

Arcom Control Systems Limited

**Directors' report and financial
statements**

Registered number 1608562

31 December 2004



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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 2004.

Principal activities

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

Business review and results

During the year the company has continued to develop its customer base product range and enhance its prospects for 2005.

Dividends

The directors do not recommend the payment of a final dividend (2003: *£nil*).

Research and development

During the year the company has continued with its research and development programme. Spend in the year amounted to £986,000 (2003: £994,000).

Employees

It is the policy of Arcom Control Systems Limited to provide information to its employees on a regular basis. This information includes matters relating to its performance, its prospects in the market and the economic outlook of its business in the period ahead.

Financial participation in Spectris plc (the Parent Company) is encouraged through the Savings Related Share Option Scheme.

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

Directors

The directors of the company during the year were:

S C Harris (Chairman)	British
J J S Bain	British
L Goodman	American
G Middleton	British

Directors' report (continued)

Directors' interests

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

The interests of S C Harris in the shares of the ultimate parent undertaking are disclosed in that company's financial statements. Details of the ultimate parent undertaking are given in note 21 of these financial statements.

The following options, each of which carries an entitlement to subscribe for one ordinary 5p share in Spectris plc, were outstanding at 31 December 2004.

	Number of options					Exercise price (p)	Market price at date of exercise	Date from which exercisable	Expiry date
Directors	During the year								
	At 1 Jan 04	Options granted	Exercised	Lapsed	At 31 Dec 04				
JJS Bain	1,025	-	-	-	1,025	597.4954p		Mar 99	Mar 06
	5,000	-	-	-	5,000	525p		Oct 03	Oct 10
	3,000	-	-	-	3,000	357.5p		Oct 04	Oct 11
	3,000	-	-	(3,000)	-	342.5p		Sep 05	Sep 12
	12,025			(3,000)	9,025				
G Middleton	3,077	-	-	-	3,077	618.9389p		Oct 00	Oct 07
	7,000	-	-	-	7,000	525p		Oct 03	Oct 10
	7,000	-	-	-	7,000	357.5p		Oct 04	Oct 11
	7,000	-	-	(7,000)	-	342.5p		Sep 05	Sep 12
SAYE	551	-	-	-	551	342.5p		Dec 05	Jun 06
	24,628			(7,000)	17,628				
L Goodman	10,259	-	-	-	10,259	379.1610p		Mar 98	Mar 05
	7,181	-	-	-	7,181	618.9389p		Oct 00	Oct 07
	15,000	-	-	-	15,000	525p		Oct 03	Oct 10
	15,000	-	-	-	15,000	357.5p		Oct 04	Oct 11
	15,000	-	-	(15,000)	-	342.5p		Sep 05	Sep 12
	62,440			(15,000)	47,440				

The mid-market price of Spectris plc shares at 31 December 2004 was 382p. The highest share price in the year was 505p and the lowest was 380p.

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

Directors' report *(continued)*

Directors' interests *(continued)*

Entitlement to exercise options granted under the Spectris 1996 Executive Share Plan is conditional upon the achievement of growth in normalised earnings per share (EPS) over three consecutive financial years between grant and exercise of at least 2% per annum in excess of growth in the retail price index.

In addition at 31 December 2004, the Directors were deemed to have a non-beneficial interest in 3,212,330 (2003: 3,263,000) ordinary shares held by the Trustees of the Spectris plc Employee Benefit Trust of which the directors are among the class of discretionary beneficiaries.

The following directors or their families had beneficial interests in the ordinary shares of the ultimate parent company:

	At 31 Dec 04	At 31 Dec 03
J J S Bain	-	7,222
G Middleton	5,778	5,778
L Goodman	35,318	35,318

Auditors

Pursuant to a shareholders' resolution the company is not obliged to reappoint auditors annually and KPMG Audit Plc will therefore continue in office.

By order of the board



J J S Bain
Director

Unit 8
Clifton Road
Cambridge
CB1 7EA

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

37 Hills Road
Cambridge
CB2 1XL

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

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

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit 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 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Chartered Accountants
Registered Auditor*

22 September 2005

Profit and loss account
for the year ended 31 December 2004

	<i>Note</i>	2004 £000	2003 £000
Turnover	2	8,136	8,602
Cost of sales		(5,498)	(5,733)
		<hr/>	<hr/>
Gross profit		2,638	2,869
Distribution costs		(128)	(124)
Administrative expenses		(3,046)	(2,708)
		<hr/>	<hr/>
Operating (loss)/profit		(536)	37
Other interest receivable and similar income	6	1	2
Interest payable and similar charges	7	(134)	(17)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation	3-5	(669)	22
Tax on (loss)/profit on ordinary activities	8	221	(20)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities after taxation being retained (loss)/profit for the financial year	16	(448)	2
		<hr/>	<hr/>

A statement of recognised gains and losses has not been prepared as all gains and losses are included within the above profit and loss account.

All of the above results relate to continuing activities.

