

DEM Manufacturing Limited
(formerly Deltron Emcon Limited until 19 December 2006)
(1501059)

Annual report and accounts

For the year ended

30 September 2007

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COMPANIES HOUSE

DEM Manufacturing Limited

Officers and Professional Advisers

DIRECTORS

The directors holding office during the year and at the year-end are listed below

M R Kent
P V Allen

SECRETARY

A Bateman

REGISTERED OFFICE

Abacus House
Bone Lane
Newbury
Berkshire
RG14 5SF

BANKERS

HSBC Bank plc
70 Pall Mall
London
SW1Y 5ES

AUDITORS

Ernst & Young LLP
Chartered Accountants and Registered Auditors
Reading

DEM Manufacturing Limited

Director's Report

The directors present their annual report on the affairs of the company, together with the financial statements for the year ended 30 September 2007

CHANGE OF NAME

On the 19 December 2006 the name of the company was changed to DEM manufacturing Limited from Deltron Emcon Limited

PRINCIPAL ACTIVITY

The company's principal activity during the year continued to be that of the designing, manufacturing and selling of electromechanical products and components

RESULTS AND DIVIDENDS

The turnover during the year was £6.3 million (2006: £6.4 million). The profit for the year, after taxation and exceptional costs of £nil (2006: £1.3 million), amounted to £0.1 million compared with a £1.1 million loss in the previous year. The directors do not recommend a dividend for the year (2006: £nil).

REVIEW OF THE BUSINESS

The company has managed to maintain its turnover and make a profit despite the market conditions being difficult. Action has been taken to reduce its cost base and to increase its profitability.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are listed within the list of offices and professional advisors. None of the directors have any interest in the shares of the company. M. R. Kent and P. V. Allen are directors of the ultimate holding company, Abacus Group plc, and their interest in the holding company share capital is shown in the financial statements of that company.

POLITICAL AND CHARITABLE DONATIONS

During the year the company made no charitable donations (2006: £nil).

CREDITOR PAYMENT POLICY

The company endeavours to pay their trade creditors and other suppliers in accordance with the terms of payment agreed at the time the contract of supply is made, to keep suppliers informed of the company's terms of payment and to make payments in accordance therewith. At the end of the year, the company had an average of 61 days (2006: 62 days) purchases outstanding in trade creditors.

EMPLOYEE CONSULTATION

DEM Manufacturing Limited values the involvement of its employees. It has continued to inform employees, through meetings and the intranet, of matters affecting them and of company performance. DEM Manufacturing Limited consults employee representatives regularly on a wide range of matters affecting their current and future interests. All eligible employees may join the Share Save Scheme at regular intervals.

EQUAL OPPORTUNITIES

The Company is committed to providing equal opportunities to all employees, irrespective of sex, marital status, creed, colour, race, ethnic origin or disability. The commitment covers recruiting, training, career development and performance appraisal. Abacus Electronics Holdings Limited strives to maintain employment of those who become disabled while employed and to provide specialist support, where appropriate. The Company will continue to monitor its application of this policy and its compliance with legislation and codes of best practice.

MANAGING BUSINESS RISK

Discussed below are the Company's five major business risks, together with the systems and initiatives in place to address them.

Market

The UK manufacturing market is subject to fluctuations of demand by customers. These fluctuations are linked to the economic cycle and also to the migration abroad of manufacturing activity. The Company actively seeks to manage its exposure to these fluctuations by monitoring stock levels, restricting its dependence on large customers, and maintaining close working relationships with suppliers.

Operational

This relates to the risk of financial loss and damage to reputation resulting from inadequate or failed internal processes and systems and from the actions of people or external events. The Company manages this risk through appropriate controls and loss mitigation actions.

DEM Manufacturing Limited

Director's Report (continued)

Examples include

- a) taking sufficient insurance cover, including for business interruption,
- b) maintaining a details disaster recover plan for all major sites,
- c) maintaining rigorous data backup procedures,
- d) performing regular risk assessments at each of the Company's locations,
- e) carrying out a regular review of the principal suppliers and customers of the Company, and how each impacts on the Company's business,
- f) regularly reviewing actual performance against budgets and forecasts,
- g) establishing clearly defined procedures for the authorisation of major new investments and commitments

In addition, specialist support functions provide expertise in ensuring the Company adheres to local regulatory and legal requirements

Credit

The Company assesses the creditworthiness of new customers before commencing trade with them. Based on this and the customer's capital base, authorised limits of credit are set. A proactive approach to the identification and control of bad and doubtful debts is maintained and significant credit risks are highlighted to the Board.

