Eurotech Ltd

Directors' Report and Financial Statements

For the year ended 31st December 2008

Directors

Dr F Cutri
J J S Bain
S Barazza
G Tecchiolli

Secretary

J J S Bain

Auditors

Ernst & Young LLP
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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 2008.

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

Business review
During the year the company has continued to develop its customer base, product range and has enhanced its prospects for 2009.

Operating performance

	2008	2007
	£'000	£'000
Turnover	8,840	7,697
Operating profit/ (loss)	146	(432)
Shareholders' funds	546	19
Average number of employees	49	59

The company continued its growth pattern with sales improving by 14.8%. As anticipated and reported in the last Annual Report, sales within the geographical area of the UK grew by £1.6m to £4.5m, equivalent to 53.5%, although export sales reduced by 9.0% to £4.3m. The company continued to release a number of new products in 2008, which it is believed will assist in the development of its customer base and entry into new market segments during 2009.

The average number of employees reduced to 49 – sales per employee grew by 38.9% to £180k and are anticipated to further improve during 2009.

Gross profit as a percentage of sales improved during the year from 36% to 39%. The gross profit increased by £685k to £3,454k. Operations were able to hold costs and continued the drive to maximise the amount of product built by our outsourced manufacturing partners. Elimination of waste continues to be a major focus for the operations team. Sales were able to increase the proportion of sales with higher margins. The combined effort of the sales and operations teams meant that the company increased sales by £1,143k and gross profit by £685k.

Research and development costs were maintained at £1,350k, (£1,350k) which were 15.3% as a proportion of sales of £8,840k. Cash generation was good with current cash increasing from £710k at the beginning of the year to £1,435k and the long term loan reducing from £2,200k to £1,600k.

The number of new customers secured by the company remained strong with the customer base being maintained at anticipated levels. 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 2009.

Strategic Change
A number of strategic changes were begun in the autumn of 2007 which were completed 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 reduction in headcount during the year allowed the company to reduce operating expenses and release a proportion of its leasehold commitments. The cost of this re-organisation was £186k, the benefit of which will be seen in 2009. It is anticipated that during 2009 the company will continue the path of maximizing the utilisation of assets and, where possible, reducing overhead costs. The actions taken in 2008 and the further reduction in leasehold commitments will further enhance our ability to withstand the current adverse market conditions. The Balance Sheet has been strengthened with the capital contribution of £500k made by Eurotech S.p.A. As reported last year the company achieved its goal of strengthening its position.

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 products over a long period of time at a competitive price to ensure that customer business is retained, generating a financial return for Eurotech shareholders and allowing investment in research and development to produce a new generation of products.

Operationally, the company has in place a diverse supply chain thereby limiting the risk of any one supplier being unable to deliver product. The company considers the availability of key components as a key risk and manages this by understanding the diverging financial and operational goals of its suppliers and its customers. In close co-operation with its customers, the company 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 understanding the needs of its customers, ensuring that Eurotech delivers the service they require, and offering products to market in the shortest lead time, will continue to give the company a competitive edge. Eurotech manages its operational costs and delivers 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 overruns in development costs.

The Board of Directors annually prepares 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, such as sales, cash generation and return on assets. The Board regularly reviews 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 the business operates 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.

Results and dividends
The profit after tax for the year amounted to £27k *(2007: loss of £565k)*. The Directors do not recommend the payment of a final dividend *(2007: £nil)*.

Research and development
During the year the company has continued with its research and development programme. Expenditure in the year amounted to £1,350k *(2007: £1,350k)*.

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
J J S Bain
S Barazza (appointed 23 May 2008)
G Tecchiolli (appointed 22 September 2008)
M Mauri (resigned 4 August 2008)
E Goi (resigned 22 May 2008)
C Houghton (resigned 16 January 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

F A Cutri
Director

Date: 19th March. 2009

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 auditor's to the members of Eurotech Ltd

We have audited the company's financial statements for the year ended 31 December 2008 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 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
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 *(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 2008 and of its 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 financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Cambridge

Date: 20 Nov 2009

Profit and Loss Account
for the year ended 31 December 2008

	Note	2008 £000	Restated 2007 £000
Turnover	2	**8,840**	7,697
Cost of sales		**(5,386)**	(4,928)
Gross profit		**3,454**	2,769
Distribution costs		**(259)**	(212)
Administrative expenses		**(3,049)**	(2,989)
Operating profit/ (loss)	3	**146**	(432)
Re-organisation Charge		**(186)**	-
Loss on ordinary activities before interest and taxation		**(40)**	(432)
Interest receivable and similar income	6	**21**	42
Interest payable and similar charges	7	**(145)**	(175)
Loss on ordinary activities before taxation		**(164)**	(565)
Tax on loss on ordinary activities	8	**191**	-
Profit / (loss) on ordinary activities after taxation, being retained profit/ (loss) for the financial year	16/17	**27**	(565)

All of the above results relate to continuing activities.

