Eurotech Ltd

Directors' Report and Financial Statements

For the year ended 31 December 2009

Registered number 1608562

Directors

Dr F Cutri
J J S Bain
S Barazza
G Tecchiolli

Secretary

J J S Bain

Auditors

Ernst & Young LLP
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Cambridge
CB5 8DZ

Registered office

3 Clifton Court
Cambridge
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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 2009

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

Business review and future developments
During the year the company has continued to develop its customer base, product range and has enhanced its prospects for 2010

Operating performance

	2009	*2008*
	£'000	*£'000*
Turnover	9,095	8,840
Operating loss	(452)	(40)
Shareholders' funds	326	546
Average number of employees	47	49

Sales
Sales improved by 2 9% in a year when the trading environment was challenging Sales within the geographical area of the UK grew by £1,855K (41 1%) to £6,369K, although export sales reduced by 37 0% to £2,726K Total sales in 2009 were £9,095K (2008 £8,840K) We anticipate further growth in the UK in 2010, with additional growth returning to the export market Sales grew during the year even though the economic backdrop has been tough We maintained the level of investment in development projects however an operating loss of £452K was incurred for the year compared to an operating profit (excluding reorganisation costs of £186K) in 2008 of £146K

Product launches and development of new products continued throughout 2009, from which we anticipate to generate returns in the coming years The level of development investment as a proportion of turnover has remained above 15% over the last 2 years We believe this investment will assist in the development of our customer base and entry into new market segments during 2010 Considerable additional investment has been made during 2009 in our on-line marketing programmes

The average number of employees was 47 (2008 49), and sales per employee grew by 7 2% to £193K (2008 £180K) and is anticipated to further improve during 2010

Gross profit as a percentage of sales for the year was 36 6% (2008 39 1%) The gross profit generated was £3,331K compared to £3,454K Operations were able to hold costs and continue the drive to maximise the amount of product built by our outsourced manufacturing partners Elimination of waste continues to be a major focus for the operations team

The long term intercompany loan reduced by £300K during the year to £1,300K Stocks and debtors at year end as a proportion of total sales were 33 9%, compared to 31 5% at the prior year end

The number of new customers secured by the company remained strong, with the customer base being maintained at anticipated levels The proportion of customers with sales in excess of 10% of turnover did not materially change The customer profile is not anticipated to alter significantly during 2010

Directors' Report *(continued)*

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 Much of our component purchases are dollar denominated, however with our growing US sales we can mitigate some of the short term challenges that we encounter We secure a pipeline of strategic components to ensure we are able to optimize margins and mitigate against fluctuations that occur in the component market The company maintains a regular monthly review of stock to ensure that we minimise the costs of stock obsolescence

Credit management - The company has developed policies that are aimed at minimising such losses The policies are regularly reviewed in light of market conditions, deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness guidelines that are set quarterly

Liquidity risk - The company mitigates liquidity risk by constant attention to cash generation by maximising cash collections and negotiating terms with its suppliers The company has a long term debt from its parent company

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 Over the years we have maintained a strong customer loyalty providing customer support which has enabled us to withstand pressures from competitors who have tried to encroach on our market share

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 (should it be required) the directors' view is that the company has adequate resources to continue in operational existence for the foreseeable future

Directors' Report *(continued)*

Internal controls
The company regularly reviews its disaster recovery plan and the re-instatement of its business systems Internal controls are reviewed to ensure management is fully aware of the business risks relating to losses that may occur due to fluctuations in exchange rates, loss of any single important customer, product warranty issues, delays in new product releases and overruns in development costs

The Board of Directors annually prepares detailed plans for the ensuing year, these include financial reports, product development and business development plans The Board then monitors its performance against key indicators, such as sales, cash generation and return on assets The Board regularly reviews risks to the business and puts in place procedures and actions that will mitigate costs from non performance against any of its key indicators If necessary re-adjustment of resources is made to ensure the strategic goals of the company are met

