

Arcom Control Systems Limited

**Directors' report and financial
statements**

Registered number 1608562

31 December 2005



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Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 December 2005.

Principal activities

The principal activities of the company are the design, development and marketing of embedded communications and control products.

Business review and results

During the year the company has continued to develop its customer base product range and enhance its prospects for 2006.

Dividends

The directors do not recommend the payment of a final dividend (2004: £nil).

Research and development

During the year the company has continued with its research and development programme. Expenditure in the year amounted to £1,010,000 (2004: £986,000).

Employees

It is the policy of Arcom Control Systems Limited to provide information to its employees on a regular basis. This information includes matters relating to its performance, its prospects in the market and the economic outlook of its business in the period ahead.

Financial participation in Spectris plc (the Parent Company) is encouraged through the Savings Related Share Option Scheme.

It is the policy of Arcom to recruit, train and promote disabled persons on the basis of their aptitudes and abilities. If employees become disabled, every effort would be made to retain them and where necessary re-train them for appropriate posts.

Directors

The directors of the company during the year were:

S C Harris (Chairman)	British
J J S Bain	British
L Goodman	American
G Middleton	British

Directors' report (continued)

Directors' interests

The following directors or their families had beneficial interests in the ordinary shares of Spectris plc, the ultimate parent company:

	31 Dec 2005	31 Dec 2004
G Middleton	551	5,778
L Goodman	6,333	35,318

The interests of S C Harris in the shares of the ultimate parent undertaking are disclosed in that company's financial statements. Details of the ultimate parent undertaking are given in note 20 of these financial statements.

In addition at 31 December 2005, the Directors were deemed to have a non-beneficial interest in 1,133,395 (2004: 3,212,330) ordinary shares held by the Trustees of the Spectris plc Employee Benefit Trust of which the directors are among the class of discretionary beneficiaries.

The following options, each of which carries an entitlement to subscribe for one ordinary 5p share in Spectris plc, were outstanding at 31 December 2005.

Director	Number of options					Exercise price (p)	Market price at date of exercise (p)	Date from which exercisable	Expiry date
	At 1 Jan 05	Options granted	Exercised	Lapsed	At 31 Dec 05				
J J S Bain									
	1,025	-	(1,025)	-	-	597.4954	618.2905	Mar 99	Mar 06
	5,000	-	(5,000)	-	-	525	618.2905	Oct 03	Oct 10
	3,000	-	-	-	3,000	357.5	-	Oct 04	Oct 11
	9,025	-	(6,025)	-	3,000				
G Middleton									
	3,077	-	-	-	3,077	618.9389	-	Oct 00	Oct 07
	7,000	-	(7,000)	-	-	525	618.2905	Oct 03	Oct 10
	7,000	-	-	-	7,000	357.5	-	Oct 04	Oct 11
SAYE	551	-	(551)	-	-	342.5	622	Dec 05	Jun 06
	17,628	-	(7,551)	-	10,077				
L Goodman									
	10,259	-	(10,259)	-	-	379.1610p	457p	Mar 98	Mar 05
	7,181	-	-	-	7,181	618.9389p	-	Oct 00	Oct 07
	15,000	-	(15,000)	-	-	525p	586.5p	Oct 03	Oct 10
	15,000	-	-	-	15,000	357.5p	-	Oct 04	Oct 11
	47,440	-	(25,259)	-	22,181				

Except where shown as SAYE above, the above relates to the Group's Executive Share Option Schemes.

Entitlement to exercise options granted under the Spectris 1996 Executive Share Plan is conditional upon the achievement of growth in normalised earnings per share (EPS) over three consecutive financial years between grant and exercise of at least 2% per annum in excess of growth in the retail price index.

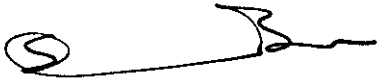
The mid-market price of Spectris plc shares at 31 December 2005 was 633.5p. The highest share price in the year was 644p and the lowest was 382p.

Directors' report *(continued)*

Auditors

Pursuant to a shareholders' resolution the company is not obliged to reappoint auditors annually and KPMG Audit Plc will therefore continue in office.