Liquidity

This relates to the risk that the Company is unable to fund its requirements either because of insufficient banking facilities or because it is constrained by the risk of breaching banking covenants. Following the significant reorganisation of borrowings during the year, the majority of the Company's bank facilities were and are available on a committed basis rather than as an overdraft.

The Company funds its day to day operations and short term assets through a mixture of retained profits, creditors, and short-term bank overdraft and invoice discounting facilities, and its long term assets through bank term loans. The Company's policy on liquidity is to ensure that there are sufficient medium and long-term committed borrowing facilities to meet funding requirements. It is Company policy not to trade in or enter into speculative transactions. The Company pays interest on all debt financing arrangements at an agreed margin over current bank base rates. The majority of the cash comprises bank balances with HSBC Bank plc, which the Company considers creditworthy. The Company complied with all the relevant bank covenants during the year.

Foreign currency and interest rate risk

The Company has significant transactional currency exposures. Such exposures arise from sales and purchases by operating units in currencies other than the unit's functional currency. When appropriate, the Abacus Group seeks to cover net foreign exchange exposures with forward contracts, which are arranged centrally, and by negotiating sales and purchases in the same currency where appropriate.

KEY PERFORMANCE INDICATORS

The senior management of the Company focus on three key indicators of financial performance: bookings, billings and gross profit margin. These are monitored daily across the geographic business units with explanation sought for variance against expectations (which are based on budget and previous years' experience).

In addition, on a monthly basis, detailed management accounts are prepared for senior management, including non executive directors. These provide analysis in detail, by geographic area, of bookings, billings, cost of sales and gross profit, operating expenses, each measured against budget and prior years.

Working capital is monitored monthly against budget and prior year, with particular focus on Group borrowings to ensure that bank covenants are fully complied with. Receivables and inventories are also monitored in detail to ensure that credit terms are being respected and enforced, and that stock turn is appropriate.

Finally, other non financial indicators monitored on a monthly basis include order processing matrices, delivery times and accuracy, staff numbers and turnover.

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the director's report. The Abacus Group, and all of its subsidiaries, maintain directors' and officers' liability insurance to mitigate the impact of any such proceedings.

DEM Manufacturing Limited

Director's Report (continued)

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirm that

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are not aware, and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

AUDITORS

A resolution for the reappointment of Ernst & Young LLP as Auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



A Baleman
Company Secretary
8 May 2008

Independent Auditors' Report

to the members of DEM Manufacturing Limited

We have audited the Company's financial statements for the year ended 30 September 2007 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

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

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

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2007 and of the Company's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the Company financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Reading

8 May 2008

DEM Manufacturing Limited

Profit and loss account

for the year ended 30 September 2007

	Notes	2007 £'000	2006 £'000
Turnover	1	6,302	6,419
Cost of sales		(3,840)	(3,925)
Gross profit		2,462	2,494
Selling and distribution costs		-	(90)
Administrative expenses (including exceptional costs relating to restructuring operations of £nil (2006 £1,269,000))	2	(2,199)	(3,405)
Operating profit (loss)	3	263	(1,001)
Interest payable and similar charges	5	(211)	(210)
Profit (loss) on ordinary activities before taxation		52	(1,211)
Tax on profit (loss) on ordinary activities	6	29	125
Profit (loss) for the financial year attributable to members of the Company		81	(1,086)

There is no difference between the profit reported above and the equivalent profit calculated on an unmodified historical cost basis. The accompanying notes are an integral part of the Profit and Loss Account.

