Eurotech Ltd

Annual Report and Financial Statements

31 December 2012

Registered number 1608562

Directors

J J S Bain
S Barazza
Dr F Cutri
G Tecchiolli

Secretary

J J S Bain

Auditors

Ernst & Young LLP
One Cambridge Business Park
Cambridge CB4 0WZ

Registered Office

3 Clifton Court
Cambridge CB1 7BN

Registered No 1608562

Directors' report

The directors present their report and financial statements for the year ended 31 December 2012

Principal activities

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

Results and dividends

The profit for the year after taxation amounted to £362,000 (2011 – profit of £949,000) The directors do not recommend a final dividend (2011 – £nil)

Research and development

During the year the company has continued with its research and development programme Expenditure in the year amounted to £735,000 (2011 – £789,000) Review of the business and future developments

During the year the company has continued to develop its customer base, product range and has enhanced its prospects for 2013

Operating performance

	2012	2011
	£000	£000
Turnover	10,168	15,983
Operating profit	567	1,384
Shareholders' funds	2,423	2,061
Average number of employees	23	34

Business performance

Total sales reduced by £5,815,000 year on year due to a large single contract that supported our exports in 2011 not recurring in 2012 However, we were able to grow UK sales by £1,350,000 (44 6%) even though the trading environment remained challenging in our home market Total sales in 2012 were £10,168,000 (2011 – £15,983,000) We anticipate growth in the UK Geographical area in 2013 An operating profit of £567,000 was generated for the year compared to an operating profit of £1,384,000 in 2011

Product launches and development of new products continued throughout 2012, from which we anticipate generating returns in the coming years

The average number of employees was 23 (2011 – 34), with sales per employee of £442,000 being generated, compared to £470,000 in 2011

Gross profit as a percentage of sales for the year was 35 5% (2011 – 30 7%) The gross profit generated was £3,614,000 compared to £4,907,000 in 2011 Operations were able to hold costs and continued the drive towards maximising the amount of product built by our outsourced manufacturing partners

Stocks and debtors at year end as a proportion of total sales were 37 0% compared to 17 2% at the prior year end

Principal risks and uncertainties

Detailed financial, operational and engineering planning is maintained throughout the year with annual reviews prepared for approval, with monthly management reports and quarterly detailed updates

Directors' report (continued)

Price risk of components and obsolescence of stock

The company trades primarily in Sterling but is exposed to movements in foreign currency, primarily the US Dollar and the Euro Strategic components are purchased by our sub-contractors to ensure we are able to optimize margins and mitigate against price fluctuations that occur in the component market The company maintains a regular monthly review of stock to ensure that we minimise the risk associated with stock obsolescence

Credit management

The company has developed policies that are aimed at minimising losses The policies are regularly reviewed in light of market conditions and credit worthiness guidelines are reviewed regularly

Liquidity risk

The company mitigates liquidity risk by constant attention to cash generation by maximising cash collections and negotiating terms with its suppliers

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 and allowing investment in research and development to produce a new generation of products

The company maintains a constant and involved development strategy with its customers, identifying market trends and the likely demand from our broad base of customers which allows us, to a certain extent, mitigate against the fluctuations in specific market areas and industry sectors

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 and within reasonable limits, the company is able to maintain supply of product 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 the company delivers the service they require, and offering products to market in the shortest lead time, will continue to give the company a competitive edge The company manages its operational costs and delivers high specification products that are capable of operating in environmentally harsh conditions

Going concern

The company's business activities, together with the factors likely to affect its future development and its financial position are described above

Based on the company's trading forecasts and the support of its parent undertaking (if required) the directors' view is that the company has adequate resources to continue in operational existence for the foreseeable future

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

Directors' report (continued)

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

Directors

The directors who served the company during the year were as follows

J J S Bain
S Barazza
Dr F Cutri
G Tecchiolli

Directors' liabilities

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 section 234 of the Companies Act 2006 Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report

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

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

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

Dr F Cutri
Director

Date 9th April 2013

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) Under company law the directors must not approve the financial statements unless they are satisfied that they 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 are sufficient to show and explain the company's transactions and 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 2006 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

Independent auditor's report

to the members of Eurotech Ltd

We have audited the financial statements of Eurotech Ltd for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 20 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditor's report (continued)

to the members of Eurotech Ltd

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Rachel Wilden (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Cambridge

Date 12 April 2013

Profit and loss account

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Turnover	2	10,168	15,983
Cost of sales		(6,554)	(11,076)
Gross profit		3,614	4,907
Distribution costs		(157)	(180)
Administrative expenses		(2,890)	(3,343)
Operating profit	3	567	1,384
Interest receivable and similar income	6	1	1
Interest payable and similar charges	7	–	(29)
Profit on ordinary activities before taxation		568	1,356
Tax on profit on ordinary activities	8(a)	(206)	(407)
Profit for the financial year	15,16	362	949

