# ACAL
## plc

# Annual Report 2004

**Registered Number: 2008246**

# Chairman's Statement

## Overview of Results

The Group has continued to produce a good return on trading assets in spite of a decline in sales and profits in the difficult economic climate which has persisted. The year's sales fell to £269m from £272m – excluding last year's disposal and this year's acquisition, the fall in sales was just over 1% in sterling terms. This produced operating profit before goodwill and associated companies of £14.2m compared to £16.7m – a reduction of 15%. The shortfall was in Continental Europe as profit was maintained in the UK on a like-for-like basis.

Although sales fell by 1% in sterling terms, underlying overheads increased by 4% in sterling terms. However, if we take out the effect of changes in exchange rates sales would be 4% down and overheads would show a marginal increase as detailed in the Financial Review.

Though we generally controlled overheads, we were probably not aggressive enough in cutting costs when our expectation of demand was not achieved in some of our Continental European companies. However, we continue to show improvements in gross margin by focussing on our added value business and because of the sale of a lower margin business and purchase of a higher margin business; gross margin this year has improved from 24.8% to 25.9%.

Profit before goodwill amortisation and exceptionals was £12.7m (2003 £15.6m). This reflects the fall in operating profit of £2.5m described above, and an increase in interest of £0.4m (largely due to FRS 17). With taxation at 34.1% this has translated into earnings per share before goodwill amortisation and exceptionals of 31.8p per share (2003 39.1p per share).

A more detailed analysis of the results is set out in the Operations and Financial Reviews.

## Dividend

The Board is recommending a final dividend per share of 14p net per share (2003 13.4p), making a total of 21p (2003 20.1p) for the year. This is an increase of 4.5% on last year and continues ahead of inflation reflecting our confidence in the future. We have continued growth in dividends even though profits are down, as we believe that dividends are an important part of shareholder return.

## Strategy

Acal remains a technology distribution group focussed on Electronic and Industrial Components, IT Products and IT Parts Services. The IT divisions now account for over 50% of our sales and profits.

Geographically, our roots are in Western Europe, but in the last decade we have extended our long-term global view with investments in the Far East, and more recently partnerships in Eastern Europe. These areas in time will become materially important to the Group.

## Corporate Governance

This year we are reporting a year earlier than we need on how we are meeting the provisions of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council, for which we were already well positioned.

We continue to strive for the highest standards of corporate governance, but to formalise and communicate procedures and have them reported on by auditors is expensive and time consuming for key executives. Nevertheless, we aim to achieve the standards our shareholders expect and we expect of ourselves without forgetting that the creation of wealth is also high on our shareholders' list of priorities.

# Chairman's Statement

## Board Composition

We were pleased to welcome Graham Williams who joined the Board as a Non-executive Director in December 2003 and has already made a valuable contribution. David Channing-Williams retired from the Board at the end of the financial year and we thank him for his contribution during the five years he served.

The Nominations Committee has looked closely at those directors due for re-election and following an appraisal process and performance review of the Board, I am pleased to recommend Graham Williams for election following his appointment last year. Though Rhys Williams has reached the age of 70 and has served ten years on the Board, your Board feel that he has retained his independence. Furthermore, it would not be in the shareholders' best interest to lose his wise counsel, judgement and constructive criticism and therefore I am pleased to recommend his re-election. The Board under the leadership of the Senior Independent Director carried out an appraisal of me, as Chairman, and has approved my standing for re-election.

## Employees

We have had another tough year, and the Board is grateful for the hard work and loyalty of our team. It is at times like these you appreciate the efforts of your colleagues who continue to give of their best and go the extra mile.

## Prospects

The outlook is starting to look less difficult, with order growth in the component business and signs that economic activity has picked up in the U.S. and Asia and that this is spreading to Western Europe. However, there are still three areas of concern – global terrorism remains a serious risk, and the major changes and uncertainties in currency markets are not conducive to positive investment decisions. Finally, the long period of low interest rates is likely to be over, and there is risk of inflation and high oil prices, inhibiting growth which has shown some signs of pick up.

Nevertheless, we feel that after a long period of reducing sales we should see some progress in the second half of this year because year-on-year order decline ceased six months ago and there are signs of year-on-year order growth – though at times rather patchy. This coupled to some key supplier wins in the last twelve months should provide the growth necessary to produce improving results.

**John Curry**

**Chairman**

7th June 2004

# Operations Review

In the difficult environment of the past year, Electronic Components and Industrial Controls have maintained profits with a shortfall in the IT divisions. In spite of pressure, gross margins have been maintained or improved in all divisions and increased by more than 1% overall from 24.8% to 25.9%, which in part compensates for the lower level of sales. As yet we have only limited evidence of product shortages and consequential price increases, although we do expect this to be more pronounced later this year, essentially in the Electronic Components Division.

We have seen some improvement in the last six months in order levels and book-to-bill ratios. However, monthly order and sales figures have varied considerably which reflects the uncertainty in our customers' markets, particularly in Continental Europe.

During the year we managed costs tightly but with hindsight not sufficiently vigorously in some of the Continental European operations. Whilst we remain committed to our investment in people and our IT systems, which are critical for the provision of service and support levels to both suppliers and customers, we continue to work to ensure the right balance.