Reconciliation of shareholders' funds

for the year ended 30 September 2007

	2007 £'000	2006 £'000
Total recognised gains and losses	81	(1,086)
Reserve credit for share-based payment plan	3	14
Total movements during the year	84	(1,072)
Shareholders' deficit at 1 October	(1,797)	(725)
Shareholders' deficit at 30 September	(1,713)	(1,797)

DEM Manufacturing Limited

Balance Sheet

as at 30 September 2007

	Notes	2007 £000	2006 £000
Fixed assets			
Intangible assets	7	273	308
Tangible assets	8	397	340
		670	648
Current assets			
Stock	9	667	583
Debtors amounts falling due within one year	10	1,287	1,337
		1,954	1,920
Creditors amounts falling due within one year	11	(1,320)	(1,652)
Net current assets		634	268
Total assets less current liabilities		1,304	916
Creditors amounts falling due after more than one year	12	(3,017)	(2,713)
Net liabilities		(1,713)	(1,797)
Capital and reserves			
Called up share capital	13	11	11
Share premium account	14	2	2
Profit and loss account	14	(1,726)	(1,810)
Shareholders' deficit		(1,713)	(1,797)

The financial statements were approved by the Board of Directors on 8 May 2008 and were signed on its behalf by



P V Allen
Director

DEM Manufacturing Limited

Statement of Accounting Policies

30 September 2007

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

The accounts have been prepared under the historic cost convention and in accordance with the applicable United Kingdom standards (UK GAAP) and Law.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill arises on the acquisition or transfer of subsidiary undertakings and businesses. If the fair value of the consideration given exceeds the fair value of the identifiable assets and liabilities acquired, the difference, goodwill, is capitalised. Goodwill is written off on a straight-line basis over its useful economic life, a maximum of twenty years. Provision is made for any impairment.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. In addition, the carrying value of capitalised software development expenditure is reviewed for impairment annually before being brought into use.

Property, plant and equipment

Property, plant and equipment (including land and buildings) are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment, other than freehold land. The rates calculated to write off the cost, less estimated residual value based on prices prevailing at the balance sheet date, of each asset evenly over its expected useful life are as follows:

Leasehold improvements	-	over period of lease
Plant and machinery	-	10% straight line
Fixtures and fittings	-	10% straight line
Motor vehicles	-	25% straight line
Tools and office equipment	-	25% straight line

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Research and development

Research expenditure is written off against profits in the year in which it is incurred. Development expenditure is also written off, except where directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the company is expected to benefit. This period is between two and five years. Provision is made for any impairment.

Group accounts

The Company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare group accounts and to deliver them to the Registrar of Companies. The accounts present information about the undertaking as an individual undertaking and not as a group. The Company is included in the consolidated accounts of Abacus Group plc, the Company's parent undertaking, which is registered in England and Wales.

Cash flow statement

The consolidated accounts of Abacus Group plc include a cash flow statement. The Directors have taken advantage of the exemption in Financial Reporting Standard 1 (revised) and have not presented a cash flow statement for the Company.

DEM Manufacturing Limited

Statement of Accounting Policies (continued)

30 September 2007

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bring each product to its present location and condition, as follows:

- i) Raw materials, consumables and goods for resale – purchase cost on a weighted average cost basis
- ii) Work in progress and finished goods – cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving and defective items where appropriate.

Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

Interest bearing loan and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance expense.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pensions and other post-retirement benefits

Contributions to money purchase schemes are recognised in the income statement in the period in which they become payable.

Foreign currency

In preparing the Financial Statements of the Company, transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement, except (i) when hedge accounting is applied, (ii) for differences on monetary assets and liabilities that form part of the Company's net investment in foreign operations. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

DEM Manufacturing Limited

Statement of Accounting Policies (continued)

30 September 2007

Turnover

Turnover represents sales, less returns, to external customers excluding value added tax. Transactions are recorded as sales when the delivery of products or performance of services takes place in accordance with the contractual terms of sale.

Leases

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases, where the lessor retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

Finance costs

Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

Share-based payment

The ultimate holding company, Abacus Group plc, issues equity-settled and cash-settled share-based payments to certain employees in its subsidiaries, including the Company. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the current fair value determined at each balance sheet date.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferrability, exercise restrictions and behavioural considerations.

Exceptional items

The Company presents as exceptional items on the face of the income statement, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year. This facilitates comparison with prior periods and better trend analysis in financial performance.