Risk assessments for the business are regularly undertaken to ensure that employees are protected and there are guidelines for employees regarding a duty of care to each other and to the business and its customers Company policies are reviewed and internal controls are in place to ensure that the business operates within them Compliance with the policies is reviewed to ensure that both positive and negative feedback is used to enhance and correct the way that the business is managed

Results and dividends
The loss after tax for the year amounted to £520K (2008 profit of £27K) The Directors do not recommend the payment of a final dividend (2008 £nil)

Research and development
During the year the company has continued with its research and development programme Expenditure in the year amounted to £1,528K (2008 £1,350K)

Employees
The success of the company is dependent upon the abilities of its employees The company is committed to training, developing and recruiting staff to make possible the implementation of the company's plans It is the policy of the company to provide information to its employees on a regular basis This information includes matters relating to its performance, its prospects in the market and the economic outlook of its business in the period ahead

It is the policy of the company to recruit, train and promote disabled persons on the basis of their aptitudes and abilities If employees become disabled, every effort would be made to retain them and where necessary re-train them for appropriate posts

Directors
The Directors of the company during the year were

Dr F Cutri
J J S Bain
S Barazza
G Tecchiolli

Directors' qualifying third party indemnity provisions
The company has granted an indemnity to one or more of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in S234 of the Companies Act 2006 Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report

Directors' statement as to disclosure of information to Auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed above Having made enquiries of fellow Directors and of the company's auditor, each of these Directors confirms that

- To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditor is unaware, and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information

Auditors

In accordance with S485 of the Companies Act 2006, a resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

On behalf of the board

F A Cutri
Director

Date 16 July 2010

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

Report of the independent auditor to the members of Eurotech Ltd

We have audited the financial statements of Eurotech Ltd for the year ended 31 December 2009 which comprise the Profit and Loss Account, 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 auditors
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 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 (APB'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

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 2009 and of its loss 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

Report of the independent auditor to the members of Eurotech Ltd *(continued)*

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 16 July 2010

Profit and Loss Account

for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Turnover	2	**9,095**	8,840
Cost of sales		**(5,764)**	(5,386)
Gross profit		**3,331**	3,454
Distribution costs		**(203)**	(259)
Administrative expenses			
- reorganisation costs		**-**	(186)
- other		**(3,580)**	(3,049)
Operating loss	3	**(452)**	(40)
Interest receivable and similar income	6	**2**	21
Interest payable and similar charges	7	**(70)**	(145)
Loss on ordinary activities before taxation		**(520)**	(164)
Tax on loss on ordinary activities	8	**-**	191
(Loss)/profit on ordinary activities after taxation, being retained (loss)/profit for the financial year	16/17	**(520)**	27

All of the above results relate to continuing activities

There are no recognised gains or losses other than the loss of £520,000 attributable to the shareholders for the year ended 31 December 2009 *(2008 profit of £27,000)*

Balance Sheet
at 31 December 2009

	Note	*2009* *£000*	*2009* *£000*	*2008* *£000*	*2008* *£000*
Fixed assets					
Tangible assets	9		**392**		259
Current assets					
Stocks	10	**1,077**		1,352	
Debtors	11	**2,004**		1,432	
Cash at bank and in hand		**445**		1,435	
		3,526		4,219	
Creditors amounts falling due within one year	12	**(2,222)**		(2,189)	
Net current assets			**1,304**		2,030
Total assets less current liabilities			**1,696**		2,289
Creditors: amounts falling due after one year	13		**(1,300)**		(1,600)
Provisions for liabilities and charges	14		**(70)**		(143)
Net assets			**326**		546
Capital and reserves					
Called up share capital	15		**33**		33
Share premium account	16		**305**		305
Capital contribution reserve	16		**2,800**		2,500
Profit and loss account	16		**(2,812)**		(2,292)
Shareholders' funds	17		**326**		546

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

F A Cutri
Director

Date 16 July 2010

Notes

1 Accounting policies

Basis of preparation
The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable UK accounting standards

Cash flow statement
The Directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements

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

Fixed assets and depreciation
Fixed assets are stated at cost less accumulated depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Fixtures and 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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

Pensions
The company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund The amount charged in the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