## Electronic Components

The Electronic Components activities of the Group maintained EBITA (Earnings before interest, taxation and amortisation of goodwill) at £3.4m despite a small decrease in overall sales, from £93.3m to £91.9m. Maintaining this performance was entirely due to the UK businesses where gross margin improvements and effective cost reductions, coupled with the UK critical mass, enabled an important overall improvement. As has been stated previously, the UK has been somewhat ahead of Continental Europe in the recovery cycle and whilst the second half improvement is only slight, it has now begun.

During the year the rationalisation of the distribution channels of our suppliers has continued and we have been able to take on new complementary suppliers and extend our geographical coverage with others.

We have also taken advantage of the increase in available business in markets, which are showing growth, particularly in the areas of defence, aerospace and security. Whilst the telecoms market, which has the potential to be, and was historically our largest market, is not yet exhibiting significant growth, we have been able to secure key supplier status with three of Europe's major telecoms infrastructure companies. With one we are their first distributor and with another their only distributor. The agreements with these companies cover many products and allow our customers to be able to rely on Acal for establishing and maintaining local supply, buffer inventory and guaranteed delivery lead times, plus forecast demand patterns for our suppliers. This support extends not only to European manufacturing locations but also to those used by our customers as far afield as China and South America and clearly demonstrates the additional value that a specialised distributor can provide to both the customer's supply chain and the manufacturers we represent.

Early in the year we established a series of relationships in Eastern Europe, which extends our Pan-European coverage to important new markets for many of our existing suppliers and in February we formed a new business in Madrid to concentrate on the Spanish and Portuguese markets.

# Operations Review

### Industrial Controls

Although sales were virtually unchanged in sterling terms, EBITA grew 27% from £1.1m to £1.4m.

The highlights of the year have been two-fold – the growth of sales in Asia Pacific, an area in which we have been investing for the past three years, and a major sales success with a manufacturer of refrigeration units for marine containers. These sales are predominantly of electric proportional valves, which provide superior refrigerant flow and close control of temperature with resulting benefits for the food supply industry worldwide.

The medical instrumentation business also had another successful year with an increase in EBITA.

### IT Products

Sales in our IT Products Division have grown 5% from £94.5m (excluding the Cisco business which was sold in the prior year) to £99.2m. EBITA has reduced 35% from £6.9m to £4.5m. This reduction was largely as a result of the smallest of our IT activities, that of networking, security and computer components, which had a torrid year including £0.5m of bad debts. Following a critical analysis we are focusing on added value, have merged this activity with the successful Acal Value Added Services business and are now working towards adding complementary product lines which we need.

Headway, our document management and imaging business, experienced similar sales year-on-year with a very small reduction in EBITA. This reduction was all in the first half of the year and we have seen recovery across all geographies in the second half, although there remains scope for further improvement in the year ahead.

Major achievements in the year included the supply of some 260 document scanners to Deutsche Telekom in Germany, and 400 into the French Government employment agency. In the UK major projects included the supply of product and services into Northern Rock, Abbey National, Lloyds Registrars and the NHS among others.

Acal Storage Networking ("ASN"), previously known as Fibre Channel Solutions has again been one of Acal's successes with a further increase in sales and EBITA. The business continues to be centred on the UK and Germany and illustrates well the benefits of the focused and qualified Acal team who provide all the necessary pre and post sales technical support to the EMEA-wide customer base, which now involves sales to 48 countries.

Key customers for ASN's products and services are the major OEMs, particularly EMC and Storagetek. The major markets in the year have been those of telecommunications and banking, however the wider acceptance of ASN's technology means that growth is not limited to these sectors alone.

### IT Parts Services

This division had sales growth of 5% from £56.1m to £59.1m and an EBITA reduction of 8% from £5.3m to £4.9m. Computer Parts International ("CPI"), the business we bought in May 2003, performed in line with expectations producing sales of £9.8m and EBITA of £1.2m. However, the other parts of the division showed a decline year-on-year with losses being made in France and Netherlands and ATM moving to a lower and more sustainable gross margin. As a consequence, the French business has been considerably downsized, and with the reduced potential in the Netherlands that operation is being closed. The costs of closure are £600,000 and have been charged in the year's profit and loss account.

# Operations Review

Although the results for the year have been disappointing, there have been a number of positive achievements which enable us to expect profitable growth in the year ahead. These include the expansion of our relationship with Lexmark, where we are now responsible for warranty management of all Lexmark's sales in Germany, and are beginning to work with their service partners in France. This is shortly to be followed by an extension into Eastern Europe.

Unisys have expanded their business with EAF in the UK to the newly acquired CPI, and this will also extend to France and Germany.

Finally, a new 'branding initiative' has been established to market the companies under the Acal IT Parts Services banner in recognition of the fact that an increasing number of customers are working with each of the companies in this division – EAF, ATM and CPI.

## Acal IT Systems

The extension of the ERP system has continued throughout the year with just one further major country implementation to come. We now have a stable, resilient, scaleable platform on which to build further enhancements for the benefit of our customers and suppliers.