DEM Manufacturing Limited

Notes to the Accounts

30 September 2007

1 Turnover

Turnover comprises the invoiced value of goods and services supplied exclusive of Value Added Tax and after deduction of trade discounts. Turnover is entirely attributable to the principal activity. The analysis of turnover by geographical destination is as follows,

	2007 £'000	2006 £'000
United Kingdom	3,313	3,406
Mainland Europe	1,312	1,489
Far East	401	454
USA	1,011	915
Other	265	155
	6,302	6,419

2 Administrative costs

Following Deltron's acquisition by the Abacus Group, there was a rationalisation of the business. Consequently, restructuring costs were incurred, which comprised

	2007 £'000	2006 £'000
Employee termination payments	-	237
Write down of redundant assets	-	521
Increase in working capital provisions	-	400
Relocation costs incurred in moving manufacturing site	-	87
Integration of BES acquisition made in 2005	-	24
	-	1,269

3 Operating profit (loss)

This is stated after charging the following items

	2007 £000	2006 £000
Auditors' remuneration		
Audit	32	26
Depreciation and other amounts written off tangible fixed assets		
Owned assets	78	107
Leased assets	5	3
Loss on sale of tangible fixed assets	-	18
Amortisation of intangible asset	35	6
Operating lease rentals		
Other	128	128
Plant and machinery	32	29
Share-based payment	3	14

DEM Manufacturing Limited

Notes to the Accounts (continued)

30 September 2007

4 Information Regarding Directors and Employees

Staff cost during the year (including directors)	2007 £000	2006 £000
Wages and salaries (excluding share-based payment charge)	1,101	1,832
Social security costs	91	148
Pension costs	44	25
	1,236	2,005

The share-based payment charge for the year was £3,000 (2006 £14,000)

Average number of persons employed	2007 No	2006 No
Selling	5	4
Product	48	48
Administration	28	28
	81	80

The remuneration of the directors who served during the year were as follows

	2007 £000	2006 £000
Emoluments (excluding share-based payment charge)	-	59
Pension contributions	-	4
	-	63

The directors' remuneration is borne by the parent company and is dealt with in the financial statements of other group companies. The share-based payment charge was £nil (2006 £3,000)

Included in the 2006 figures is remuneration for Mr Davis and Mr Gallone for the period that they served as directors (both resigned in 2006)

5 Interest payable and similar charges

	2007 £000	2006 £000
Bank overdraft	34	32
Finance leases	10	10
Other group loans	167	168
	211	210

DEM Manufacturing Limited

Notes to the Accounts (continued)

30 September 2007

6 Tax on profit (loss) on ordinary activities

	2007 £000	2006 £000
United Kingdom corporation tax at 30% based on the profit (loss) for the year	25	-
Deferred tax		
Adjustments to the estimated recoverable amount of deferred tax assets	4	125
	29	125

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation

	2007 £000	2006 £000
Profit (loss) on ordinary activities before taxation	52	(1,211)
Profit (loss) on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	16	(363)
Effects of		
Expenses not deductible for tax purposes	2	12
Capital allowances in excess of depreciation	(28)	61
Tax losses recognised and carried forward	9	-
Movement in short term timing differences	(1)	(1)
Surrender of losses to fellow subsidiaries	2	291
Adjustment to tax charge in respect of previous periods	(25)	-
Current tax credit for the year	(25)	-

The tax charge in future years may be affected by the realisation of the unrecognised deferred tax asset. A deferred tax asset has not been recognised in respect of timing differences relating to trade losses and capital allowances arising prior to 16 January 2006, being the date of the parent company's (Deltron Electronics plc) acquisition by Abacus Group plc, as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £221,000 (2006 £221,000). The asset would be recovered if the Company were to make sufficient suitable future taxable income.

In addition a deferred tax asset of £59,000 (2006 £59,000) has not been recognised in respect of timing differences relating to capital losses as there is insufficient evidence that the asset will be recovered if a future disposal by the UK Group resulted in a sufficient capital gain.

During March 2007 the UK government announced Budget tax changes which will have an effect on the future tax position of the company. It is proposed that the rate of UK corporation tax will reduce from 30% to 28% from 1 April 2008. This rate change will both affect the amount of future cash tax payments to be made by the company and will also reduce the size of the Company's balance sheet deferred tax asset. Changes to the UK capital allowance regime have also been proposed, the most significant of these changes are the reduction in the rate of capital allowances applicable to plant and machinery expenditure from 25% to 20% per annum on a reducing balance basis from April 1, 2008 and the increase in the rate of allowances applicable to long life assets from 6% to 10% on a reducing balance basis from 1 April. If the effect on the Company of these proposed changes to the UK tax system were fully reflected in the Company's financial statements for the year ending 30 September 2007, the deferred tax asset would be reduced by £8,000 to £121,000 and the deferred tax credit of £4,000 would have been a charge of £4,000.

