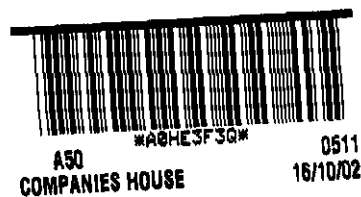


Arcom Control Systems Limited

**Directors' report and financial
statements**

Registered number 1608562

31 December 2001



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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 2001.

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 and enhance its prospects for 2002.

Dividends and transfers to reserves

No interim dividend was paid during the year (2000: *£nil*). The directors do not recommend the payment of a final dividend (2000: *£0.51 per share*).

Research and development

During the year the company has continued with its research and development programme.

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 Group 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:

H D Nilsson (Chairman)
A J Walters (resigned 13 July 2001)
J J S Bain
G Middleton

Directors' report (continued)

Directors' interests

Except as shown below no director had any interest in the shares of any group company.

The interests of H D Nilsson in the shares of the ultimate holding company are disclosed in that company's financial statements.

The following options, each of which carries an entitlement to subscribe for one ordinary 5p share in Spectris Group plc, were outstanding at 31 December 2001.

	Number of options					Exercise price (p)	Market price at date of exercise	Date from which exercisable	Expiry date
Directors	During the year								
	At 1 Jan 01	Options granted	Exercised	Lapsed	At 31 Dec 01*				
JJS Bain	1,025	3,000			1,025	597.4954p		Mar 99	Mar 06
	5,129				5,129	238.8032p		Sep 01	Sep 08
	5,000				5,000	525p		Oct 03	Oct 10
	~				3,000	357.5p		Oct 04	Oct 11
SAYE	7,222				7,222	238.8032p		Dec 03	Jun 04
	<u>18,376</u>				<u>21,376</u>				
A J Walters	7,181				7,181	525.3671p		Sep 98	Sep 05
	3,077				3,077	638.4331p		Oct 99	Oct 06
	3,077				3,077	618.9389p		Oct 00	Oct 07
	15,389				15,389	238.8032p		Sep 01	Sep 08
	15,389				15,389	5p		Mar 02	Sep 05
	15,000				15,000	525p		Oct 03	Oct 10
	<u>59,113</u>				<u>59,113</u>				
G Middleton	3,077	7,000			3,077	618.9389p		Oct 00	Oct 07
	7,181				7,181	238.8032p		Sep 01	Sep 08
	7,000				7,000	525p		Oct 03	Oct 10
	~				7,000	357.5p		Oct 04	Oct 11
SAYE	5,778				5,778	238.8032p		Dec 03	Jun 04
	<u>23,036</u>				<u>30,036</u>				

The mid-market price of Spectris plc shares at 31 December 2001 was 481p. The highest share price in the year was 605p and the lowest was 333.5p.

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

* or date of leaving

Directors' report *(continued)*

Directors' interests *(continued)*

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.

Entitlement to exercise Matching Options (5p) is conditional upon a performance criterion which requires compound growth in EPS over the three consecutive financial years following grant of the qualifying option of between 2% and 10% per annum in excess of growth in the retail price index in order to achieve a match of 20% to 100%.

In addition, at 31 December 2001, the Directors were deemed to have a non-beneficial interest in 2,851,891 ordinary shares in the share capital of Spectris plc, the Company's holding company, held by the Trustees of the Spectris plc Employee Benefit Trust and 27,822 ordinary shares held by the Trustee of the Spectris plc Qualifying Employee Ownership Trust of which they are among the class of discretionary beneficiaries.

A J Walters exercised options over 30,778 shares on 9 January 2002.

By order of the board



JJS Bain

Director

Date: 27 September 2002

Unit 8,
Clifton Road,
Cambridge,
CB1 7EA.

Statement of directors' responsibilities

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 for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 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

Independent auditors' report to the members of Arcom Control Systems Limited

We have audited the financial statements on pages 6 to 17.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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 of the state of the company's affairs as at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'Peter A. Aitken'.

*Chartered Accountants
Registered Auditors*

11 October 2002

Profit and loss account
for the year ended 31 December 2001

	<i>Note</i>	2001 £000	2000 £000
Turnover	2	9,391	10,255
Cost of sales		(6,366)	(6,441)
		<hr/>	<hr/>
Gross profit		3,025	3,814
Distribution costs		(128)	(154)
Administrative expenses		(4,089)	(3,554)
		<hr/>	<hr/>
Operating (loss)/profit	3-5	(1,192)	106
Other interest receivable and similar income	6	4	4
Interest payable and similar charges	7	(164)	(155)
		<hr/>	<hr/>
(Loss) on ordinary activities before taxation		(1,352)	(45)
Tax on profit on ordinary activities	8	318	(13)
		<hr/>	<hr/>
(Loss) on ordinary activities after tax		(1,034)	(58)
Dividends	9	-	(17)
		<hr/>	<hr/>
Retained (loss) for the year	17	(1,034)	(75)
		<hr/>	<hr/>

There were no other recognised gains and losses for the year other than the loss stated above.