**Tony Laughton**

**Chief Executive**

7th June 2004

## Financial Review

The table below shows the performance of Acal's divisions in each of the years ended 31st March 2004 and 2003:

| | 2004 | | | | 2003 | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Sales** | | **EBITA*** | | Sales | | EBITA* |
| | | **As % of** | | **As % of** | | As % of | | As % of |
| | **£m** | **Group** | **£m** | **Sales** | £m | Group | £m | Sales |
| Electronic Components | **91.9** | **34%** | **3.4** | **3.7%** | 93.3 | 34% | 3.4 | 3.7% |
| Industrial Controls | **18.7** | **7%** | **1.4** | **7.5%** | 18.9 | 7% | 1.1 | 5.8% |
| Components TOTAL | **110.6** | **41%** | **4.8** | **4.3%** | 112.2 | 41% | 4.5 | 4.0% |
| IT Products | **99.2** | **37%** | **4.5** | **4.6%** | 103.8 | 38% | 6.9 | 6.6% |
| IT Parts Services | **59.1** | **22%** | **4.9** | **8.2%** | 56.1 | 21% | 5.3 | 9.4% |
| IT TOTAL | **158.3** | **59%** | **9.4** | **5.9%** | 159.9 | 59% | 12.2 | 7.6% |
| | **268.9** | **100%** | **14.2** | **5.3%** | 272.1 | 100% | 16.7 | 6.1% |

(*EBITA being calculated as operating profit excluding goodwill amortisation and the Group's share of associated undertakings.)

The relative contribution to sales of the Group's Components and IT businesses remained unchanged from last year at 41% and 59% respectively.

During the year sterling has, on average, been approximately 7% weaker as compared to the Euro and approximately 10% stronger as compared to the US Dollar. The table below shows the effect of exchange rate movements as well as acquisitions and disposals on the Group's sales during the year.

| | Sales | |
|---|---|---|
| | £m | Change |
| Year ended 31st March 2003 | 272.1 | |
| Net effect of Acquisitions/Disposals | 0.5 | |
| Effect of exchange rate movements | 8.2 | +3% |
| Underlying change | (11.9) | (4%) |
| Year ended 31st March 2004 | 268.9 | (1%) |

The global economic downturn of the last three years has affected the profitability of the Group's businesses in Continental Europe more severely than those in the UK. Accordingly, exchange rates had no material effect on the Group's profits.

The benefits of Acal's focus on value-added distribution have continued to show in the gross margins being achieved. Overall gross margin strengthened to 25.9% as compared to 24.8% in the previous year. Each of the Group's four divisions has contributed to this achievement by improving or maintaining its gross margin.

Group companies have contained overheads at similar levels as the prior year (at constant exchange rates) whilst endeavouring to ensure that Acal's long-term growth strategy and "design-in" efforts are not adversely affected by any cost-saving measures adopted. The table below shows the change in net operating expenses (excluding goodwill amortisation).

| | Net Operating Expenses (excluding goodwill amortisation) | |
|---|---|---|
| | £m | Change |
| Year ended 31st March 2003 | 50.9 | |
| Net effect of Acquisitions/Disposals | 2.7 | +5.3% |
| Effect of exchange rate movements | 1.6 | +3.1% |
| Underlying change | 0.2 | +0.4% |
| Year ended 31st March 2004 | 55.4 | +8.8% |

Westech is our main associated company and distributes electronic components in the Far East. It has continued to develop its geographic coverage of the Far East and to grow its product portfolio and has seen sales growth in recent months. The contribution of associated companies to Group operating profit at £0.4m was similar to that in the prior year.

The charge for goodwill amortisation increased from £2.8m last year to £2.9m this year as a result of the acquisition of CPI.

In March 2004, we announced the closure of the IT Parts Services business in the Netherlands. The estimated costs of this closure are £600,000 and have been charged in the profit and loss account for the year ended 31st March 2004. The previous year had benefited from a profit of £575,000 on the sale of the Group's Cisco Distribution Business.

Net interest cost (before FRS 17 financing cost of £0.3m) at £1.6m was similar to that in the previous year (when there was no FRS 17 financing cost) and was covered 9 times (2003 10 times) by operating profit before goodwill amortisation.

The Group's effective tax rate for the year ended 31st March 2004, based on profit before taxation and amortisation of goodwill was 34.1% as compared to 33.2% in the previous year.

The interim and proposed final ordinary dividends for the year will absorb £5.5m and are covered 1.4 times by attributable profit before amortisation of goodwill.

### Pensions

It has always been Acal's policy that all its pension schemes should be of the defined contribution type so that the extent of the Group's financial obligations can be clearly ascertained. However, when Sedgemoor Limited, then a listed public company, was acquired in June 1999, it brought with it certain defined benefit schemes, the principal one of which is the Sedgemoor Group Pension Fund ("the Sedgemoor Scheme"). Soon after the acquisition the Sedgemoor Scheme was curtailed and all future service accrual ceased.

Last year we adopted FRS 17 relating to pension schemes. The effect in respect of the Sedgemoor Scheme was that a net pension liability of £5.9m was recognised in the financial statements. The net liability at 31st March 2004 was lower, at £4.8m, reflecting primarily the appreciation of investments as a result of stronger stock markets and contributions made.

