Registered Number 1608562

Eurotech Ltd

Annual Report and Financial Statements

31 December 2013

Directors
J J S Bain
S Barazza
Dr F Cutri
G Tecchiolli

Secretary
J J S Bain

Auditor
Ernst & Young LLP
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Cambridge CB4 0WZ

Registered Office
3 Clifton Court
Cambridge CB1 7BN

Registered No 1608562

Strategic report

The directors present their strategic report for the year ended 31 December 2013

Principal activities

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

Results

The profit for the year after taxation amounted to £218k (2012 – profit of £362k)

Review of the business

	2013	*2012*
	£000	*£000*
Turnover	7,709	10,168
Operating profit	307	567
Shareholders' funds	2,641	2,423
Average number of employees	22	23

In 2013 we saw a reduction in turnover compared to 2012 An operating profit of £307k was generated for the year compared to an operating profit of £567k in 2012 We anticipate growth in sales in 2014 starting the year with a solid order book

Product launches and development of new products continued throughout 2013, from which we anticipate generating returns in the coming years

The average number of employees was 22 (2012 – 23), with sales per employee of £350k being generated, compared to £442k in 2012

Gross profit as a percentage of sales for the year was 38 7% (2012 – 35 5%) The gross profit generated was £2,981k compared to £3,614k in 2012 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 19 0% compared to 37 4% 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

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 exchange losses The policies are regularly reviewed in light of market conditions and credit worthiness guidelines are reviewed regularly

Strategic report (continued)

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, to a certain extent, allows us to 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

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

On behalf of the Board

Dr F Cutri

Date 26 March 2014

Registered No 1608562

Directors' report

The directors present their report for the year ended 31 December 2013

Directors

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

J J S Bain
S Barazza
Dr F Cutri
G Tecchiolli

Dividends

The directors do not recommend the payment of a dividend (2012 £Nil)

Going concern

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

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

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

Research and development

During the year the company has continued with its research and development programme Expenditure in the year amounted to £542k (2012 – £735k)

Future Developments

The immediate outlook for the company is, as we would expect, similar to last year This is based on the order book and our forecast opportunities that we anticipate will be booked and billed during the year The trading environment remains, as in previous years, challenging but achievable Our relationship with our customers is key to growth and we have regular reviews with them and their requirements We continue to invest in our engineering and customer offering, specifically our Cloud platform and services, as well as engaging in European funded projects

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' report (continued)

Disclosure of information to the auditor

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

On behalf of the Board

Dr F Cutri

Date 26 March 2014

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' 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 adequate 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 Limited for the year ended 31 December 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 19 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 6, 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 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 2013 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 Strategic Report and 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 28 March 2014

Profit and loss account

for the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Turnover	2	7,709	10,168
Cost of sales		(4,728)	(6,554)
Gross profit		2,981	3,614
Distribution costs		(113)	(157)
Administrative expenses		(2,561)	(2,890)
Operating profit	3	307	567
Interest receivable and similar income	6	2	1
Profit on ordinary activities before taxation		309	568
Tax on profit on ordinary activities	7(a)	(91)	(206)
Profit for the financial year	14	218	362

All amounts relate to continuing activities

Statement of total recognised gains and losses

for the year ended 31 December 2013

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £218,000 in the year ended 31 December 2013 (2012 – profit of £362,000)

Balance sheet

at 31 December 2013

	Notes	2013 £000	2012 £000
Fixed assets			
Tangible fixed assets	8	98	134
Current assets			
Stocks	9	279	269
Debtors	10	1,189	3,534
Cash at bank and in hand		2,650	1,202
		4,118	5,005
Creditors amounts falling due within one year	11	(1,535)	(2,683)
Net current assets		2,583	2,322
Total assets less current liabilities		2,681	2,456
Provisions for liabilities	12	(40)	(33)
Net assets		2,641	2,423
Capital and reserves			
Called up share capital	13	33	33
Share premium account	14	305	305
Capital contribution reserve	14	2,800	2,800
Profit and loss account	14	(497)	(715)
Shareholders' funds	15	2,641	2,423

Approved and signed on behalf of the board

Dr F Cutri

Director

Date 26 March 2014

Notes to the financial statements

at 31 December 2013

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

Notes to the financial statements

at 31 December 2013

1. Accounting policies (continued)

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

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

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

	2013	*2012*
	£000	*£000*
United Kingdom	1,966	4,376
Rest of Europe	709	809
USA	4,338	4,115
Rest of the world	696	868
	7,709	10,168

Notes to the financial statements

at 31 December 2013

3. Operating profit

This is stated after charging

		2013 £000	2012 £000
Auditor's remuneration	– audit of financial statements	33	34
	– taxation services	7	15
Depreciation of owned tangible fixed assets		45	51
Operating lease rentals	– land and buildings	90	103
	– plant, machinery and motor vehicles	7	5
Research and development expenditure		542	735
Exchange loss		21	92
Redundancy costs		-	134

