006	2006	2005
	£ Continuing Operations	£ Acquisitions	£ Total	£ Total
Turnover	8,310,071	2,141,896	10,451,967	9,480,429
Cost of sales	(6,025,917)	(1,517,478)	(7,543,395)	(6,698,300)
GROSS PROFIT	2,284,154	624,418	2,908,572	2,782,129
Selling expenses and distribution costs	(1,075,315)	(140,207)	(1,215,522)	(1,181,137)
Administrative expenses	(1,251,417)	(424,436)	(1,675,853)	(1,285,865)
OPERATING (LOSS)/ PROFIT	(42,578)	59,775	17,197	315,127
Other interest receivable and similar income			3,639	1,943
Interest payable			(80,897)	(1,660)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			(60,061)	315,410
Tax on profit on ordinary activities			34,893	(79,573)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			(25,168)	235,837
EARNINGS PER SHARE				
Basic			(0.4)p	3.8p
Diluted			(0.4)p	3.8p

All amounts relate to continuing activities.

There were no recognised gains or losses other than the (loss)/profit for the year as stated above.

CONSOLIDATED BALANCE SHEET
at 31 March 2006

	2006	2005
	£	(as restated) £
FIXED ASSETS		
Intangible assets	1,660,878	596,117
Tangible assets	373,562	415,322
	2,034,440	1,011,439
CURRENT ASSETS		
Stocks	1,081,498	1,091,215
Debtors	1,863,854	1,941,024
Cash at bank in hand	153,903	108,536
	3,099,255	3,140,775
CREDITORS: Amounts falling due within one year	2,560,981	1,599,908
NET CURRENT ASSETS	538,274	1,540,867
TOTAL ASSETS LESS CURRENT LIABILITIES	2,572,714	2,552,306
CREDITORS: Amounts falling due after more than one year	553,737	354,249
	2,018,977	2,198,057
CAPITAL AND RESERVES		
Called up share capital	307,826	307,826
Share premium account	756,980	756,980
Capital redemption reserve	4,674	4,674
Profit and loss account	949,497	1,128,577
SHAREHOLDERS' FUNDS-EQUITY	2,018,977	2,198,057

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 March 2006

	2006	2005
	£	£
Net cash inflow from operating activities	1,216,366	673,859
Return on investments and servicing of finance:		
Interest received	3,639	1,943
Hire purchase interest paid	-	29,522
Other interest paid	(80,897)	(31,182)
Net cash (outflow)/inflow from return on investments and servicing of finance	(77,258)	283
Taxation		
Corporation tax paid	(185,253)	(71,575)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(145,093)	(80,616)
Receipts from sales of tangible fixed assets	43,957	25,934
Net cash outflow from capital expenditure and financial investment	(101,136)	(54,682)
Acquisitions and disposals		
Receipt from sale of joint venture	-	500
Purchase of business operation	(1,833,167)	-
Net cash acquired with subsidiary	234,977	-
Net cash (outflow)/inflow from acquisitions and disposals	(1,598,190)	500
Equity dividends paid	(153,912)	(217,875)
Net cash (outflow)/inflow before financing	(899,383)	330,510
Financing		
Medium term loan received	500,000	-
Repayments of medium term loan: capital element	(138,429)	(108,572)
Hire purchase finance repaid: capital element	-	(32,318)
Invoice discounting finance received/(paid) (net movement)	501,566	(122,675)
Purchase of own shares	-	(33,811)
Net cash inflow/(outflow) from financing	863,137	(297,276)
(Decrease)/increase in cash	(36,246)	33,234

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006

1. The attached preliminary announcement is prepared on the same basis as set out in the previous year's annual accounts and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985; the statutory accounts for the year ended 31 March 2006, upon which an unqualified audit opinion has been given and which did not contain a statement under Section 235, 237(2) or 237(3) of the Companies Act 1985, will be delivered to the Registrar of Companies at a later date. A duly appointed and authorised committee of the Board of Directors approved the preliminary announcement.

2. CHANGES TO ACCOUNTING POLICIES

The group has adopted FRS 21 'Events after the balance sheet date'. Previously, equity dividends declared after the balance sheet date were recognised as liabilities at the year end, as required by company law and SSAP 17 'Accounting for post balance sheet events'. In accordance with FRS 21 and recent changes to the law, if a final equity dividend is declared after the balance sheet date but before the financial statements are authorised for issue, the dividend is not recognised as a liability at the balance sheet date.

The adoption of FRS 21 has resulted in an increase in shareholders funds of £123,130 at 1st April 2006 (2005 - £124,500) due to the write back of the dividend proposed at 31st March 2005.

3. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	2006	2005
	£	£
Depreciation	150,860	177,049
Loss on disposal of fixed assets	17,453	8,409
Amortisation of goodwill	71,062	34,762
Auditors' remuneration:		
Audit services	35,406	24,495
Operating lease rentals:		
Plant and machinery	25,429	23,227
Other	123,421	102,838
Foreign exchange gains	(67,184)	(100,837)
Employment termination costs	33,688	14,896
Relocation expenses: Wordsworth Technology Limited	89,918	-
Ex gratia payment to former director	30,000	-
Research & development	10,123	-

Included in audit fees is an amount of £15,349 (2005: £12,495) in respect of the Company. Additional non-audit services regarding the purchase of Wordsworth Technology Limited were £24,498 (2005: £nil) and have been capitalised and added to the goodwill figure on consolidation.

The relocation expenses for Wordsworth Technology Limited of £89,918 represents the costs, mainly staff termination costs, arising from the relocation of its business from Edenbridge in Kent to the Steatite Limited premises in Redditch in Worcestershire.

4. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006	2005
	£	£
Operating profit	17,197	315,127
Amortisation of intangible fixed assets	71,062	34,762
Depreciation of tangible fixed assets	150,860	177,049
Loss on sale of tangible fixed assets	17,453	8,409
Decrease in stocks	222,634	165,764
Decrease in debtors	800,776	85,597
(Decrease) in creditors	(63,616)	(112,849)
Net cash in flow from operating activities	1,216,366	673,859

5. DIVIDENDS

	2006	2005 (as restated)
	£	£
Final dividend for the prior year of 2p per share (2005: 2p)	123,130	124,500
Interim dividend paid of 0.5p per share (2005: 1.5p)	30,782	93,375
	153,912	217,875
No final dividend proposed for the year (2005: 2p)	-	123,130

6. EARNINGS PER SHARE

	2006	2005
	£	£
The earnings per share is based on the following:		
Earnings	(25,168)	235,837
Weighted average number of shares	6,156,511	6,207,342
Diluted number of shares	6,156,511	6,207,342
Earnings per share	(0.4)p	3.8p
Diluted earnings per share	(0.4)p	3.8p

Earnings per ordinary share has been calculated using the weighted average number of shares in issue during the year. The weighted average number of equity shares in issue was 6,156,511 (2005: 6,207,342).

The Diluted earnings per share is based on 6,156,511 (2005: 6,207,342) ordinary shares which allow for the exercise of all dilutive potential ordinary shares.

7. The Annual Report will be sent to shareholders on 10 July 2006 and made available to the public at the registered office of the Company at Unit 2, Eastlands Lane, Paddock Wood, Kent, TN12 6BU