By order of the board

A handwritten signature in black ink, appearing to be 'J J S Bain', written over a horizontal line.

J J S Bain
Director

Unit 8
Clifton Road
Cambridge
CB1 7EA

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' 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. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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 these 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

37 Hills Road
Cambridge
CB2 1XL
United Kingdom

Report of the independent auditors to the members of Arcom Control Systems Limited

We have audited the financial statements of Arcom Control Systems Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 4, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

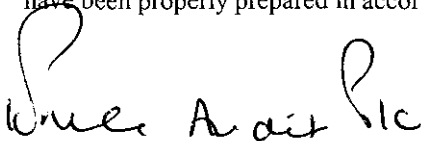
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Report of the independent auditors to the members of Arcom Control Systems Limited *(continued)*

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



*Chartered Accountants
Registered Auditor*

13 March 2006

Profit and loss account
for the year ended 31 December 2005

	<i>Note</i>	2005 £000	2004 £000
Turnover	2	8,457	8,136
Cost of sales		(5,536)	(5,498)
		<hr/>	<hr/>
Gross profit		2,921	2,638
Distribution costs		(74)	(128)
Administrative expenses		(2,987)	(3,046)
		<hr/>	<hr/>
Operating (loss)		(140)	(536)
Other interest receivable and similar income	6	2	1
Interest payable and similar charges	7	(114)	(134)
		<hr/>	<hr/>
(Loss) on ordinary activities before taxation	3	(252)	(669)
Tax on (loss) on ordinary activities	8	91	221
		<hr/>	<hr/>
(Loss) on ordinary activities after taxation being retained (loss) for the financial year	16	(161)	(448)
		<hr/> <hr/>	<hr/> <hr/>

All of the above results relate to continuing activities.

Balance sheet
at 31 December 2005

	<i>Note</i>	2005		2004	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		70		115
Current assets					
Stocks	10	1,364		1,195	
Debtors	11	1,521		1,297	
Cash at bank and in hand		167		259	
		<u>3,052</u>		<u>2,751</u>	
Creditors: amounts falling due within one year	12	<u>(2,386)</u>		<u>(4,000)</u>	
Net current assets/(liabilities)			666		(1,249)
Total assets less current liabilities			736		(1,134)
Provisions for liabilities and charges	13		(100)		(69)
Net assets/(liabilities)			636		(1,203)
Capital and reserves					
Called up share capital	14		33		33
Share premium account	15		305		305
Capital contribution reserve	15		2,000		-
Profit and loss account	15		<u>(1,702)</u>		<u>(1,541)</u>
Equity shareholders' funds/(deficit)	16		636		(1,203)

These financial statements were approved by the board of directors on 13 March 2006 and were signed on its behalf by:



J J S Bain
Director

Statement of total recognised gains and losses
for the year ended 31 December 2005

	2005 £000	2004 £000
(Loss) for the financial year	(161)	(448)
Loan from parent undertaking waived in the year	2,000	-
	<hr/>	<hr/>
Total gains and losses recognised since last annual report	1,839	(448)
	<hr/>	<hr/>

Notes

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- The presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

There has been no material effect of any other changes in accounting policies on the current year financial statements and prior year financial statements as previously reported.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The financial statements have been prepared on a going concern basis as Arcom Control Systems Inc, a fellow subsidiary of Spectris plc, has agreed to provide the necessary financial support to enable the company to meet its liabilities as they fall due for at least twelve months from the date of approval of these financial statements.

Under Financial Reporting Standard 1 (revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that the parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Spectris plc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Spectris plc, within which this company is included, can be obtained from the address given in note 20.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Fixtures and fitting	25% per annum
Plant and equipment	25% and 33% per annum
Motor vehicles	22.5% per annum
Software	33% per annum

Notes (continued)

1 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and gains or losses on translation are included within the profit and loss account.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Certain employees are members of the "Spectris Group Defined Contribution Pension Plan". The particulars of this pension scheme are contained in the financial statements of Spectris plc which may be obtained from the address given in note 20.