Balance sheet
at 31 December 2004

	Note	2004 £000	2003 £000
Fixed assets			
Tangible assets	9	115	91
Current assets			
Stocks	10	1,195	989
Debtors	11	1,297	1,433
Cash at bank and in hand		259	21
		<u>2,751</u>	<u>2,443</u>
Creditors: amounts falling due within one year	12	<u>(4,000)</u>	<u>(1,227)</u>
Net current (liabilities)/assets		<u>(1,249)</u>	<u>1,216</u>
Total assets less current liabilities		<u>(1,134)</u>	<u>1,307</u>
Creditors: amounts falling due after more than one year	13	-	(2,000)
Provisions for liabilities and charges	14	<u>(69)</u>	<u>(62)</u>
Net (liabilities)		<u><u>(1,203)</u></u>	<u><u>(755)</u></u>
Capital and reserves			
Called up share capital	15	33	33
Share premium account	16	305	305
Profit and loss account	16	<u>(1,541)</u>	<u>(1,093)</u>
Equity shareholders' funds	17	<u><u>(1,203)</u></u>	<u><u>(755)</u></u>

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

and were signed



J J S Bain
Director

Notes

1 Accounting policies

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

Basis of preparation

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

The financial statements have been prepared on a going concern basis as Spectris plc has agreed to provide the necessary financial support to enable the company to meet its liabilities as they fall due for at least twelve months from the date of approval of these financial statements.

Under Financial Reporting Standard 1 (revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that the parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Spectris plc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Spectris plc, within which this company is included, can be obtained from the address given in note 21.

Fixed assets and depreciation

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

Fixtures and fitting	25% per annum
Plant and equipment	25% and 33% per annum
Motor vehicles	22.5% per annum
Software	33% per annum

Foreign currencies

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

Leases

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

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Certain employees are members of the "Spectris Group Defined Contribution Pension Plan". The particulars of this pension scheme are contained in the financial statements of Spectris plc.

Notes (continued)

1 Accounting policies (continued)

Research and development expenditure

Expenditure on research and development is written off against profits in the year in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. For work in progress and finished goods cost is taken as production cost. In determining the cost of raw materials, consumables and stock purchased for resale, the first in, first out purchase price is used.

Taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

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

2 Analysis of turnover by geographic market

	2004 £000	2003 £000
United Kingdom	3,652	3,434
Continental Europe	1,326	1,155
USA	2,987	3,987
Rest of the world	171	26
	<hr/>	<hr/>
	8,136	8,602
	<hr/>	<hr/>

Notes *(continued)*

3 (Loss)/profit on ordinary activities before taxation

	2004	2003
	£000	£000
<i>(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Auditors' remuneration:		
Audit	19	18
Other services - fees paid to the auditor and its associates	3	3
Depreciation	61	68
Hire of other assets – operating leases	303	238
Research and development expenditure	986	994
Rents receivable	(41)	(47)
Exchange gains	(9)	(54)
	<u><u> </u></u>	<u><u> </u></u>

4 Remuneration of directors

	2004	2003
	£000	£000
Directors' emoluments	175	162
	<u><u> </u></u>	<u><u> </u></u>
Company contributions to money purchase pension schemes	12	11
	<u><u> </u></u>	<u><u> </u></u>
	Number of directors	
	2004	2003
Retirement benefits are accruing to the following number of directors under money purchase schemes:	2	2
	<u><u> </u></u>	<u><u> </u></u>

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	
	2004	2003
Production and distribution	3	3
Other	59	59
	<hr/>	<hr/>
	62	62
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£000	£000
Wages and salaries	1,879	1,697
Social security costs	201	186
Pension costs	81	76
	<hr/>	<hr/>
	2,161	1,959
	<hr/>	<hr/>

6 Other interest receivable and similar income

	2004	2003
	£000	£000
Bank deposits	1	2
	<hr/>	<hr/>

Notes (continued)

7 Interest payable and similar charges

	2004 £000	2003 £000
Interest on loan from holding company	133	17
Other	1	-
	<u>134</u>	<u>17</u>

8 Tax on (loss)/profit on ordinary activities

	2004 £000	2003 £000
UK corporation tax (credit) at 30% (2003: 30%)	(201)	-
Adjustment relating to prior years	(20)	20
	<u>(221)</u>	<u>20</u>

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

Factors affecting the tax charge for the current year

The current tax charge for the year is 30%. (2003: 30%).

	2004 £000	2003 £000
<i>Current tax reconciliation</i>		
(Loss)/profit on ordinary activities before tax	(669)	22
Current tax (credit)/charge at 30% (2003: 30%)	(201)	7
<i>Effects of:</i>		
Expenses not deductible for tax purposes	14	2
Capital allowances for year in excess of depreciation	(14)	(14)
Adjustments to tax charge in respect of previous years	(20)	20
Other	-	5
Total current tax (credit)/charge (see above)	<u>(221)</u>	<u>20</u>

Notes (continued)