### Working Capital and Balance Sheet

Considerable emphasis is placed on managing the Group's balance sheet, particularly in times of economic downturn. Acal has a model for this process, which is based on comparing each item of trading assets to the three-month moving average of sales (TMMA). The table below shows the model and how the actual position compared with the model. For example, it shows that our target for stock is that it should represent 1.2 months of sales whereas the actual level of stock at 31st March, both in 2004 and 2003, represented 1.1 months of sales.

| | Target Model TMMA Ratio | **31st March 2004 TMMA ratio** | 31st March 2003 TMMA Ratio |
|---|---|---|---|
| Trading Fixed Assets | 0.5 | **0.6** | 0.6 |
| Current Assets: | | | |
| Stock | 1.2 | **1.1** | 1.1 |
| Debtors | 2.3 | **2.1** | 2.3 |
| Current Liabilities: | | | |
| Creditors | (2.2) | **(2.1)** | (2.3) |
| Tax | (0.2) | **(0.1)** | (0.1) |
| TOTAL Trading Assets | 1.6 | **1.6** | 1.6 |

(Note: This trading assets model excludes goodwill, investments, net debt/cash and long-term liabilities.)

The Group's operating companies have continued to build upon their success in managing stock during the economic downturn with the overall level coming down to £23.6m at 31st March 2004 (including stock acquired with CPI) compared with £24.4m the year before and a peak level of £40m in May 2001. This success has been achieved without the need for any exceptional provision or write-off.

Return on average capital employed (which is calculated using operating profit before goodwill amortisation, and net assets excluding goodwill and adding back net debt) was 38% compared to 43% last year. We believe that this was a satisfactory performance in a period of economic downturn.

Capital expenditure for the year was £3.7m (2003 £3.9m) representing a return to more normal levels after the higher expenditure of a few years ago on the Group's new ERP system. The programme implementing the new system is now nearing completion.

Shareholders' funds at 31st March 2004 were £67.7m, after goodwill amortisation of £2.9m (2003 £2.8m), compared to £68.0m a year before, and net debt at 31st March 2004 was £15.2m (22.5% of shareholder funds) as compared to £13.4m (19.7% of shareholder funds) a year earlier. This is after expenditure of £6m on the acquisition of CPI in May 2003.

**Jim Virdee**

**Finance Director**

7th June 2004

# Directors

*J A H Curry CBE, FCA, MBA, MA*

Chairman (66), founded Acal in 1986. He was previously joint chief executive and subsequently a non-executive director of Unitech plc. He is Chairman of Foreign and Colonial Smaller Companies plc and The All England Lawn Tennis Ground plc, and has been a non-executive director of other quoted companies.

*A J Laughton*

Chief Executive (61), founded his first electronic component business in 1975. This became the forerunner of Centre Industries which in turn became part of Acal in 1987. Initially he was Chief Operating Officer, then Managing Director and has been Chief Executive since August 2001. He is also non-executive Chairman of Triage Services Limited.

*J S Virdee FCA, MA, MSc*

Finance Director (52), was a director of Kleinwort Benson Limited (now Dresdner Kleinwort Wasserstein) until 1989. Before joining Acal in 1993, he was finance director of Grosvenor Estate Holdings and Sycamore Taverns Limited.

*R A Allen FCA, MBA*

Director (54), joined Acal in June 1999. He was chief executive of the IEC Group Ltd, a European distributor of electronic components, until 1999. From 1992 to 1994 he was a director of W. Canning PLC. He is responsible for the Group's UK electronic components and pan-European storage networking businesses.

*E A Barton MA Appointed August 2002*

Non-executive Director (59), was a director of 3i plc between 1986 and 1999. He has experience as a non-executive director across a number of public and private companies and is currently also a non-executive director of Morse plc and Telecity plc.

*G J Williams MBA, CA Appointed December 2003*

Non-executive Director (61), gained his early business experience in private equity with Charterhouse and Barclays Private Equity, both in the UK and France. He was on the Board of Hays plc for 19 years both as a private and public company.

*R J Williams BSc Appointed April 1994*

Non-executive Director (70), was a director of GEC plc and is now chairman of Radstone Technology plc, as well as non-executive director of Filtronic plc and Comunica Holdings Plc.

ACAL plc

## Committees of the Board

R J Williams is the Senior Independent Director.

The Executive Directors' Remuneration Committee comprises R J Williams (Chairman), E A Barton and G J Williams.

The Non-executive Directors' Remuneration Committee comprises J A H Curry (Chairman), R A Allen, A J Laughton and J S Virdee.

The Audit Committee comprises E A Barton (Chairman), G J Williams and R J Williams.

The Nominations Committee comprises J A H Curry (Chairman), E A Barton, A J Laughton, G J Williams and R J Williams.