All amounts relate to continuing activities

Statement of total recognised gains and losses

for the year ended 31 December 2012

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £362,000 in the year ended 31 December 2012 (2011 – profit of £949,000)

Balance sheet

at 31 December 2012

	Notes	2012 £000	2011 £000
Fixed assets			
Tangible fixed assets	9	134	161
Current assets			
Stocks	10	269	576
Debtors	11	3,534	2,167
Cash at bank and in hand		1,202	2,893
		5,005	5,636
Creditors amounts falling due within one year	12	(2,683)	(3,703)
Net current assets		2,322	1,933
Total assets less current liabilities		2,456	2,094
Provisions for liabilities	13	(33)	(33)
Net assets		2,423	2,061
Capital and reserves			
Called up share capital	14	33	33
Share premium account	15	305	305
Capital contribution reserve	15	2,800	2,800
Profit and loss account	15	(715)	(1,077)
Shareholders' funds	16	2,423	2,061

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

Dr F Cutri
Director

Date 9th April 2013

Notes to the financial statements

at 31 December 2012

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

Statement of cash flows

The Directors have taken advantage of the exemption in FRS 1 (revised) from including a statement of cash flows in the financial statements on the grounds that the company is wholly owned and its parent publishes group financial statements

Tangible fixed assets

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 fittings	–	25% per annum
Plant and equipment	–	25% and 33% per annum
Software	–	33% per annum

Leasehold improvements are depreciated over the lesser of 10 years or the lease term

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

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 (cost of direct materials and labour plus attributable overheads based on a normal level of activity) In determining the cost of raw materials, consumables and stock purchased for resale, the average purchase price is used

Deferred taxation

Deferred taxation 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 right to pay less or to receive more, tax, with the following exception

- 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 to the financial statements

at 31 December 2012

1. Accounting policies (continued)

Foreign currencies

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

Leasing and hire purchase commitments

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

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

2. Turnover

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

	2012	*2011*
	£000	*£000*
United Kingdom	4,376	3,026
Rest of Europe	809	1,573
USA	4,115	10,465
Rest of the world	868	919
	10,168	15,983

Notes to the financial statements

at 31 December 2012

3. Operating profit

This is stated after charging/(crediting)

		2012 £000	2011 £000
Auditor's remuneration	– audit of financial statements	34	35
	– taxation services	15	11
Depreciation of owned tangible fixed assets		51	121
Operating lease rentals	– land and buildings	103	172
	– plant, machinery and motor vehicles	5	9
Research and development expenditure		735	789
Exchange loss/(gain)		92	(38)
Redundancy costs		134	25

4. Directors' remuneration

	2012 £000	2011 £000
Remuneration	337	368
Company contributions to money purchase pension schemes	26	26
	No	*No*
Number of directors accruing benefits under defined benefit pension schemes	–	–
Number of directors accruing benefits under money purchase schemes	2	2
Number of directors who received shares for qualifying services	–	–
Number of directors who exercised share options	–	–

The aggregate remunerations of the highest paid Director was £197,990 (2011 – £235,846) and company pension contributions of £16,002 (2011 – £16,002) were made to a money purchase scheme on his behalf The highest paid director did not receive shares for qualifying services or exercise any options in either the current or prior year

S Barazza and G Tecchiolli, as well as being directors of Eurotech Ltd, are also directors of the ultimate parent undertaking and fellow subsidiaries These directors received total remuneration for the year of €372,279 (2011 – €372,452), all of which was paid by the ultimate parent undertaking The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the ultimate parent and fellow subsidiary companies

Notes to the financial statements

at 31 December 2012

5. Staff costs

	2012	*2011*
	£000	*£000*
Wages and salaries	1,370	1,599
Social security costs	152	180
Pension costs	71	87
	1,593	1,866

The average monthly number of employees during the year was made up as follows

	No	*No*
Distribution	1	2
Operations	1	3
Engineering	9	12
Sales and marketing	6	9
Administration	6	8
	23	34

6. Interest receivable and similar income

	2012	*2011*
	£000	*£000*
Bank interest receivable	1	1

7. Interest payable and similar charges

	2012	*2011*
	£000	*£000*
Group loan interest	–	24
Bank interest payable	–	5
	–	29

Notes to the financial statements

at 31 December 2012

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2012 £000	2011 £000
Current tax:		
UK corporation tax on the profit for the year (note 8(b))	178	136
Adjustment in respect of prior year	23	–
Total current tax	201	136
Deferred tax:		
Origination and reversal of timing differences	5	271
Tax on profit on ordinary activities	206	407

