Eurotech Ltd

(formerly Arcom Control Systems Limited)

Directors' Report and Financial Statements

For the year ended 31st December 2007

Directors

Dr F Cutri
J J S Bain
S Barazza
M Mauri

Secretary

J J S Bain

Auditors

Ernst & Young LLP
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Contents

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 December 2007

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

Change of company name
On 14 September 2007, the company changed its name from Arcom Control Systems Limited to Eurotech Ltd

Business review

During the year the company has continued to develop its customer base, product range and enhance its prospects for 2008

Operating performance

	2007	2006
	£'000	£'000
Turnover	7,697	7,163
Operating (loss)/profit	(432)	143
Shareholders' funds	19	584
Average number of employees	59	62

The company achieved 7 5% sales growth in 2007 Export sales grew by £1 3 million (36 2%) whilst sales in the UK reduced by £0 7 million to £2 9 million It is anticipated that during 2008 sales levels in the UK will return The company continued to release a number of new products in 2007 which it is believed will assist in the development of its customer base and entry into new market segments during 2008

The average number of employees slightly reduced to 59 with employment costs increasing by 4 3% to a total cost of £2 4 million – sales per employee grew by 12 9% to £130 5K and are anticipated to further improve during 2008

Gross profit as a percentage of sales improved during the year by 3 3% to 33 6% Research and development costs grew by 15 4% to £1 4 million and as a proportion of sales from 16 3% to 17 5%

The number of new customers secured by the company remained strong with the customer base being maintained at anticipated levels – based on those customers that traded with the company in the previous 12 months The proportion of customers with sales in excess of 10% of turnover did not materially change The customer profile is not anticipated to alter during 2008

Strategic change
The directors believe that performance over recent years has not reflected the full potential of the company This was addressed with a number of strategic changes being introduced in 2007 to return the company to a strong growth position in 2008 These changes included the complete restructure of the Sales Department in conjunction with a focused marketing strategy in line with the Eurotech Group vision of value added Systems sales A number of actions were enacted during the first quarter of 2008 which have enhanced our ability to withstand any major adverse market conditions, amongst these has been a reduction in employment costs The view is therefore that 2007 was a year of integration and consolidation that will lead the company to a stronger position for growth in 2008

Directors' report *(continued)*

Competitive and environmental risks
The company relies on its ability to design products that meet the needs of its customers by delivering product over a long period of time at a competitive price to ensure that customer business is retained generating a financial return for Eurotech shareholders allowing investment in research and development to produce a new generation of future products

Operationally, the company has in place a diverse supply chain thereby limiting some of the risks of any one supplier being unable to deliver The availability of key components is an issue which the company manages Understanding the diverging financial and operational goals of its suppliers and its customers, the company, in close co-operation with its customers, holds strategic stocks of key components to ensure that, wherever possible, the company is able to maintain supply of products for as long as its customers require

Competitive risks are part of the company's business, however by understanding the needs of its customers and ensuring that Eurotech delivers the service they require to offer their product to market in the shortest lead time will continue to give the company a competitive edge Eurotech is able to manage its operational costs and deliver high specification products that are capable of operating in environmentally harsh conditions

Internal controls
The company regularly reviews its disaster recovery plan and the re-instatement of its business systems Internal controls are reviewed to ensure management is fully aware of the business risks relating to losses that may occur due to fluctuations in exchange rates, loss of any single important customer, product warranty issues, delays in new product releases and overrun in development costs

The Board of directors prepares annually detailed plans for the ensuing year, these include financial reports, product development and business development plans The Board then monitors its performance against key indicators The board reviews regularly risks to the business and puts in place procedures and actions that will mitigate costs from non performance against any of its key indicators If necessary re-adjustment of resources is made to ensure the strategic goals of the company are met

Risk assessments for the business are regularly undertaken to ensure that employees are protected and there are guidelines for employees regarding a duty of care to each other and to the business and its customers Company policies are reviewed and internal controls are in place to ensure that we operate within them Compliance with the policies is reviewed to ensure that both positive and negative feedback is used to enhance and correct the way that the business is managed as necessary

