

**Arcom Control Systems Limited**

**Directors' report and financial statements**

31 December 1998

Registered number 1608562



## **Directors' report and financial statements**

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## **Directors' report**

### **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 a difficult year the company has continued to report increased sales with the underlying profitability of the business being maintained.

During the year the Board took the decision to outsource board manufacture. This change of policy resulted in an exceptional re-organisation cost of £365,000.

### **Dividends and transfers to reserves**

An interim dividend was paid during the year of £15.62 per share (1997: £6.12 per share). The directors do not recommend the payment of a final dividend (1997: £7.35 per share). The remaining loss (£343,000 1997: £Nil) for the year has been transferred to reserves.

### **Research and development**

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

### **Employees**

It is the policy of Arcom Control System 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 Fairey 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 attitudes and abilities. If employees become disabled, every effort would be made to retrain them and where necessary re-train them for appropriate posts.

## Directors' report *(continued)*

### Directors

The directors of the company during the year were:

H D Nilsson	(Chairman)
A J Walters	
J J S Bain	
R D Elvis	(Appointed 2 November 1998)
A M Kirk	
G Middleton	(Appointed 23 July 1998)
J W Poulter	(Resigned 6 March 1998)

### Directors' interests

Except as shown below, no director had any interest in the shares of any group company. The following are in respect of ordinary shares of 5p each in Fairey Group plc, the ultimate holding company.

	Fairey Group plc	
	31 December 1998	1 January 1998
	5p ordinary shares	5p ordinary shares
	Number held	Number held
J J S Bain	94,000	100,000
A J Walters	1,000	1,000

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 Fairey Group plc, were outstanding at 31 December 1998:

	Date granted	At 1 Jan 98	Granted	Exercised	Lapsed released	At 31 Dec 98	Exercise price (p)	Mid market price at date of exercise (p)	Date from which exercisable	Expiry date
<b>Directors</b>										
<b>J J S Bain</b>	Mar 93	6,000				6,000	294.75		Mar 96	Mar 03
	Mar 96	1,000				1,000	613		Mar 99	Mar 06
	Sept 98		5,000			5,000	245		Sept 01	Sept 08
SAYE	Apr 93	2,348			2,348	-	308.75		Jun 98	Dec 98
SAYE	Oct 95	640			640	-	539		Dec 00	Jun 01
SAYE	Oct 97	1,086			1,086	-	635		Dec 02	Jun 03
SAYE	Oct 98		7,040			7,040	245		Dec 03	Jun 04
<b>A Kirk</b>	Sept 94	5,000		5,000			399	507.5	Sept 97	Sept 04
	Mar 96	1,000				1,000	613		Mar 99	Mar 06
	Sept 98		5,000			5,000	245		Sept 01	Sept 08
SAYE	Oct 95	960				960	539		Dec 00	Jun 01
<b>A J Walters</b>	Sept 95	7,000				7,000	539		Sept 98	Sept 05
	Oct 96	3,000				3,000	655		Oct 99	Oct 06
	Oct 97	3,000				3,000	635		Oct 00	Oct 07
	Oct 97	3,000				3,000	5		Mar 01	Oct 04
	Oct 97	3,000				3,000	5		Oct 00	Oct 04
	Sept 98		15,000			15,000	245		Sept 01	Sept 08
	Sept 98		15,000			15,000	5		Mar 02	Sept 05
<b>G Middleton</b>	Oct 97	3,000				3,000	685		Oct 00	Oct 97
	Sept 98		7,000			7,000	245		Sept 01	Sept 08
SAYE	Apr 93	2,348			2,348	-	308.75		Jun 98	Dec 98
SAYE	Oct 98		5,632			5,632	245		Dec 03	Jun 04

## **Directors' report** *(continued)*

### **Directors' interests** *(continued)*

The market price of Fairey Group plc shares at 31 December 1998 was 256½p and the range during 1998 was 589.5p to 240p.

At 31 December 1998 each of the directors was deemed to be interested in 1,109,950 ordinary shares in the capital of Fairey Group plc, the company's holding company, held by the Trustee of the Fairey Group plc Employee Benefit Trust and held by the Trustee of the Fairey Group plc Qualifying Employee Share Ownership Trust of which the directors are among the class of discretionary beneficiaries.

Except where shown as SAYE above, the above relates to the Executive Share Option Schemes - the 1988 Executive Share Option Scheme and the Fairey Group 1996 Executive Share Plan.

Entitlement to exercise options granted under the Fairey Group 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% 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 match of 20% to 100%.

The options held by H D Nilsson in the shares of the ultimate holding company is disclosed in that company's financial statements.

### **Year 2000**

The company has for some time been addressing potential problems with computer systems and process control and other equipment posed by millennium date changes. A steering committee has been established to implement the company's millennium compliance programme and co-ordinates the project. Inventories and initial assessments of the scale of the problem have been undertaken and actions to address the identified risks to business critical systems are underway.