## Secretary and Advisers

**Secretary and Registered Office**

| | |
|---|---|
| Secretary: | **J V Pomeroy** |
| Registered Office: | **2 Chancellor Court, Occam Road, Surrey Research Park, Guildford, Surrey GU2 7AH** |

**Advisers**

| | |
|---|---|
| Stockbrokers: | **Cazenove & Co. Ltd** |
| Principal Bankers: | **Barclays Bank PLC**<br>**Lloyds TSB Bank plc** |
| Auditors: | **Deloitte & Touche LLP** |
| Registrars: | **Lloyds TSB Registrars** |

## Financial Calendar 2004/2005

| | |
|---|---|
| **Annual General Meeting** | 23rd July 2004 |
| **Results** | |
| Interim report for the six months to 30th September 2004: | Early December 2004 |
| Preliminary announcement for the year to 31st March 2005: | Early June 2005 |
| Annual Report 2005: | Late June 2005 |
| **Dividend Payments** | |
| Final dividend 2003/2004: | 26th July 2004 |
| Interim dividend 2004/2005: | Late January 2005 |
| Final dividend 2004/2005: | Late July 2005 |

# Acal's Business

Acal is a leading European value-added distributor providing specialist design-in, sales and marketing services for international suppliers. Its value added-philosophy and geographic coverage enable the Group to provide specialist knowledge and support to customers on a pan-European basis.

The Group's most significant product groups are as follows:

## Electronic Components

A broad range of electronic components including frequency control devices, electromechanical and magnetic components, specialist niche semiconductors, capacitors, power supplies, RF and microwave components, systems and instrumentation.

## Industrial Controls

Predominantly air conditioning, refrigeration components and also medical diagnostic equipment.

## IT Products

Document management and imaging products and associated software and service, all operating under the Headway name.

Networking products, including wireless devices and products for the rapidly growing Storage Networking market.

## IT Parts Services

A range of distribution and logistics solutions for service components and sub-assemblies for p.c's, related peripherals, automated teller machines (ATMs) as well as mid-range and higher-end computers. The Group's IT Parts Services business is conducted under the names EAF, ATM and CPI.

ACAL plc

# Senior Executive Management

*Richard Allen*

Executive Director and Divisional Director (54). Richard's business career started as a chartered accountant. He then obtained an MBA from Harvard Business School and moved into the electronics industry working for a number of European businesses including Unitech plc and Astec Power Supplies Europe before becoming a director of W Canning plc, from which he led a management buy-out which saw the formation of the IEC Group.

Richard joined the Acal Group in June 1999 when IEC was sold and became a Director of Acal plc in May 2000. He is responsible for the Group's electronic components businesses in the United Kingdom as well as Acal's storage networking businesses Europe-wide.

*Guy Armstrong*

Divisional Director (51). Guy joined the Acal Group in March 2000 and has over 15 years' experience in the provision of spare parts and repair services to field service organisations, having previously been Business Development Director at CRC plc and Sales Director at Data Exchange Inc.

In his role as Divisional Director responsible for Acal's IT Parts Services Division, Guy has been focussing on the Group's relationships and revenue with OEMs and field service organisations. He is developing the Group's skills in the provision of outsourced services to OEMs for the distribution of their spare parts, management of their returns and warranty events, and to service organisations for the management of their spare parts inventory, so that the Group is seen as a leading provider of Vendor Managed Inventory.

*Peter Hogan*

Divisional Director (57), Peter has over 30 years' experience in the air conditioning and refrigeration ("AC&R") industry. He started his career in the UK becoming managing director of Kenmore UK and moved to the United States in 1983 as President of Virginia KMP, joining Acal New York Inc in 1991 with responsibility for all Acal's AC&R sales outside of Europe.

In 1997 he returned to the UK and became Divisional Director, responsible for the Group's worldwide AC&R business which encompasses all territories other than North America and Japan.

*David Lewis*

Divisional Director (58), David trained in electronics and computer technology, followed by a management and business development course at Keble College, Oxford.

He worked for ICL in a number of sales management positions and was involved in the formation of Headway Technology in the UK in 1985 where he was managing director. Following Acal's acquisition of Headway in 1995, David became the Divisional Director responsible for the Group's document management and imaging business throughout Europe. He is a member of the Council of the Computer Suppliers Federation.

*Nick Rudge*

Group IT Director (49), Nick is the Group's IT Director with responsibility for Group-wide IT strategy, policy and operations. He joined Acal in 2001, having previously been Global Head of IT at Spirent plc and before that having fulfilled IT and MIS roles at Seagram/Universal and Tomkins/RHM.

Upon joining Acal, Nick's first major task was to oversee the implementation of a new ERP platform across most of the Group's operating entities other than those in the IT Parts Services Division. With this phase now nearing completion, Nick is focusing on exploiting the investment in new technology further to enhance the levels of service which Acal is providing to its customers and suppliers and to generate value for the Group.

*Neal Turner*

Divisional Director (53), Neal has been involved in the distribution of electronic components since 1978 having previously worked for ITT, Macro Group, Farnell Components and most recently as Chief Operating Officer for Deltron plc.

Having joined Acal in January 2003, Neal is Divisional Director responsible for the Group's electronic component businesses in Continental Europe and for the development of the Group's interests in component distribution in eastern Europe, which is a region of increasing strategic importance. Neal also helps co-ordinate the Group's efforts in developing and growing its niche semiconductor product portfolio with a view to offering customers a wider range of complementary products and solutions.