Results and dividends
The loss after tax for the year amounted to £565k *(2006 loss £52k)* The directors do not recommend the payment of a final dividend *(2006 £nil)*

Research and development
During the year the company has continued with its research and development programme Expenditure in the year amounted to £1,350 *(2006 £1,170k)*

Directors' report *(continued)*

Employees

The success of the company is dependent upon the abilities of its employees The company is committed to training, developing and recruiting staff to make possible the implementation of the company's plans It is the policy of the company 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

It is the policy of the company 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

Dr F Cutri (appointed 5 July 2007)
J J S Bain
E Goi (resigned 23 May 2008)
M Mauri
C Houghton (resigned 16 January 2008)
L Goodman (resigned 23 February 2007)
G Middleton (resigned 23 February 2007)

In addition S Barazza was appointed as a Director on 23 May 2008

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 directors' report

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 above Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms 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 unaware, 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

Auditors

In accordance with S385 of the Companies Act 1985, a resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

On behalf of the board

J J S Bain
Director

Date 18 June 2008

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 Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 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

Report of the independent auditors to the members of Eurotech Ltd (formerly Arcom Control Systems Limited)

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 20 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 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 Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 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 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 Eurotech Ltd (formerly Arcom Control Systems Limited) *(continued)*

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 31 December 2007 and of its loss 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 financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Cambridge

Date 18 June 2008

Profit and Loss Account

for the year ended 31 December 2007

	Note	2007 £000	2006 £000
Turnover	2	**7,697**	7,163
Cost of sales		**(5,107)**	(4,992)
Gross profit		**2,590**	2,171
Distribution costs		**(33)**	(33)
Administrative expenses		**(2,989)**	(1,995)
Operating (loss)/profit	3	**(432)**	143
Interest receivable and similar income	6	**42**	3
Interest payable and similar charges	7	**(175)**	(114)
(Loss)/profit on ordinary activities before taxation		**(565)**	32
Tax on (loss)/profit on ordinary activities	8	**-**	(84)
Loss on ordinary activities after taxation, being retained loss for the financial year	16	**(565)**	(52)

All of the above results relate to continuing activities

There are no recognised gains or losses other than the loss of £565,000 attributable to the shareholders for the year ended 31 December 2007 (2006 £52,000)

Balance Sheet
at 31 December 2007

	Note	*2007* *£000*	*2007* *£000*	*2006* *£000*	*2006* *£000*
Fixed assets					
Tangible assets	9		**287**		**66**
Current assets					
Stocks	10	**1,644**		1,722	
Debtors	11	**1,101**		1,038	
Cash at bank and in hand		**710**		1 690	
		3,455		4,450	
Creditors amounts falling due within one year	12	**(1,402)**		(1,132)	
Net current assets			**2,053**		3,318
Total assets less current liabilities			**2,340**		3,384
Creditors amounts falling due after one year	13		**(2,200)**		(2,700)
Provisions for liabilities and charges	14		**(121)**		(100)
Net assets			**19**		584
Capital and reserves					
Called up share capital	15		**33**		33
Share premium account	16		**305**		305
Capital contribution reserve	16		**2,000**		2,000
Profit and loss account	16		**(2,319)**		(1,754)
Shareholders' funds	17		**19**		584

These financial statements were approved by the board of directors and were signed on its behalf by

J J S Bain
Director

Date 18 June 2008

Notes

1 Accounting policies

Basis of preparation

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

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements

Related parties transactions

The company is a wholly owned subsidiary of Eurotech Spa, the consolidated accounts of which are publicly available Accordingly, the company has taken advantage of the exemption in FRS8 from disclosing transactions with members of the group

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated 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

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable

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

Notes *(continued)*

1 Accounting policies *(continued)*

Pensions

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 in the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

Research and development expenditure

Expenditure on research and development is written off in the profit and loss account in the year in which it is incurred