Research and development expenditure

Expenditure on research and development is written off against profits in the year in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. For work in progress and finished goods cost is taken as production cost. In determining the cost of raw materials, consumables and stock purchased for resale, the first in, first out purchase price is used.

Taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers. Turnover is recognised upon despatch of goods.

Notes (continued)

2 Analysis of turnover by geographic market

	2005 £000	2004 £000
United Kingdom	3,646	3,652
Continental Europe	2,073	1,326
USA	2,657	2,987
Rest of the world	81	171
	<u>8,457</u>	<u>8,136</u>

3 (Loss) on ordinary activities before taxation

	2005 £000	2004 £000
<i>This is stated after charging/(crediting):</i>		
Auditors' remuneration:		
Audit	19	19
Taxation services - fees paid to the auditor and its associates	6	3
Depreciation on owned tangible fixed assets	58	61
Hire of other assets – operating leases	245	303
Research and development expenditure	1,010	986
Exchange loss/(gain)	36	(9)
	<u> </u>	<u> </u>

4 Remuneration of directors

	2005 £000	2004 £000
Directors' emoluments	211	175
	<u> </u>	<u> </u>
Company contributions to money purchase pension schemes	12	12
	<u> </u>	<u> </u>
	Number of directors	
	2005	2004
Retirement benefits are accruing to the following number of directors under money purchase schemes:	2	2
	<u> </u>	<u> </u>

Three directors exercised share options in Spectris plc, the ultimate parent undertaking, during the financial year (2004: no directors exercised share options).

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £110,751 (2004: £92,711) and company pension contributions of £5,625 (2004: £5,408) were made to a money purchase scheme on his behalf. Details of share options can be found in the directors' report.

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2005	2004
Distribution	3	3
Other	58	59
	<hr/>	<hr/>
	61	62
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2005	2004
	£000	£000
Wages and salaries	1,991	1,879
Social security costs	203	201
Pension costs	94	81
	<hr/>	<hr/>
	2,288	2,161
	<hr/>	<hr/>

6 Other interest receivable and similar income

	2005	2004
	£000	£000
Bank deposits	2	1
	<hr/>	<hr/>

Notes (continued)

7 Interest payable and similar charges

	2005 £000	2004 £000
Interest on loan from holding company	114	133
Other	-	1
	<u>114</u>	<u>134</u>

8 Tax on loss on ordinary activities

	2005 £000	2004 £000
<i>Current tax</i>		
UK corporation tax (credit) at 30% (2003: 30%)	(84)	(201)
Adjustment relating to prior years	(7)	(20)
	<u>(91)</u>	<u>(221)</u>

The company has surrendered losses available for group relief to fellow group undertakings.

Factors affecting the tax charge for the current year

The current tax credit for the year is higher (2004: higher) than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained below.

	2005 £000	2004 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(252)	(669)
Current tax (credit) at 30% (2004: 30%)	(76)	(201)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	1	14
Capital allowances for year in excess of depreciation	(9)	(14)
Adjustments to tax charge in respect of previous years	(7)	(20)
Total current tax (credit) (see above)	<u>(91)</u>	<u>(221)</u>

Notes (continued)

9 Tangible fixed asset

	Plant and equipment	Fixtures, fittings and software	Total
	£000	£000	£000
Cost			
At beginning of year	544	339	883
Reclassification	41	(41)	-
Additions	13	-	13
Disposals	(107)	(4)	(111)
	<hr/>	<hr/>	<hr/>
At end of year	491	294	785
	<hr/>	<hr/>	<hr/>
Depreciation			
At beginning of year	498	270	768
Charge for year	42	16	58
Eliminated on disposals	(107)	(4)	(111)
	<hr/>	<hr/>	<hr/>
At end of year	433	282	715
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2005	58	12	70
	<hr/>	<hr/>	<hr/>
At 31 December 2004	46	69	115
	<hr/>	<hr/>	<hr/>

10 Stocks

	2005 £000	2004 £000
Raw materials and consumables	452	516
Work in progress	291	86
Finished goods and goods for resale	621	593
	<hr/>	<hr/>
	1,364	1,195
	<hr/>	<hr/>

Notes (continued)