# Corporate Governance

The Acal Group is committed to effective corporate governance and operates to clear principles and procedures of control appropriate to a multinational business. This statement describes how Acal applies the principles of governance, particularly those set out in The Combined Code issued by the UK Listing Authority ("the Combined Code").

Throughout the year ended 31st March 2004 Acal has been in compliance with the Combined Code. In July 2003, the Financial Reporting Council issued a revised version of the Combined Code and in future periods Acal will report under that revised version.

## The Board of Acal

Acal is led by a strong and experienced Board. It comprises a Chairman, a Chief Executive, a Finance Director, an Executive Director as well as three independent non-executive directors. Mr R J Williams is designated as the Senior Independent Director. Mr G J Williams was appointed by the Board of Directors as a Non-executive Director on 1st December 2003. Mr J V Pomeroy retired as a part-time Executive Director on 23rd May 2003 and Mr D Channing-Williams retired as a Non-executive Director on 30th April 2004. Brief biographical details of each of the directors are set out on page 11.

The Company believes that it has a balance of executive and non-executive directors appropriate for a business of its size.

Members of the Board have a broad range of business and financial skills and experience and the non-executive directors bring to it independent judgement which is fundamental to good corporate governance. The Company considers all of its non-executive directors to be independent. Although Mr R J Williams has been a Non-executive Director for more than nine years, he has no business or personal relationships with the Group (other than as a Non-executive Director), and having considered all the circumstances, the Board continues to consider that he is independent. The Board is satisfied that no individual has or had unfettered powers of decision.

The Board reserves to itself decisions on certain important matters including strategy and policies or transactions which could have a material impact on Acal. A formal schedule setting out those matters which are reserved for approval by the Board, as well as matters which are delegated to its committees for consideration and recommendation to the Board for a final decision, has been adopted. This schedule is reviewed from time to time and any changes considered necessary are incorporated. The current version was adopted on 26th March 2004.

The Board has regular scheduled meetings throughout the year. There were six such meetings during the year ended 31st March 2004. Directors are briefed on issues arising at board meetings, board papers are distributed in good time, and due consideration is given to the adequacy of the information provided before making decisions. All Directors are invited to request any additional information they wish to have and to comment on the timeliness and quality of information. In addition to board papers, information on the Group's performance is sent to directors each month and telephone contact or ad hoc meetings are arranged to keep the full Board abreast of developments. Minutes of key executive and financial management meetings are circulated to the Board. Copies of all press announcements made by the Company, as well as any stockbrokers' reports on the Company to which it has access, are also circulated to the Board.

The Company's Articles of Association require that one third of the directors retire by rotation each year and seek re-election. In addition, any director appointed by the Board must retire and seek re-election at the next Annual General Meeting. It is Acal's policy to operate these provisions in a manner which ensures that each director faces re-election at least once every three years.

At the next Annual General Meeting of the Company, resolutions will be proposed for the re-election of Mr R J Williams and election of Mr G J Williams as Non-executive Directors of the Company, and for the re-election of Mr J A H Curry, who is Chairman of the Company, as a Director. Having taken into account the formal evaluation of their performance, the Board believes that Mr J A H Curry, Mr R J Williams and Mr G J Williams make an effective contribution to the Board and demonstrate commitment to their roles.

The Board has established an Audit Committee, an Executive Directors' Remuneration Committee ("the Remuneration Committee"), a Non-executive Directors' Remuneration Committee and a Nominations Committee. Details of the membership of these committees are set out on page 12. Mr D Channing-Williams was a member of the Remuneration, Audit and Nominations Committees until his retirement on 30th April 2004. Mr G J Williams became a member of these Committees upon his appointment to the Board on 1st December 2003. Each of these Board Committees has formal terms of reference, copies of which are available upon request from the Company Secretary at Acal plc.

### The Audit Committee

The Audit Committee is chaired by Mr E A Barton and meets at least three times a year. It is responsible for reviewing the scope and results of the audit, the accounting policies and systems of internal control of the group as well as the effectiveness and cost-efficiency of the audit. In addition it considers and monitors the independence and objectivity of the auditors as well as the extent of any non-audit services provided by the auditors and the need or otherwise for an internal audit function. The interim statement, the preliminary announcement of results and the annual financial statements are considered by the Audit Committee prior to their approval by the Board. The Chairman of the Audit Committee maintains direct communication with the external auditors, independently of the management of the Company.

The Audit Committee met three times during the year and its principal activities during the period included:

- a review of the interim and full year results;
- a review of the internal control systems of the Company;
- a review of the scope and results of the external audit;
- ensuring the continued independence and objectivity of the external auditors, including the understanding of the external auditors' own standards and procedures for maintaining their independence and reviewing the level of non-audit services provided by the auditors in order to ensure that these were not significant enough to prejudice their independence and objectivity;
- a review of the need for an internal audit function;
- overseeing the change of auditors from Deloitte & Touche general partnership to Deloitte & Touche LLP and the agreement of the terms of their engagement;
- a review of arrangements whereby staff may raise, in confidence, any concern they may have about possible improprieties.

The Chairman of the Audit Committee reports to the Board on any significant matters arising from the activities of the Committee.