The directors do not believe that the costs of achieving Year 2000 compliance can be realistically separated from the costs of the company's ongoing investment and maintenance expenditure as compliance is being achieved as a by-product of other projects. All expenses have been treated as normal revenue expenditure.

We have fully informed customers since December 1997 of details of our project plan and we also maintain up to date information on our website concerning the millennium issues ([www.arcom.co.uk](http://www.arcom.co.uk)).

### **Auditors**

KPMG Audit Plc were appointed as auditors of the company during 1998.

By order of the board



**J J S Bain**  
*Company Secretary*

Clifton Road  
Cambridge  
CB1 4WH

## **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

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

We have audited the financial statements on pages 6 to 18.

### Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### 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 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditors

[Date]

9/3/99

## Profit and loss account

*for the year ended 31 December 1998*

	<i>Note</i>	1998 £000	1997 £000
<b>Turnover</b>	2	9,150	8,488
Cost of sales		(4,667)	(3,854)
		<hr/> 4,483	<hr/> 4,634
<b>Gross profit</b>		(103)	(127)
Distribution costs		(3,711)	(3,778)
Administrative expenses		(365)	-
Re-organisation costs		<hr/>	<hr/>
<b>Operating profit</b>	3	304	729
Other interest receivable and similar income	6	10	12
Interest payable and similar charges	7	(64)	(50)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>		250	691
Tax on profit on ordinary activities	8	(73)	(242)
		<hr/>	<hr/>
<b>Profit for the financial year</b>		177	449
Dividends	9	(520)	(449)
		<hr/>	<hr/>
<b>Retained loss for the year</b>		(343)	-
		<hr/> <hr/>	<hr/> <hr/>

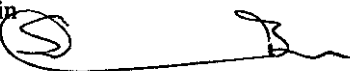


**Balance sheet**  
**at 31 December 1998**

	Note	1998 £000	1997 £000	£000
<b>Fixed assets</b>	10			
Tangible assets			179	389
<b>Current assets</b>				
Stocks	11	1,197	1,090	
Debtors	12	1,426	1,544	
Cash at bank and in hand		170	388	
		<u>2,793</u>	<u>3,022</u>	
<b>Creditors: amounts falling due within one year</b>	13	<u>(2,257)</u>	<u>(2,319)</u>	
<b>Net current assets</b>			536	703
<b>Total assets less current liabilities</b>			<u>715</u>	<u>1,092</u>
<b>Provisions for liabilities and charges</b>	14		(100)	(134)
<b>Net assets</b>			<u>615</u>	<u>958</u>
<b>Capital and reserves</b>				
Called up share capital	15	33	33	
Share premium account	16	305	305	
Profit and loss account		277	620	
<b>Shareholders' funds</b>			<u>615</u>	<u>958</u>

These financial statements were approved by the board of directors on 9/3/99 and were signed on its behalf by:

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.

The company is exempt by virtue of s228/s248 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a 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:

Short leasehold properties	over the remaining period of the lease.
Fixtures and fitting	25% per annum
Machinery, 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.

#### *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.

## **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.

Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

#### ***Turnover***

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

**Notes (continued)**

**2 Analysis of turnover by geographic market**

	1998 £000	1997 £000
United Kingdom	6,933	6,329
Continental Europe	1,080	747
Australia	96	205
USA and the rest of the world	1,041	1,207
	<u>9,150</u>	<u>8,488</u>

**3 Profit on ordinary activities before taxation**

	1998 £000	1997 £000
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Auditors' remuneration:		
Audit	14	16
Other services - fees paid to the auditor and its associates	3	2
Depreciation	169	220
Exchange losses	28	-
Hire of other assets - operating leases	53	59
Research and development expenditure	344	432
Re-organisation costs :		
Redundancy costs	361	
Legal costs	8	
Disposal of production assets	(4)	
	<u>365</u>	<u>-</u>

The re-organisation costs of £365,000 were incurred during the year following the outsourcing of the manufacture of computer boards. This represented a major shift in the focus of the company's operations. These costs had a material impact on the year's results but it is anticipated that the underlying profitability of the company will be increased in the coming years as a direct result of this change.

## Notes (continued)

### 4 Remuneration of directors

	1998 £000	1997 £000
Director's emoluments	253	222
Company contributions to money purchase pension schemes	20	16

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £87,000 (1997: £97,000), and company pension contributions of £8,000 (1997: £7,000) were made to a money purchase scheme on his behalf.