Research and development expenditure
Expenditure on research and development is written off in the profit and loss account in the year in which it is incurred

Stocks
Stocks are stated at the lower of cost and net realisable value Cost includes all costs incurred in bringing each product to its present location and condition Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal For work in progress and finished goods, cost is taken as production cost (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 tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions

- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Provisions for liabilities
A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation

Provisions for the expected costs of maintenance under warranty are charged in the profit and loss account The effect of the time value of money is not material and therefore the provision is not discounted

Notes *(continued)*

2 Turnover

Turnover by geographic market

Turnover represents the amounts receivable for goods and services, net of vat and trade discounts, and is recognised upon the despatch of goods to customers

The total turnover of the company for the year has been derived from its principal continuing activity An analysis of turnover by geographical market is given below

	2009 £000	2008 £000
United Kingdom	**6,369**	4,514
Rest of Europe	**1,148**	2,165
USA	**1,522**	2,032
Rest of the World	**56**	129
	9,095	8,840

3 Operating loss

This is stated after charging/(crediting)	2009 £000	2008 £000
Auditor's remuneration		
- audit of financial statements	**35**	41
- taxation services	**40**	26
Depreciation of owned tangible fixed assets	**111**	75
Operating lease rentals - land and buildings	**153**	208
- plant, machinery and motor vehicles	**5**	3
Research and development expenditure	**1,528**	1,350
Exchange losses/(gains)	**21**	(66)

Notes *(continued)*

4 Remuneration of Directors

	2009	2008
	£000	£000
Directors' emoluments	**305**	324
Company contributions to money purchase pension schemes	**20**	15

	Number of directors	
	2009	2008
Retirement benefits are accruing to the following number of directors under money purchase schemes	**2**	2

The aggregate emoluments of the highest paid Director was £155,393 *(2008 £157,071)* and company pension contributions of £9,685 *(2008 £5,400)* were made to a money purchase scheme on his behalf

5 Staff and costs

The average number of persons employed by the company (including Directors) during the year, analysed by category, was as follows

	2009	2008
	No.	No
Distribution	**2**	4
Other	**45**	45
	47	49

	2009	2008
	£000	£000
Wages and salaries	**2,033**	2,164
Social security costs	**223**	202
Pension costs	**105**	99
	2,361	2,465

Notes *(continued)*

6 Interest receivable and similar income

	2009	*2008*
	£000	*£000*
Bank interest receivable	**2**	21

7 Interest payable and similar charges

	2009	*2008*
	£000	*£000*
Group loan interest	**70**	145

8 Taxation

(a) Tax on loss on ordinary activities

The tax charge/(credit) is made up as follows

	2009	*2008*
	£000	*£000*
Current tax		
Corporation tax at 28% *(2008 28 5%)*	-	-
Adjustment in respect of prior period - Group tax relief	-	(191)
Total current tax	-	(191)
Deferred tax		-
Origination and reversal of timing differences	-	-
Tax on loss on ordinary activities	-	(191)

Notes *(continued)*

8 Taxation (continued)

(b) Factors affecting the current tax charge/(credit)

The tax assessed on the loss on ordinary activities for the year is higher than the average rate of corporation tax for the period of 28% *(2008 28 5%)* The differences are reconciled below

	2009	2008
	£000	£000
Current tax reconciliation		
Loss on ordinary activities before tax	**(520)**	(164)
Loss on ordinary activities multiplied by average rate of corporation tax for the period of 28% *(2008 28 5%)*	**(146)**	(47)
Effects of		
Expenses not deductible for tax purposes	**18**	16
Capital allowances in excess of depreciation	**(9)**	(17)
Adjustment in respect of prior period - Group tax relief	**-**	191
Research and development tax claim	**(53)**	(47)
Unrelieved tax losses carried forward	**189**	96
Total current tax charge/(credit)	**-**	(191)

Deferred tax

	Recognised		***Unrecognised***	
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Depreciation in excess of capital allowances	**-**	-	**42**	49
Tax losses	**-**	-	**430**	227
Deferred tax asset	**-**	-	**472**	276