### The Remuneration Committee

The Remuneration Committee is chaired by Mr R J Williams and meets at least twice a year. It makes recommendations to the Board on all aspects of senior executive remuneration and determines on behalf of the Board the remuneration packages and terms of employment of the executive directors. The Remuneration Committee met three times during the year. The Directors' Remuneration Report is set out on pages 20 to 24.

### The Non-executive Directors' Remuneration Committee

The Non-executive Directors' Remuneration Committee is chaired by Mr J A H Curry and meets at least annually to consider and determine on behalf of the Board, the remuneration of the Non-executive Directors. It also determines the terms of engagement of the Non-executive Directors. These terms of engagement are available for inspection, on request, at the registered office of the Company and also at the Company's Annual General Meeting. The Non-executive Directors' Remuneration Committee met once during the year.

### The Nominations Committee

The Nominations Committee is chaired by Mr J A H Curry and meets as necessary to review and to make recommendations to the Board in respect of candidates for appointment to the Board.

Before any appointment to the Board is considered, a job specification is prepared and agreed by the Nominations Committee. Unless the appointment is as an Executive Director for which a suitable candidate is available from within the Group, appropriate executive search or other organisations with databases of candidates are consulted before a short-list of suitable candidates is produced for agreement by the Nominations Committee. Candidates meet all members of the Nominations Committee which then makes recommendations to the Board. All members of the Board would usually meet with the relevant candidate before an appointment is finally made.

The Nominations Committee met twice during the year and the process outlined above was followed in the appointment of Mr G J Williams to the Board on 1st December 2003.

## Attendance at Board and Committee Meetings

All directors and all members of the relevant committees attended all the Board and Committee meetings held during the year except that Mr D Channing-Williams was unable to attend the Board, Remuneration Committee and Nominations Committee meetings held on 26th March 2004.

## Performance Evaluation

The Board has established a formal process, carried out annually, to review its performance as well as that of its committees and individual directors.

The process comprises:

- the preparation by each director of appraisals of the performance of the Board, its committees, the Chairman and individual directors;
- the Senior Independent Director co-ordinates the discussion, with individual directors and the Chairman, of the appraisal of the Chairman; the Chairman does so for all the other appraisals;
- the discussion provides clarification of appraisals and feedback on appraisals prepared by other directors;
- the results of the performance evaluation are summarised and areas for improvement identified – these are then discussed by the Board as a whole and any action necessary is taken.

## Relations with Shareholders

The Board believes that it is an important part of its responsibilities to maintain effective and timely communications with the Company's shareholders and institutional investors. The Company's Annual Report includes a statement from the Chairman, an operations review by the Chief Executive and a financial review by the Finance Director. At the half-year an Interim Report is published.

Throughout the year regular meetings are held with institutional shareholders as well as stockbroking analysts. Investor relations information as well as presentations and news releases are made available on the Company's website (address: www.acalplc.co.uk). Members of the Board and the Chairman of the Remuneration and Audit Committees are available at the Annual General Meeting to answer any questions and throughout the year the Company responds to any questions from shareholders generally.

Any feedback received by the Company from meetings with institutional shareholders and stockbroking analysts is discussed at financial management meetings and the relevant minutes are circulated to the Board. Periodically the Company's stockbrokers and public relations advisers follow up meetings held with institutional investors and stockbroking analysts in order to try and obtain feedback on these meetings which may not have been provided directly to the Company. The results of such follow-up discussions are circulated to the Board.

## Internal Control

The Combined Code includes a requirement that the Board review the Group's system of internal controls. This requirement covers all controls including operational, compliance, risk management as well as financial controls. Formal guidance on the review of non-financial controls was published by the Institute of Chartered Accountants in England & Wales in September 1999 and following that the Board approved a framework for the implementation of this guidance. The relevant procedures have been in place throughout the year ended 31st March 2004 and up to the date of this annual report.

The Board has overall responsibility for the Group's system of internal controls and regularly reviews the effectiveness of the system. Whilst no system of controls can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide reasonable assurance that any problems are identified on a timely basis and dealt with appropriately. In establishing and reviewing the system of internal controls, the Audit Committee, on behalf of the Board, has regard to the significance of the risks involved, the likelihood of a loss being incurred and the costs of the relevant controls.

ACAL plc

## Corporate Governance

The foundation of the Group's system of internal controls is the value which it places on the quality and integrity of its employees. Its principal components are:

- a clearly defined organisation structure with short and clear reporting lines;
- an ongoing process for the identification, regular review and management of the principal risks and issues affecting the business, both at Group and operating levels;
- a regular review of the principal suppliers and customers of the Group, and how each impacts upon the Group's business;
- a comprehensive planning process which starts with a strategic plan and culminates in an annual budget;
- regular forecasting throughout the year of orders, sales, profitability, cash flow and balance sheets;
- regular review of actual performance against budget and forecasts;
- clearly defined procedures for the authorisation of major new investments and commitments;
- a requirement for each operating company to maintain a system of internal controls appropriate to its own local business environment; and
- an annual process under which each operating company reviews its own system of internal controls and reports on the results to the Audit Committee and the Board.