There are no recognised gains or losses other than the profit of £27,000 attributable to the shareholders for the year ended 31 December 2008 (*2007: loss of £565,000*).

Balance Sheet
at 31 December 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Fixed assets					
Tangible assets	9		**259**		287
Current assets					
Stocks	10	**1,352**		1,644	
Debtors	11	**1,432**		1,101	
Cash at bank and in hand		**1,435**		710	
		4,219		3,455	
Creditors: amounts falling due within one year	12	**(2,189)**		(1,402)	
Net current assets			**2,030**		2,053
Total assets less current liabilities			**2,289**		2,340
Creditors: amounts falling due after one year	13		**(1,600)**		(2,200)
Provisions for liabilities and charges	14		**(143)**		(121)
Net assets			**546**		19
Capital and reserves					
Called up share capital	15		**33**		33
Share premium account	16		**305**		305
Capital contribution reserve	16		**2,500**		2,000
Profit and loss account	16		**(2,292)**		(2,319)
Shareholders' funds	17		**546**		19

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

F A Cutri
Director

Date: 19th March. 2009

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 S.p.A, 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
Software	33% per annum
Leasehold improvements	10% 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 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:

- 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.

Presentational Change of cost of sales

The cost of sales and distribution costs for 2007 have been restated to show consistent disclosure with 2008. The restatement results in import carriage costs of £179k which were included within cost of sales in 2007, now being disclosed within distribution costs. The impact is that in the prior year costs of sales of £5,105k have been restated as £4,928k and distribution costs which were £33k are now stated as £212k.

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:

	2008	*2007*
	£000	*£000*
United Kingdom	**4,514**	2,939
Rest of Europe	**2,165**	1,570
USA	**2,032**	3,086
Rest of the World	**129**	102
	8,840	7,697

3 Operating profit/ loss

This is stated after charging/(crediting):		***2008*** ***£000***	*2007* *£000*
Auditor's remuneration		**41**	37
Tax fees		**26**	23
Depreciation of owned tangible fixed assets		**75**	69
Operating lease rentals	- land and buildings	**208**	220
	- plant, machinery and motor vehicles	**3**	10
Research and development expenditure		**1,350**	1,350
Exchange gains		**(66)**	(41)

Notes *(continued)*

4 Remuneration of Directors

	2008	*2007*
	£000	*£000*
Directors' emoluments	**324**	146
Company contributions to money purchase pension schemes	**15**	9

	Number of directors	
	2008	*2007*
Retirement benefits are accruing to the following number of directors under money purchase schemes:	**2**	2

The aggregate emoluments of the highest paid Director was £157,071 *(2007: £86,464)* and company pension contributions of £5,400 *(2007: £7,424)* 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:

	2008	*2007*
	No.	*No.*
Distribution	**4**	3
Other	**45**	56
	49	59

	2008	*2007*
	£000	*£000*
Wages and salaries	**2,164**	2,072
Social security costs	**202**	228
Pension costs	**99**	110
	2,465	2,410

Notes *(continued)*

6 Interest receivable and similar income

	2008 £000	2007 £000
Bank interest receivable	**21**	42

7 Interest payable and similar charges

	2008 £000	2007 £000
Group loan interest	**145**	175

8 Taxation

(a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	2008 £000	2007 £000
Current tax:		
Corporation tax at 28.5% *(2007: 30%)*	-	-
Adjustment in respect of prior period - Group tax relief	**(191)**	-
Total current tax	**(191)**	-
Deferred tax:	-	-
Origination and reversal of timing differences	-	-
Tax on loss on ordinary activities	**(191)**	-

Notes *(continued)*

8 Taxation (continued)

(b) Factors affecting the current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the average rate of corporation tax for the period of 28.5% *(2007: 30%)*. The differences are reconciled below.