DEM Manufacturing Limited

Notes to the Accounts (continued)

30 September 2007

7 Intangible fixed assets

	Goodwill £'000
Costs	
At 1 October 2006 and 30 September 2007	314
Amortisation	
At 1 October 2006	6
Amortisation	35
At 30 September 2007	41
Net book value	
At 30 September 2007	273
At 30 September 2006	308

The Goodwill figure relates to a fair value adjustment made to the value of assets acquired of BES. This acquisition was made in July 2005.

8 Tangible fixed assets

	Short leasehold improvements £'000	Fixtures and fittings £'000	Plant and machinery £'000	Motor vehicles £'000	Tools £'000	Office equipment £'000	Total £'000
Cost							
At 1 October 2006	31	69	647	35	539	439	1,760
Additions	-	5	47	-	39	49	140
Disposals	-	-	(200)	-	(73)	-	(273)
At 30 September 2007	31	74	494	35	505	488	1,627
Depreciation							
At 1 October 2006	31	31	424	35	521	378	1,420
Charge for year	-	7	35	-	13	28	83
Disposals	-	-	(200)	-	(73)	-	(273)
30 September 2007	31	38	259	35	461	406	1,230
Net book value							
At 30 September 2007	-	36	235	-	44	82	397
At 30 September 2006	-	38	223	-	18	61	340

Included in fixed assets are motor vehicles and plant and machinery purchased under finance lease and hire purchase agreements, which have a net book value of £47,000 (2006 - £166,000). Depreciation charged on these assets during the year was £5,000 (2006 - £3,000).

DEM Manufacturing Limited

Notes to the Accounts (continued)

30 September 2007

9 Stocks

	2007 £000	2006 £000
Raw materials and consumables	573	545
Work in progress	110	71
Finished goods and goods for resale	197	175
Provision for slow moving items	(213)	(208)
	667	583

In the opinion of the directors there is no material difference between the replacement cost and historic cost of stock held at the year end

10 Debtors

	2007 £000	2006 £000
Deferred tax	129	125
Trade debtors	800	892
Amounts due from fellow subsidiaries	120	104
Other debtors	9	6
Prepayments and accrued income	229	210
	1,287	1,337

Deferred taxation

£'000

1 October 2006	125
Capital allowances in excess of depreciation charged to profit and loss	(62)
Origination and reversal of other timing differences charged to profit and loss	(10)
Deferred tax asset on recognised losses	14
Other adjustments in respect of prior years credited to profit and loss	62

30 September 2007

129

	2007 £'000	2006 £'000
The deferred tax balance comprised		
Depreciation in excess of capital allowances	49	111
Short term timing differences	-	10
Deferred tax asset arising on recognition of losses	80	4
Deferred tax asset	129	125

DEM Manufacturing Limited

Notes to the Accounts (continued)

30 September 2007

11 Creditors amounts falling due within one year

	2007 £000	2006 £000
Bank loans and overdrafts	372	485
Trade creditors	641	692
Amounts due to fellow subsidiary undertakings	36	65
Other tax and social security	41	42
Other creditors	18	61
Obligations under finance leases and hire purchase contracts	13	52
Accruals and deferred income	199	255
	1,320	1,652

Bank loans and overdrafts are secured by a fixed and floating charge over the company's assets. The obligations under finance leases and hire purchase agreements are secured over the assets acquired under those contracts.

12 Creditors amounts falling due after more than one year

	2007 £000	2006 £000
Obligations under finance leases and hire purchase contracts (all repayable within two to five years)	19	32
Amounts due to parent undertaking	324	140
Amounts due to fellow subsidiary	2,674	2,541
	3,017	2,713

The obligations under finance leases and hire purchase agreements are secured over the assets acquired under those contracts.