	Number of directors	
	1998	1997
Retirement benefits are accruing to the following number of directors under money purchase schemes:	5	7

**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	
	1998	1997
Production and distribution	70	103
Other	29	31
	<hr/>	<hr/>
	99	134
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	1998	1997
	£000	£000
Wages and salaries	2,156	2,435
Social security costs	232	235
Pension costs	66	64
	<hr/>	<hr/>
	2,454	2,734
	<hr/>	<hr/>

**Notes (continued)**

**6 Other interest receivable and similar income**

	1998 £000	1997 £000
From Fairey Group Companies	2	-
Bank deposits	8	12
	<u>10</u>	<u>12</u>
	<u><u>10</u></u>	<u><u>12</u></u>

**7 Interest payable and similar charges**

	1998 £000	1997 £000
Interest on loan from holding company repayable within five years	63	50
Bank interest and charges	1	-
	<u>64</u>	<u>50</u>
	<u><u>64</u></u>	<u><u>50</u></u>

**Notes (continued)**

**8 Taxation**

	1998 £000	1997 £000
UK corporation tax at 31% (1997: 31 %)	76	230
Adjustment relating to an earlier year	(3)	12
	<u>73</u>	<u>242</u>
	<u><u>73</u></u>	<u><u>242</u></u>

**9 Dividends**

	1998 £000	1997 £000
Equity shares:		
Interim dividend paid	520	204
Final dividend proposed	-	245
	<u>520</u>	<u>449</u>
	<u><u>520</u></u>	<u><u>449</u></u>



## Notes (continued)

### 10 Tangible fixed assets

	Leasehold	Plant and equipment	Fixtures, fittings, and software	Vehicles	Total
	£000	£000	£000	£000	£000
<b>Cost</b>					
At beginning of year	109	842	309	63	1,323
Additions	-	54	-	-	54
Disposals	-	(308)	(44)	(14)	(366)
	<u>109</u>	<u>588</u>	<u>265</u>	<u>49</u>	<u>1,011</u>
At end of year					
<b>Depreciation</b>					
At beginning of year	109	577	207	41	934
Charge for year	-	123	33	13	169
On disposals	-	(239)	(21)	(11)	(271)
	<u>109</u>	<u>461</u>	<u>219</u>	<u>43</u>	<u>832</u>
At end of year					
<b>Net book value</b>					
At 31 December 1998	-	127	46	6	179
	<u>-</u>	<u>127</u>	<u>46</u>	<u>6</u>	<u>179</u>
At 31 December 1997	-	265	102	22	389
	<u>-</u>	<u>265</u>	<u>102</u>	<u>22</u>	<u>389</u>

### 11 Stocks

	1998	1997
	£000	£000
Raw materials and consumables	184	212
Work in progress	242	530
Finished goods and goods for resale	771	348
	<u>1,197</u>	<u>1,090</u>
	<u>1,197</u>	<u>1,090</u>

**Notes (continued)**

**12 Debtors**

	1998 £000	1997 £000
Trade debtors	1,350	1,460
Other debtors - ACT repayable	-	12
Prepayments and accrued income	76	72
	<u>1,426</u>	<u>1,544</u>

**13 Creditors: amounts falling due within one year**

	1998 £000	1997 £000
Trade creditors	822	821
Amounts owed to group undertakings	1,021	607
Taxation and social security	187	505
Other creditors	157	-
Accruals and deferred income	70	141
Dividend proposed	-	245
	<u>2,257</u>	<u>2,319</u>

**Notes (continued)**

**14 Provisions for liabilities and charges**

	<b>Total £000</b>
At beginning of year	134
Utilised during year	(34)
Charge for the year	<u>100</u>
At end of year	<u><u>100</u></u>

The provisions represent warranty costs.

**15 Called up share capital**

	<b>1998 £000</b>	<b>1997 £000</b>
<i>Authorised</i>		
Equity: 65,000 Ordinary shares of £1 each	<u>65</u>	<u>65</u>
<i>Allotted, called up and fully paid</i>		
Equity: 33,333 Ordinary shares of £1 each	<u><u>33</u></u>	<u><u>33</u></u>

## Notes (continued)

### 16 Share premium and reserves

	Share premium account £000	Profit and loss account £000
At beginning of year	305	620
Retained loss for the year	-	(343)
	<hr/>	<hr/>
At end of year	305	277
	<hr/> <hr/>	<hr/> <hr/>

### 17 Commitments under operating leases

	1998		1997	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	14	-	28
In two to five years	-	37	-	15
After five years	138	-	138	-
	<hr/>	<hr/>	<hr/>	<hr/>
	138	51	138	43
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

### 18 Contingent liabilities

#### (i) Guarantees

With other members of the Group, the company has guaranteed facilities made available to Fairey Group plc, in respect of which the following amounts were outstanding at 31 December 1998.

	1998	1997
Senior Loan Notes	\$100,000,000	\$100,000,000
Lloyds Bank Plc	-	£15,000,000
National Westminster Bank Plc	£12,862,000	£27,079,000
National Westminster Bank Plc	£1,498,977	£1,846,000

#### (ii) Deferred taxation

As annual depreciation charges are considerably in excess of annual capital allowances, no provision for deferred taxation is necessary at 31 December 1998. (1997: £nil)