Stocks

Stocks are stated at the lower of cost and net realisable value Cost includes all costs incurred in bringing each product to its present location and condition Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal 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 average value on purchase price is used

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold,

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Provisions for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation

Provisions for the expected costs of maintenance under warranty are charged in the profit and loss account The effect of the time value of money is not material and therefore the provision is not discounted

Notes *(continued)*

2 Turnover

Turnover by geographic market

Turnover represents the amounts receivable for goods and services net of vat and trade discounts and is recognised upon the despatch of goods to customers

The total turnover of the company for the year has been derived from its principal continuing activity An analysis of turnover by geographical market is given below

	2007 £000	2006 £000
United Kingdom	**2,939**	3,670
Rest of Europe	**1,570**	1,334
USA	**3,086**	2,131
Rest of the World	**102**	28
	7,697	7 163

3 Operating (loss)/profit

This is stated after charging/(crediting)	2007 £000	2006 £000
Auditors' remuneration		
Audit services - audit of financial statements	**26**	25
- half year review	**15**	15
Non-audit services - tax compliance and other taxation costs	**45**	30
Depreciation of owned tangible fixed assets	**69**	50
Operating lease rentals - land and buildings	**220**	197
- plant, machinery and motor vehicles	**10**	20
Research and development expenditure	**1,350**	1,170
Exchange gains	**(38)**	(187)

Notes *(continued)*

4 Remuneration of directors

	2007 *£000*	*2006* *£000*
Directors' emoluments	**146**	256
Company contributions to money purchase pension schemes	**9**	12

	Number of directors *2007*	*2006*
Retirement benefits are accruing to the following number of directors under money purchase schemes	**2**	2

The aggregate of emoluments of the highest paid director was £86,464 *(2006 £138,110)* and company pension contributions of £7,424 *(2006 £5,878)* were made to a money purchase scheme on his behalf

5 Staff and costs

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

	2007 *No*	*2006* *No*
Distribution	**3**	3
Other	**56**	59
	59	62

	2007 *£000*	*2006* *£000*
Wages and salaries	**2,072**	2,008
Social security costs	**228**	218
Pension costs	**110**	85
	2,410	2,311

Notes *(continued)*

6 Interest receivable and similar income

	2007 £000	2006 £000
Bank interest receivable	**42**	3

7 Interest payable and similar charges

	2007 £000	2006 £000
Group loan interest	**175**	114

8 Taxation

(a) Tax on (loss)/profit on ordinary activities

The tax charge is made up as follows

	2007 £000	2006 £000
Current tax		
Corporation tax at 30% *(2006 30%)*	-	-
Tax underprovided in previous years	-	84
Total current tax	-	84
Deferred tax	-	-
Origination and reversal of timing differences	-	-
Tax on (loss) / profit on ordinary activities	-	84

Notes *(continued)*

8 Taxation (continued)

(b) Factors affecting the current tax charge

The tax assessed on the (loss)/profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% *(2006 30%)* The differences are reconciled below

	2007 £000	2006 £000
Current tax reconciliation		
(Loss)/profit on ordinary activities before tax	**(565)**	32
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in UK of 30% *(2006 30%)*	**(170)**	10
Effects of		
Expenses not deductible for tax purposes	**14**	3
Capital allowances in excess of depreciation	**(32)**	(13)
Tax underprovided in previous years	**-**	84
Unrelieved tax losses carried forward	**188**	-
Total current tax charge	**-**	84

Deferred tax

	Recognised 2007 £000	2006 £000	Unrecognised 2007 £000	2006 £000
Depreciation in excess of capital allowances	-	-	**66**	92
Tax losses	-	-	**219**	47
Deferred tax asset	-	-	**285**	139

No deferred tax has been recognised as there is insufficient evidence that the asset will be recovered The asset would be recovered if the company was able to generate sufficient taxable profits in future periods