Included in the above are finance leases and hire purchase obligations falling due as follows

	2007 £000	2006 £000
Within one year	13	52
Between two and five years	19	32
	32	84

13 Called up share capital

	2007 £000	2006 £000
Authorised 250,000 Ordinary shares of £1 each	250	250
Allotted, called up and fully paid 11,245 Ordinary shares of £1 each	11	11

DEM Manufacturing Limited

Notes to the Accounts (continued)

30 September 2007

14 Reserves and reconciliation of movements in shareholder's funds

	Non-distributable		Distributable		
	Share capital	Share premium account	Profit and loss account	Total 2007	Total 2006
	£000	£000	£000	£000	£000
Opening shareholder's deficit	11	2	(1,810)	(1,797)	(725)
Retained profit (loss) for the year	-	-	81	81	(1,086)
Share-based payment	-	-	3	3	14
Closing shareholder's deficit	11	2	(1,726)	(1,713)	(1,797)

15 Contingent liabilities

At the year end HSBC plc and its subsidiaries held a fixed and floating charge over all the assets of the company, including a first legal charge over the company's freehold property. An unlimited multilateral guarantee exists between all UK group companies to secure bank borrowing facilities of £3,500,000 (2006 £3,500,000) and invoice discounting facilities of £35,000,000 (2006 £28,000,000). Subject to the foregoing, the company had no material contingent liabilities at the year-end.

16 Share-based payment

The employees of the Company held options for only one of the share-based payment schemes operated by Abacus Group plc during the year ended 30 September 2007. The Company recognised a charge of £3,000 (2006 £14,000) in the year, all relating to equity-settled share-based payment transactions (for only those issued after 7 November 2002) with corresponding entries to the share option reserve. No market conditions apply to any of the schemes. For all schemes, the expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected percentage of total options exercised is based upon the Directors' best estimate for effects of behavioural conditions and, if applicable, the probability that the performance criteria will be met. Detail of the scheme is as below.

Under the terms of the Deltron acquisition, options over Deltron shares were either exercised or exchanged for those over Abacus shares in the ratio of 1.06432 and the new option prices were derived by multiplying the Deltron share option price by 1.5547. The rules of the Deltron shares scheme remained unchanged, being the options can be exercised between three and five years from date of grant. There are no exercise conditions.

Deltron Share Option Schemes – as at 30 September 2007 (stated at the Abacus equivalent)

	Options	Weighted average exercise price (p)
Outstanding at 1 October 2005	138,662	120.5
Lapsed during the year	(84,813)	104.4
Exercised during the year	(8,376)	179.0
Outstanding at 1 October 2006	45,473	139.6
Lapsed during the year	(9,495)	122.7
Exercised during the year	(3,645)	112.7
Outstanding at 30 September 2007	32,333	147.5

None (2006 20,663) of the above share options outstanding at the end of the year are exercisable at 30 September 2007. The weighted average share price at the date of exercise was 181.6p (2006 145.6p).

The options outstanding at 30 September 2007 had a weighted average remaining contractual life of 4.3 years (2006 6.1 years). The Directors have assumed all shares vest at the earliest available date.

The assumptions used in the Black-Scholes model are as follows:

DEM Manufacturing Limited

Notes to the Accounts (continued)

30 September 2007

16 Share-based payment (continued)

Deltron Share Option Schemes

Share price on date of official grant (after scaling up by 1 5547)	98 0-217 7p
Exercise price	98 0-217 7p
Expected volatility	34%
Expected life	3 years
Risk free rate	4 3%
Dividend yield	2 8%
Expected percentage of options exercised versus granted	100%

17 Pension commitments

During the year the company contributed to a defined contribution scheme, whose operation has not altered during the year, for certain employees. The funds of the schemes are independently administered by insurance companies. The pension cost charge for the year represents contributions payable to the scheme, which amounted to £44,000 (2006 - £25,000)

18 Other Financial Commitments

Capital commitments

Amounts contracted for but not provided in the accounts amounted to £nil (2006 - £18,000)

Operating leases

The Company is committed to pay the following annual amounts under leases outstanding at 30 September 2007

	2007		2006	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Between two and five years	-	32	-	28
More than five years	128	-	128	-
	128	32	128	28

19 Related party transactions

There were no transactions with related parties during the year required to be disclosed in accordance with Financial Reporting Standard 8

20 Post balance sheet events

On 1 April 2008 the Company transferred its trade and assets at book value to its immediate parent company (Alpha3 Manufacturing Limited). The Directors consider this transfer to be at fair value and is not an adjusting post balance sheet event under FRS21

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Notes to the Accounts (continued)

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21 Parent undertaking and controlling party

The smallest and largest group for which consolidated accounts are prepared is that of the Company's ultimate holding company and controlling party, Abacus Group plc. Copies of the group accounts of Abacus Group plc are available from the Secretary, Abacus House, Bone Lane, Newbury, Berkshire, RG14 5SF, or from the website www.abacus-group.co.uk