There is no difference between the historical cost loss and the loss stated above. All of the above results relate to continuing activities.

Balance sheet
at 31 December 2001

	<i>Note</i>	2001 £000	2001 £000	2000 £000	2000 £000
Fixed assets					
Tangible assets	10		103		128
Current assets					
Stocks	11	1,275		1,630	
Debtors	12	1,880		1,540	
Cash at bank and in hand		126		297	
		<u>3,281</u>		<u>3,467</u>	
Creditors: amounts falling due within one year	13	<u>(1,853)</u>		<u>(3,212)</u>	
Net current assets			<u>1,428</u>		<u>255</u>
Total assets less current liabilities			<u>1,531</u>		<u>383</u>
Provisions for liabilities and charges	14		<u>(202)</u>		<u>(20)</u>
Net assets before creditors: amounts falling due after than one year			<u>1,329</u>		<u>363</u>
Creditors: amounts falling due after than one year	15		<u>2,000</u>		<u>-</u>
Capital and reserves					
Called up share capital	16		33		33
Share premium account	17		305		305
Profit and loss account	17		(1,009)		25
Shareholders' funds			<u>1,329</u>		<u>363</u>

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

and were signed



J J S Bain
Director

Notes

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

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

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.

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

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 Group plc.

Notes (continued)

1 Accounting policies (continued)

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, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

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

2 Analysis of turnover by geographic market

	2001 £000	2000 £000
United Kingdom	5,638	6,846
Continental Europe	1,947	2,354
USA	1,691	804
Rest of the world	115	251
	<hr/>	<hr/>
	9,391	10,255
	<hr/>	<hr/>

Notes (continued)

3 Loss on ordinary activities before taxation

	2001 £000	2000 £000
<i>Loss on ordinary activities before taxation is stated</i>		
<i>after charging/(crediting)</i>		
Auditors' remuneration:		
Audit	12	12
Other services - fees paid to the auditor and its associates	2	2
Depreciation	81	91
(Profit)/loss on disposal of fixed assets	-	(2)
Exchange losses	69	72
Other operating leases	214	33
Research and development expenditure	969	869
Rents received	(69)	(54)

4 Remuneration of directors

	2001 £000	2000 £000
Director's emoluments	236	242
Loss of office	-	-

Company contributions to money purchase pension schemes	17	18
---	----	----

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £82,878 (2000: £95,000), and company pension contributions of £6,988 (2000: £9,000) were made to a money purchase scheme on his behalf.

Details of share options can be found in the Directors' report.

	Number of directors	
	2001	2000
Retirement benefits are accruing to the following number of directors under money purchase schemes:	3	3

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	
	2001	2000
Production and distribution	6	23
Other	65	50
	<u>71</u>	<u>73</u>

The aggregate payroll costs of these persons were as follows:

	2001 £000	2000 £000
Wages and salaries	1,856	1,761
Social security costs	182	172
Pension costs	64	61
	<u>2,102</u>	<u>1,994</u>

6 Other interest receivable and similar income

	2001 £000	2000 £000
Bank deposits	<u>4</u>	<u>4</u>

7 Interest payable and similar charges

	2001 £000	2000 £000
Interest on loan from holding company repayable within five years	<u>164</u>	<u>155</u>

Notes (continued)

8 Taxation

	2001 £000	2000 £000
UK corporation tax (credit)/charge at 30% (2000: 30%)	(290)	7
Adjustment relating to prior years	(28)	6
	<u>(318)</u>	<u>13</u>

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

9 Dividends

	2001 £000	2000 £000
Equity shares:		
Final proposed dividend – £nil (2000: £0.51 per share)	-	17
	<u>-</u>	<u>17</u>

Notes (continued)

10 Tangible fixed assets

	Plant and equipment £000	Fixtures, fittings, and software £000	Vehicles £000	Total £000
<i>Cost</i>				
At beginning of year	606	198	20	824
Additions	45	11	-	56
Disposals	(1)	-	-	(1)
Transfers	(4)	4	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	646	213	20	879
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At beginning of year	503	173	20	696
Charge for year	62	19	-	81
Disposals	(1)	-	-	(1)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	564	192	20	776
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 2001	82	21	-	103
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	103	25	-	128
	<hr/>	<hr/>	<hr/>	<hr/>