(c) Factors that may affect future tax charges

The UK corporation tax rate decreases from 30% to 28% from 1 April 2008 This rate change will affect the amount of future cash tax payments to be made by the company The unrecognised deferred tax balance has been adjusted in the current year to reflect this change Changes to the UK capital allowance regime will also impact the capital allowances the company can claim The full impact of these changes is still being assessed

Notes *(continued)*

9 Tangible fixed assets

	Leasehold improvements	*Plant and equipment*	*Fixtures, fittings and software*	*Total*
	£000	*£000*	*£000*	*£000*
Cost				
At 1 January 2007	-	507	196	703
Additions	181	37	72	290
Disposals	-	(2)	-	(2)
At 31 December 2007	181	542	268	991
Depreciation				
At 1 January 2007	-	445	192	637
Charge for year	13	45	11	69
Eliminated on disposals	-	(2)	-	(2)
At 31 December 2007	13	488	203	704
Net book value				
At 31 December 2007	**168**	**54**	**65**	**287**
At 31 December 2006	0	62	4	66

10 Stocks

	2007	*2006*
	£000	*£000*
Raw materials and consumables	**578**	534
Work in progress	**143**	132
Finished goods and goods for resale	**923**	1,056
	1,644	1 722

Notes *(continued)*

11 Debtors

	2007 £000	2006 £000
Trade debtors	**918**	914
Amounts owed by group undertakings	**-**	-
Other debtors	**32**	59
Prepayments and accrued income	**151**	65
	1,101	1,038

12 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	**548**	897
Amounts owed to group undertakings	**477**	-
Taxation and social security	**79**	52
Accruals and deferred income	**298**	183
	1,402	1,132

13 Creditors: amounts falling due after more than one year

	2007 £000	2006 £000
Within one to two years		
Amounts owed to group undertakings	**-**	500
Within two to five years		
Amounts owed to group undertakings - loan	**750**	500
Over five years		
Amounts owed to group undertakings - loan	**1,450**	1,700
	2,200	2,700

The rate of interest on the group loans is 7 44%, which is reviewable on 31 December 2008

On 18 March 2008, £500,000 of the loan repayable over five years was capitalised, resulting in the total of loans repayable over five years reducing to £950,000, and the Capital Contribution Reserve increasing to £2,500,000

Notes *(continued)*

14 Provisions for liabilities and charges

	Provisions for maintenance warranties *£000*
At 1 January 2007	100
Utilised during the year	(65)
Charged during the year	86
At end of year	**121**

The warranty provision is for product costs anticipated in satisfying commitments under warranty periods for products sold

15 Called up share capital

	2007 *£000*	*2006* *£000*
Authorised		
65,000 Ordinary shares of £1 each	**65**	65
Allotted, called up and fully paid		
33,333 Ordinary shares of £1 each	**33**	33

16 Reserves

	Share premium account *£000*	*Capital contribution reserve* *£000*	*Profit and loss account* *£000*
At 1 January 2007	305	2,000	(1,754)
Loss for the year	-	-	(565)
At 31 December 2007	**305**	**2,000**	**(2,319)**

Notes *(continued)*

17 Reconciliation of movements in shareholders' funds

	2007 £000	2006 £000
Loss for the financial year	**(565)**	(52)
Net reduction to shareholders' funds	**(565)**	(52)
Opening shareholders' funds	**584**	636
Closing shareholders' funds	**19**	584

18 Commitments

Operating leases which expire	2007 Land and buildings £000	2007 Other £000	2006 Land and buildings £000	2006 Other £000
Within one year	**29**	**-**	-	2
In two to five years	**86**	**-**	118	5
After five years	**138**	**-**	152	-
	253	**-**	270	7

19 Contingent liabilities

Guarantees

The company has guaranteed duty payments to HM Revenue & Customs to a maximum of £75,000 *(2006 75,000)*

20 Ultimate parent undertaking

The company is controlled by Eurotech S p A, the ultimate controlling party and parent company, Eurotech S p A, a company incorporated in Italy and registered in Italy 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 Eurotech S p A, Via Fratelli Solari 3/a, 33020 Amaro (Udine), Italy