4. Directors' remuneration

	2013 £000	2012 £000
Remuneration	283	299
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 remuneration of the highest paid director was £175,017 (2012 – £174,659) and company pension contributions of £16,002 (2012 – £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 €360,809 (2012 – €372,279), 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 2013

5. Staff costs

	2013	*2012*
	£000	*£000*
Wages and salaries	1,232	1,370
Social security costs	146	152
Pension costs	71	71
	1,449	1,593

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

	No	*No*
Distribution	1	1
Operations	2	1
Engineering	7	9
Sales and marketing	6	6
Administration	6	6
	22	23

6. Interest receivable and similar income

	2013	*2012*
	£000	*£000*
Bank interest receivable	2	1

Notes to the financial statements

at 31 December 2013

7. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2013 £000	2012 £000
Current tax		
UK corporation tax on the profit for the year	91	178
Adjustment in respect of prior year	–	23
Total current tax (note 7(b))	91	201
Deferred tax:		
Origination and reversal of timing differences	–	5
Tax on profit on ordinary activities	91	206

(b) Factors affecting the current tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 23 25% (2012 – 24 5%) The differences are explained below

	2013 £000	2012 £000
Profit on ordinary activities before tax	309	568
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23 25% (2012 – 24 5%)	72	140
Effects of		
Expenses not deductible for tax purposes	27	44
Capital allowances in excess of depreciation	(8)	(6)
Current tax for the year (note 7(a))	91	178

(c) Deferred tax

		Recognised		*Unrecognised*
	2013 £000	2012 £000	2013 £000	2012 £000
Depreciation in excess of capital allowances	15	15	–	–
Total deferred tax	15	15	–	–
Included in debtors (note 10)				15

Notes to the financial statements

at 31 December 2013

7. Tax (continued)

(c) Deferred tax (continued)

Movement on total deferred tax

	£000
At 1 January 2013	15
Deferred tax debit in profit and loss account	–
At 31 December 2013	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

(d) Factors that may affect future tax charges

The main rate of UK corporation tax was reduced from 24% to 23% from 1 April 2013 The Finance Act 2013, enacted on 17 July 2013, reduced further the UK main rate of corporation tax to 21% from 1 April 2014 and 20% from 1 April 2015 Deferred tax has been restated accordingly in these financial statements

8. Tangible fixed assets

	Leasehold improvements *£000*	*Plant and equipment* *£000*	*Fixtures, fittings and software* *£000*	*Total* *£000*
Cost				
At 1 January 2013	201	327	178	706
Additions	–	7	2	9
Disposals	–	(70)	(42)	(112)
At 31 December 2013	201	264	138	603
Depreciation				
At 1 January 2013	105	303	164	572
Charge for year	22	13	10	45
Eliminated on disposals	–	(70)	(42)	(112)
At 31 December 2013	127	246	132	505
Net book value				
At 31 December 2013	74	18	6	98
At 1 January 2013	96	24	14	134

Notes to the financial statements

at 31 December 2013

9. Stocks

	2013	*2012*
	£000	*£000*
Raw materials and consumables	76	10
Work in progress	2	2
Finished goods and goods for resale	201	257
	279	269

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

10. Debtors

	2013	*2012*
	£000	*£000*
Trade debtors	628	2,550
Amounts owed from group undertakings	468	905
Other debtors	–	1
Deferred tax (note 7(c))	15	15
Prepayments and accrued income	78	63
	1,189	3,534

11. Creditors: amounts falling due within one year

	2013	*2012*
	£000	*£000*
Trade creditors	1,186	2,086
Amounts owed to group undertakings	22	39
Corporation tax	21	97
Other taxes and social security costs	60	70
Accruals and deferred income	241	237
VAT	5	154
	1,535	2,683

Notes to the financial statements

at 31 December 2013

12. Provisions for liabilities

	Provisions for maintenance warranties £000
At 1 January 2013	33
Charge for the year	7
Utilised during the year	–
At 31 December 2013	40

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

13. Issued share capital

Allotted, called up and fully paid	*No*	*2013 £000*	*No*	*2012 £000*
Ordinary shares of £1 each	33,333	33	33,333	33

14. Movements on reserves

	Share premium account £000	*Capital contribution reserve £000*	*Profit and loss account £000*
At 1 January 2013	305	2,800	(715)
Profit for the year	–	–	218
At 31 December 2013	305	2,800	(497)

15. Reconciliation of shareholders' funds

	2013 £000	*2012 £000*
Profit for the year	218	362
Net addition to shareholders' funds	218	362
Opening shareholders' funds	2,423	2,061
Closing shareholders' funds	2,641	2,423

Notes to the financial statements

at 31 December 2013

16. Other financial commitments

At 31 December 2013 the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings	
	2013	*2012*
	£000	*£000*
Operating leases which expire		
Within one year	–	–
Between two and five years	95	–
Over five years	–	83
	95	83

The company operates a defined contribution pension scheme There were no outstanding contributions owed to the plan at the balance sheet date (2012 – £nil)

17. Guarantees

The company has guaranteed duty payments to HM Revenue & Customs to a maximum of £100,000 (2012 – £100,000)

18. 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

19. 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