11 Debtors

	2005	2004
	£000	£000
Trade debtors	1,262	939
Amounts owed by group undertakings	84	263
Other debtors	73	23
Prepayments and accrued income	102	72
	<hr/> 1,521 <hr/>	<hr/> 1,297 <hr/>

12 Creditors: amounts falling due within one year

	2005	2004
	£000	£000
Trade creditors	1,524	646
Amounts owed to group undertakings	466	3,097
Taxation and social security	60	53
Accruals and deferred income	336	204
	<hr/> 2,386 <hr/>	<hr/> 4,000 <hr/>

At the prior year end, £2,000,000 was included within amounts due to group undertakings in respect of a loan due to the ultimate parent undertaking. On 30 June 2005, the loan was formally unconditionally waived by the ultimate parent undertaking. The waived loan was subsequently reclassified as a capital contribution being a distributable reserve (see note 15 below).

Notes (continued)

13 Provisions for liabilities and charges

(a) Provided amounts

	Warranty Provision £000	Other Provisions £000	Total £000
At beginning of year	55	14	69
Utilised during year	(63)	(14)	(77)
Charge to the profit and loss for the year	108	-	108
	<hr/>	<hr/>	<hr/>
At end of year	100	-	100
	<hr/>	<hr/>	<hr/>

The warranty provision is for product costs anticipated in satisfying commitments under warranty periods for products sold. The other provision was made to cover rental costs for an unutilised building which was successfully let during the current financial year.

(b) Deferred taxation

	2005 £000	2004 £000
Opening balance of depreciation in excess of capital allowances	81	91
Adjustment in respect of prior year	-	4
Movement in current year	(9)	(14)
	<hr/>	<hr/>
Excess of depreciation over capital allowances	72	81
Allowance regarding future uncertainty	(72)	(81)
	<hr/>	<hr/>
Deferred tax liability	-	-
	<hr/>	<hr/>

No deferred tax liability has been recognised due to the uncertainty of there being suitable profits generated in the period in which the asset is expected to reverse.

14 Called up share capital

	2005 £000	2004 £000
Authorised		
65,000 Ordinary shares of £1 each	65	65
	<hr/>	<hr/>
Allotted, called up and fully paid		
33,333 Ordinary shares of £1 each	33	33
	<hr/>	<hr/>

Notes (continued)

15 Share premium and reserves

	Share premium account £000	Profit and loss account £000	Capital contribution reserve £000
At beginning of year	305	(1,541)	-
Retained (loss) for the year	-	(161)	-
Loan from parent undertaking waived in the year	-	-	2,000
At end of year	305	(1,702)	2,000

16 Reconciliation of movements in shareholders funds

	2005 £000	2004 £000
(Loss) for the financial year	(161)	(448)
Loan from parent undertaking waived in the year	2,000	-
Net addition to/(reduction in) shareholders' funds	1,839	(448)
(Deficit) in opening shareholders' funds	(1,203)	(755)
Surplus/(deficit) in closing shareholders' funds	636	(1,203)

17 Commitments

	2005 Land and buildings £000	Other £000	2004 Land and buildings £000	Other £000
Operating leases which expire:				
In two to five years	-	8	-	24
After five years	237	-	280	-
	237	8	280	24

Notes (continued)

18 Contingent liabilities

Guarantees

With other members of the Spectris Group, the company has guaranteed facilities made available to Spectris plc, in respect of which the following amounts were outstanding at 31 December 2005.

	2005 £000	2004 £000
Royal Bank of Scotland Group	4,619	4,893

The company has also guaranteed duty payments to HM Revenue & Customs to a maximum of £75,000 (2004: £50,000).

19 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £94,000 (2004: £81,000).

There were no outstanding contributions owed to the Spectris Group Defined Contribution Pension Plan at the balance sheet date (2004: £10,000).

20 Ultimate parent undertaking

The company is controlled by Spectris plc, the ultimate controlling party and parent company, Spectris plc, a company incorporated in Great Britain and registered in England, heads the only group in which the results of the company are consolidated. Copies of that company's annual report and consolidated accounts are available from Spectris plc, Station Road, Egham, Surrey, TW20 9NP.