9 Tangible fixed assets

	Plant and equipment	Fixtures, fittings and software	Total
	£000	£000	£000
Cost			
At beginning of year	516	282	798
Additions	28	57	85
	<hr/>	<hr/>	<hr/>
At end of year	544	339	883
	<hr/>	<hr/>	<hr/>
Depreciation			
At beginning of year	466	241	707
Charge for year	32	29	61
	<hr/>	<hr/>	<hr/>
At end of year	498	270	768
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2004	46	69	115
	<hr/>	<hr/>	<hr/>
At 31 December 2003	50	41	91
	<hr/>	<hr/>	<hr/>

10 Stocks

	2004 £000	2003 £000
Raw materials and consumables	516	394
Work in progress	86	78
Finished goods and goods for resale	593	517
	<hr/>	<hr/>
	1,195	989
	<hr/>	<hr/>

Notes (continued)

11 Debtors

	2004 £000	2003 £000
Trade debtors	939	1,125
Amounts owed by group undertakings	263	144
Other debtors	23	88
Prepayments and accrued income	72	76
	<u>1,297</u>	<u>1,433</u>

12 Creditors: amounts falling due within one year

	2004 £000	2003 £000
Trade creditors	646	785
Amounts owed to group undertakings	3,097	240
Taxation and social security	53	47
Accruals and deferred income	204	155
	<u>4,000</u>	<u>1,227</u>

Included within amounts due to group undertakings is £2,000,000 (2003: £nil) in respect of a loan due to the ultimate parent undertaking (see note 13). On 30 June 2005, the loan was formally unconditionally waived by the ultimate parent undertaking. The waived loan was subsequently reclassified as a capital contribution being a distributable reserve.

13 Creditors: amounts falling due after more than one year

	2004 £000	2003 £000
Amounts owed to parent undertaking	-	2,000

Analysis of debt:

	2004 £000	2003 £000
Debt can be analysed as falling due:		
Within one year (see note 12)	2,000	-
Between one and two years	-	2,000
	<u>2,000</u>	<u>2,000</u>

Notes (continued)

14 Provisions for liabilities and charges

(a) Provided amounts

	Warranty provision £000	Other Provisions £000	Total £000
At beginning of year	48	14	62
Utilised during year	(24)	(14)	(28)
Charge to the profit and loss for the year	31	14	45
	<hr/>	<hr/>	<hr/>
At end of year	55	14	69
	<hr/>	<hr/>	<hr/>

The warranty provision is for product costs anticipated in satisfying commitments under warranty periods for products sold. The other provision was made to cover rental costs for an unutilised building.

(b) Deferred taxation

	2004 £000	2003 £000
Opening balance of depreciation in excess of capital allowances	91	67
Adjustment in respect of prior year	4	38
Movement in current year (note 8)	(14)	(14)
	<hr/>	<hr/>
Excess of depreciation over capital allowances	81	91
Allowance regarding future uncertainty	(81)	(91)
	<hr/>	<hr/>
Deferred tax liability	-	-
	<hr/>	<hr/>

No deferred tax liability has been recognised due to the uncertainty of there being suitable profits generated in the period in which the asset is expected to reverse.

15 Called up share capital

	2004 £000	2003 £000
Authorised		
65,000 Ordinary shares of £1 each	65	65
	<hr/>	<hr/>
Allotted, called up and fully paid		
33,333 Ordinary shares of £1 each	33	33
	<hr/>	<hr/>

Notes (continued)

16 Share premium and reserves

	Share premium account £000	Profit and loss account £000
At beginning of year	305	(1,093)
Retained (loss) for the year	-	(448)
	<hr/>	<hr/>
At end of year	305	(1,541)
	<hr/> <hr/>	<hr/> <hr/>

17 Reconciliation of movements in shareholders funds

	2004 £000	2003 £000
(Loss)/profit for the financial year	(448)	2
	<hr/>	<hr/>
Net (reduction in)/addition to shareholders' funds	(448)	2
(Deficit) in opening shareholders' funds	(755)	(757)
	<hr/>	<hr/>
(Deficit) in closing shareholders' funds	(1,203)	(755)
	<hr/> <hr/>	<hr/> <hr/>

18 Commitments

	2004		2003	
	Land and Buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
In two to five years	-	24	-	30
After five years	280	-	273	-
	<hr/>	<hr/>	<hr/>	<hr/>
	280	24	273	30
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

19 Contingent liabilities

Guarantees

With other members of the Spectris Group, the company has guaranteed facilities made available to Spectris plc, in respect of which the following amounts were outstanding at 31 December 2004.

	2004 £000	2003 £000
National Westminster Bank Plc	4,893	5,684

The company has also guaranteed duty payments to HM Customs & Excise to a maximum of £50,000 (2003: £50,000).

20 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £81,000 (2003: £76,000).

There were outstanding contributions of £9,678 owed to the Spectris Group Defined Contribution Pension Plan as at 31 December 2004. (2003: *£nil*).

21 Ultimate parent undertaking

The company is controlled by Spectris plc, the ultimate controlling party and parent company. The only group in which the results of the company are consolidated is that headed by Spectris plc, a company incorporated in Great Britain and registered in England. Copies of their annual report and consolidated accounts are available from Spectris plc, Station Road Egham, Surrey, TW20 9NP.