(b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 24 5% (2011 – 26 5%) The differences are explained below

	2012 £000	2011 £000
Profit on ordinary activities before tax	568	1,356
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24 5% (2011 – 26 5%)	140	359
Effects of		
Expenses not deductible for tax purposes	44	40
Capital allowances in excess of depreciation	(6)	6
Utilisation of tax losses brought forward	–	(269)
Current tax for the year (note 8(a))	178	136

Notes to the financial statements

at 31 December 2012

8. Tax (continued)

(c) Deferred tax

	Recognised 2012 £000	Recognised 2011 £000	Unrecognised 2012 £000	Unrecognised 2011 £000
Depreciation in excess of capital allowances	15	20	–	–
Tax losses	–	–	–	–
Total deferred tax	15	20	–	–
Included in debtors (note 11)				15

Movement on total deferred tax

	£000
At 1 January 2012	20
Deferred tax debit in profit and loss account	(5)
At 31 December 2012	15

The deferred tax has been recognised as the directors believe that the results for the year and the forecasts for the following years indicate that the asset will be recovered The asset will be recovered as the company generates taxable profits in future periods

9. Tangible fixed assets

	Leasehold improvements £	Plant and equipment £	Fixtures, fittings and software £	Total £
Cost				
At 1 January 2012	208	309	175	692
Additions	15	19	3	37
Disposals	(22)	(1)	–	(23)
At 31 December 2012	201	327	178	706
Depreciation				
At 1 January 2012	92	287	152	531
Charge for year	22	17	12	51
Eliminated on disposals	(9)	(1)	–	(10)
At 31 December 2012	105	303	164	572
Net book value				
At 31 December 2012	96	24	14	134
At 1 January 2012	116	22	23	161

Notes to the financial statements

at 31 December 2012

10. Stocks

	2012	*2011*
	£000	*£000*
Raw materials and consumables	10	354
Work in progress	2	6
Finished goods and goods for resale	257	216
	269	576

The difference between purchase price or production cost of stocks and their replacement cost is not material

11. Debtors

	2012	*2011*
	£000	*£000*
Trade debtors	2,550	711
Amounts owed from group undertakings	905	1,378
Other debtors	1	–
Deferred tax	15	20
Prepayments and accrued income	63	58
	3,534	2,167

12. Creditors: amounts falling due within one year

	2012	*2011*
	£000	*£000*
Trade creditors	2,086	2,492
Amounts owed to group undertakings	39	86
Corporation tax	97	136
Other taxes and social security costs	70	47
Accruals and deferred income	237	921
VAT	154	9
Other creditors	–	12
	2,683	3,703

Notes to the financial statements

at 31 December 2012

13. Provisions for liabilities

	Provisions for maintenance warranties
	£000
At 1 January 2012	33
Charge for the year	5
Utilised during the year	(5)
At 31 December 2012	33

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

14. Issued share capital

		2012		*2011*
Allotted, called up and fully paid	*No*	*£000*	*No*	*£000*
Ordinary shares of £1 each	33,333	33	33,333	33

15. Movements on reserves

	Share premium account	*Capital contribution reserve*	*Profit and loss account*
	£000	*£000*	*£000*
At 1 January 2012	305	2,800	(1,077)
Profit for the year	–	–	362
At 31 December 2012	305	2,800	(715)

16. Reconciliation of shareholders' funds

	2012	*2011*
	£000	*£000*
Profit for the financial year	362	949
Net addition to shareholders' funds	362	949
Opening shareholders' funds	2,061	1,112
Closing shareholders' funds	2,423	2,061

Notes to the financial statements

at 31 December 2012

17. Other financial commitments

At 31 December 2012 the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings	
	2012	*2011*
	£000	*£000*
Operating leases which expire		
Within one year	–	26
Over five years	83	–
	83	26

The company operates a defined contribution pension scheme There were no outstanding contributions owed to the plan at the balance sheet date (2011 – £nil)

18. Guarantees

The company has guaranteed duty payments to HM Revenue & Customs to a maximum of £100,000 (2011 – £100,000)

19. Related party transactions

The company is a wholly owned subsidiary of Eurotech S p A, the group financial statements of which are publicly available Accordingly, the company has taken advantage of the exemption in FRS8 from disclosing transactions with wholly owned members of the Group

20. Ultimate parent undertaking and controlling party

The company is controlled by Eurotech S p A, the ultimate parent undertaking 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 group financial statements are available from Eurotech S p A, Via Fratelli Solari 3/a, 33020 Amaro (Udine), Italy and on the website www eurotech com