No deferred tax has been recognised as there is insufficient evidence that the asset will be recovered The asset would be recovered if the company was able to generate sufficient taxable profits in future periods

Notes *(continued)*

9 Tangible fixed assets

	Leasehold improvements	*Plant and equipment*	*Fixtures, fittings and software*	*Total*
	£000	*£000*	*£000*	*£000*
Cost				
At 1 January 2009	202	483	281	966
Additions	174	50	30	254
Disposals	-	(154)	(63)	(217)
At 31 December 2009	376	379	248	1,003
Depreciation				
At 1 January 2009	32	447	228	707
Charge for year	51	33	27	111
Eliminated on disposals	-	(154)	(53)	(207)
At 31 December 2009	83	326	202	611
Net book value				
At 31 December 2009	**293**	**53**	**46**	**392**
At 31 December 2008	170	36	53	259

10 Stocks

	2009	*2008*
	£000	*£000*
Raw materials and consumables	**400**	547
Work in progress	**106**	164
Finished goods and goods for resale	**571**	641
	1,077	1,352

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

Notes *(continued)*

11 Debtors

	2009	*2008*
	£000	*£000*
Trade debtors	**1,865**	1,260
Other debtors	**69**	26
Prepayments and accrued income	**70**	146
	2,004	1,432

12 Creditors: amounts falling due within one year

	2009	*2008*
	£000	*£000*
Trade creditors	**1,323**	1,297
Amounts owed to group undertakings	**470**	305
Taxation and social security	**79**	58
Accruals and deferred income	**350**	529
	2,222	2,189

13 Creditors: amounts falling due after more than one year

	2009	*2008*
	£000	*£000*
Over five years		
Amounts owed to group undertakings – loan	**1,300**	1,600
	1,300	1,600

The rate of interest on the group loan during 2009 was 4 46% *(2008 7 44%)* This is reviewed annually on 31 December

The interest is paid monthly, the repayment of the principal sum was renegotiated during the year and will be repaid no earlier than 31 January 2015

On 2 December 2009, £300,000 of the loan repayable over five years was capitalised, increasing the Capital Contribution Reserve to £2,800,000

Notes *(continued)*

14 Provisions for liabilities and charges

	Provisions for maintenance warranties
	£000
At 1 January 2009	143
Utilised during the year	(73)
Created during the year	-
At 31 December 2009	**70**

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

15 Called up share capital

	2009	*2008*
	£000	*£000*
Allotted, called up and fully paid		
33,333 Ordinary shares of £1 each	**33**	33

16 Reserves

	Share premium account	*Capital contribution reserve*	*Profit and loss account*
	£000	*£000*	*£000*
At 1 January 2009	305	2,500	(2,292)
Capital contribution (note 13)	-	300	-
Loss for the year	-	-	(520)
At 31 December 2009	**305**	**2,800**	**(2,812)**

Notes *(continued)*

17 Reconciliation of movements in shareholders' funds

	2009	*2008*
	£000	*£000*
(Loss)/profit for the financial year	**(520)**	27
Capital contribution	**300**	500
Net (reduction)/increase to shareholders' funds	**(220)**	527
Opening shareholders' funds	**546**	19
Closing shareholders' funds	**326**	546

18 Commitments

	2009	*2008*
	Land and buildings	*Land and buildings*
Operating leases which expire	***£000***	*£000*
Within one year	-	14
In two to five years	144	144
After five years	-	-
	144	158

The company operates a defined contribution pension scheme There were no outstanding contributions owed to the plan at the balance sheet date *(2008 £nil)*

19 Guarantees

The company has guaranteed duty payments to HM Revenue & Customs to a maximum of £75,000 *(2008 £75,000)*

20 Ultimate parent undertaking

The company is controlled by Eurotech S p A, the ultimate controlling party and parent company Eurotech S p A, a company incorporated in Italy and registered in Italy, heads the only group in which the results of the company are consolidated Copies of that company's Annual Report and consolidated accounts are available from Eurotech S p A, Via Fratelli Solari 3/a, 33020 Amaro (Udine), Italy