	2008	*2007*
	£000	*£000*
Current tax reconciliation		
Loss on ordinary activities before tax	**(164)**	(565)
Loss on ordinary activities multiplied by average rate of corporation tax for the period of 28.5% *(2007: 30%)*	**(47)**	(170)
Effects of:		
Expenses not deductible for tax purposes	**16**	14
Capital allowances in excess of depreciation	**(17)**	(32)
Adjustment in respect of prior period - Group tax relief	**191**	-
Research and development tax claim	**(47)**	-
Unrelieved tax losses carried forward	**96**	188
Total current tax charge	**191**	-

The UK standard rate of corporation tax changed from 30% to 28% from 1 April 2008. The average rate for the period is 28.5% *(2007: 30%)*

Deferred tax:

	Recognised		***Unrecognised***	
	2008	*2007*	***2008***	*2007*
	£000	*£000*	***£000***	*£000*
Depreciation in excess of capital allowances	**-**	-	**49**	66
Tax losses	**-**	-	**227**	219
Deferred tax asset	**-**	-	**276**	285

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 decreased 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 2008	181	542	268	991
Additions	21	13	13	47
Disposals	-	(72)	-	(72)
At 31 December 2008	202	483	281	966
Depreciation				
At 1 January 2008	13	488	203	704
Charge for year	19	31	25	75
Eliminated on disposals	-	(72)	-	(72)
At 31 December 2008	32	447	228	707
Net book value				
At 31 December 2008	**170**	**36**	**53**	**259**
At 31 December 2007	168	54	65	287

10 Stocks

	2008	*2007*
	£000	*£000*
Raw materials and consumables	**547**	578
Work in progress	**164**	143
Finished goods and goods for resale	**641**	923
	1,352	1,644

Notes *(continued)*

11 Debtors

	2008 £000	2007 £000
Trade debtors	**1,260**	918
Other debtors	**26**	32
Prepayments and accrued income	**146**	151
	1,432	1,101

12 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	**1,297**	548
Amounts owed to group undertakings	**305**	477
Taxation and social security	**58**	79
Accruals and deferred income	**529**	298
	2,189	1,402

13 Creditors: amounts falling due after more than one year

	2008 £000	2007 £000
Within one to two years		
Amounts owed to group undertakings	-	-
Within two to five years:		
Amounts owed to group undertakings – loan	-	750
Over five years:		
Amounts owed to group undertakings – loan	**1,600**	1,450
	1,600	2,200

The rate of interest on the group loans is 4.46% (7.44%) as from 1 January 2009, which will be reviewed on 31 December 2009. The interest is repaid monthly; the repayment of the principal sum has been renegotiated during the year and will be repaid no earlier than 31 Jan 2015.

On 18 March 2008, £500,000 of the loan repayable over five years was capitalised, increasing the Capital Contribution Reserve to £2,500,000.

Notes *(continued)*

14 Provisions for liabilities and charges

	Provisions for maintenance warranties £000
At 1 January 2008	121
Utilised during the year	(72)
Created during the year	94
At 31 December 2008	**143**

The warranty provision is for product costs anticipated in satisfying commitments under warranty periods for products sold within the last 3 years and could be returned over the next 3 years.

15 Called up share capital

	2008 £000	***2007 £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 2008	305	2,000	(2,319)
Capital contribution (note 13)	-	500	-
Profit for the year	-	-	27
At 31 December 2008	**305**	**2,500**	**(2,292)**

Notes *(continued)*

17 Reconciliation of movements in shareholders' funds

	2008 *£000*	*2007* *£000*
Profit/ (loss) for the financial year	**27**	(565)
Capital contribution	**500**	-
Net increase / (reduction) to shareholders' funds	**527**	(565)
Opening shareholders' funds	**19**	584
Closing shareholders' funds	**546**	19

18 Commitments

Operating leases which expire:	*2008* *Land and buildings* *£000*	*2007* *Land and buildings* *£000*
Within one year	**14**	29
In two to five years	**144**	86
After five years	**0**	138
	158	253

The company operates a defined contribution pension scheme. There were no outstanding contributions owed to the plan at the balance sheet date *(2007: £nil).*

19 Contingent liabilities

Guarantees

The company has guaranteed duty payments to HM Revenue & Customs to a maximum of £75,000 *(2007: £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.