11 Stocks

	2001 £000	2000 £000
Raw materials and consumables	345	707
Work in progress	250	78
Finished goods and goods for resale	680	845
	<hr/>	<hr/>
	1,275	1,630
	<hr/>	<hr/>

Notes (continued)

12 Debtors

	2001 £000	2000 £000
Trade debtors	1,388	1,470
Amounts owed by group undertakings	329	6
Other debtors	100	25
Prepayments and accrued income	63	39
	<u>1,880</u>	<u>1,540</u>

13 Creditors: amounts falling due within one year

	2001 £000	2000 £000
Trade creditors	581	1,102
Amounts owed to group undertakings	971	1,721
Taxation and social security	47	57
Other creditors	8	-
Accruals and deferred income	246	332
	<u>1,853</u>	<u>3,212</u>

14 Provisions for liabilities and charges

(a) Provided amounts

	Warranty provision £000	Legal provision £000	Other provisions £000	Total £000
At beginning of year	20	-	-	20
Utilised during year	-	-	-	-
Charge to the profit and loss for the year				
Additional amounts provided	15	150	17	182
	<u>35</u>	<u>150</u>	<u>17</u>	<u>202</u>
At end of year	35	150	17	202

The warranty provision is for product costs anticipated in satisfying commitments under warranty periods for products sold. The legal provision has been made to cover legal costs relating to a number of claims that have arisen against the company during the year.

Other provisions relate to expected obsolete items included within stock returns from a customer, for which the company will not be able to find an alternative use.

Notes (continued)

14 Provisions for liabilities and charges (continued)

(b) Deferred taxation

No provision has been made for deferred taxation at 31 December 2001 (2000: £nil). Potential deferred tax assets at 31 December are as follows:

	2001 £000	2000 £000
Accelerated capital allowances	77	88
Other timing differences	176	27
	<u>253</u>	<u>115</u>

15 Creditors: amounts falling due after more than one year

	2001 £000	2000 £000
Amounts owed to group undertakings	2,000	-
	<u>2,000</u>	<u>-</u>
Analysis of debt:		
	2001 £000	2000 £000
Debt can be analysed as falling due:		
Between one and two years	2,000	-
	<u>2,000</u>	<u>-</u>

16 Called up share capital

	2001 £000	2000 £000
Authorised		
Equity: 65,000 Ordinary shares of £1 each	65	65
	<u>65</u>	<u>65</u>
Allotted, called up and fully paid		
Equity: 33,333 Ordinary shares of £1 each	33	33
	<u>33</u>	<u>33</u>

Notes (continued)

17 Share premium and reserves

	Share premium account £000	Profit and loss account £000
At beginning of year	305	25
Retained (loss) for the year	-	(1,034)
	<hr/>	<hr/>
At end of year	305	(1,009)
	<hr/>	<hr/>

18 Commitments under operating leases

	2001 Land and buildings £000	Other £000	2000 Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	-	-	2
In two to five years	-	16	-	50
After five years	155	-	149	-
	<hr/>	<hr/>	<hr/>	<hr/>
	155	16	149	52
	<hr/>	<hr/>	<hr/>	<hr/>

19 Contingent liabilities

Guarantees

With other members of the Group, the company has guaranteed facilities made available to Spectris Group plc, in respect of which the following amounts were outstanding at 31 December 2001.

	2001	2000
Senior Loan Notes 2006	\$100,000,000	\$100,000,000
Senior Loan Notes 2010	\$75,000,000	\$75,000,000
National Westminster Bank Plc	£2,591,000	£5,560,000
National Westminster Bank Plc	£5,693,000	£2,220,000
Bank One, NA	£26,612,000	£27,358,000

Arcom Control Systems Limited has guaranteed duty payments to HM Customs & Excise to a maximum of £50,000 (2000: £50,000).

There is also a performance guarantee to Logica UK Limited to a maximum of £97,724 (2000: £97,724).

Notes (continued)

20 Ultimate holding company

The ultimate holding company is Spectris Group plc, a company incorporated in Great Britain and registered in England. This is the smallest and largest company for which group accounts are prepared.

Copies of their annual report and consolidated accounts are available from Spectris Group plc, Station Road Egham, Surrey, TW20 9NP.

21 Related party disclosures

As a 100% owned subsidiary whose results are included in the consolidated financial statements of Spectris Group plc, the company is exempt from the requirement to disclose details of transactions with other group companies. There were no other related party transactions to report upon in the year to 31 December 2001.