The above procedures encompass Acal plc and its subsidiary companies, but do not include the Group's associated undertakings which operate their own individual system of internal control. Acal endeavours to persuade associated undertakings to comply with similar standards of internal control to its subsidiaries.

The Board receives regular submissions from management concerning the matters set out above and other matters relevant to internal controls and the identification, evaluation and management of risk. In addition, the Audit Committee, on behalf of the Board, has conducted a specific annual review of the effectiveness of the Group's system of internal controls and risk management. The Group has embedded internal control and risk management into the operations of the business and continues to deal with areas of improvement which come to the attention of management and the Board. The Audit Committee, on behalf of the Board, has considered the need for separate internal audit personnel and concluded that this is not necessary at present as the objectives, processes and responsibilities of such a function have been built into the review, control and monitoring roles of financial managers who are based at Head Office and are independent of operating entities for which they have responsibility. In addition, the external auditors report to the Audit Committee on any inconsistencies between what they find in the course of their work and the internal control system of the Group.

### Going Concern

Having taken into account the cash flow projections of the Group and the banking facilities available to it, the Directors are satisfied that it is appropriate to prepare the financial statements on the going concern basis.

# Corporate Social Responsibility

While the management of Acal is primarily accountable to its shareholders, in managing the business it takes into account all stakeholders in Acal including employees, customers and suppliers, as well as the local communities and environment in which it operates. In a balanced way, without unnecessarily restricting the optimisation of returns, it endeavours to identify and manage any risks to the value of Acal's business from social, environmental and ethical matters, and to take any opportunities presented by a sensible and considerate approach to such matters to enhance shareholder value. The Board of Acal has adopted policies in relation to corporate social matters, and day-to-day responsibility for implementation of these policies is delegated to the management of Acal's operating companies. In implementing these policies the Group endeavours to ensure that the cost of managing risks is proportionate to their significance to Acal and its business partners. More specifically, Acal's policies cover the following:

## General

Management at all levels in the organisation is committed to taking account of its corporate social responsibility in its actions and endeavours to show due respect for human rights and works to high standards of integrity and ethical propriety. As a multinational organisation, Acal takes account of cultural differences between the various territories in which it operates.

## Employees, Health and Safety

Acal provides equal opportunities to all employees and prospective employees, and does not discriminate on grounds of colour, ethnic origin, gender, age, religion, political or other opinion, disability or sexual orientation.

Clear and fair terms of employment as well as a fair and competitive remuneration policy are put in place. Employees are encouraged to develop their knowledge and skills and to progress their careers to the mutual benefit of themselves and the companies they work for. It is the responsibility of management to ensure that they comply with all local regulations including those relating to the employment of underage staff.

A great deal of importance is attached to the provision of clean, healthy and safe working conditions. In addition to compliance with all local regulations, Acal promotes working practices which protect the health and safety of all its employees and other persons who come on to its premises. The Group endeavours to protect employees from and does not tolerate any sexual, physical or mental harassment.

## Business Relationships

All Acal Group members seek to be honest, fair and competitive in their relationships with all customers and suppliers. Every attempt is made to ensure that products and services are provided to the agreed standards and all reasonable steps are taken to ensure the safety and quality of the goods and services provided. Payment is made to suppliers in accordance with the agreed terms, the relevant goods or services having been satisfactorily delivered. It is Acal's policy that no one in the Group should offer or accept any bribes or other corrupt payments, engage in any anti-competitive practices or knowingly be involved in any fraud or money laundering.

So far as it is able to and taking into account local cultural and regulatory differences, Acal encourages organisations and people with whom it does business to abide by principles of good practice in relation to their corporate social responsibility.

## Community and Environment

Each Acal Group company aims to be sensitive to the local community's cultural, social and economic needs, and seeks to ensure that its activities do not harm the communities as places to work and live in. The Group seeks to ensure that its operations do not have a negative impact on the environment. Apart from compliance with all local environmental regulations, Group companies endeavour to promote the effective management of natural resources and encourage energy efficiency as well as waste minimisation and recycling where economically viable means of doing so are available. Although the vast majority of products Acal deals with are non-hazardous, where such products are involved it minimises the environmental risks by use of appropriate labelling and technical information in conjunction with proper training and procedures for the handling, storage and disposal of such products.

ACAL plc

# Directors' Remuneration Report

## Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31st December 2002. The report also meets the relevant requirements of the Listing Rules of the UK Listing Authority and describes how the Board has applied the principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the regulations). The report has therefore been divided into separate sections for the audited and unaudited information.

## Unaudited information

### Remuneration Committee

Membership of the Remuneration Committee ("the Committee") is set out on page 12. No member of the Committee has any personal financial interest (other than as shareholder), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee determines the remuneration of executive directors on behalf of the Board. No director plays a part in any decision about his own remuneration.

In determining the executive directors' remuneration for the year on behalf of the Board, the Committee received assistance from Mr J A H Curry, the Chairman, and also took into account current surveys of directors' remuneration. Although not this year, from time to time the Committee takes advice from external consultants. It is ensured that any such external consultants do not provide any other services to the Group.

The remuneration of the Non-executive Directors is determined on behalf of the Board by the Non-executive Directors' Remuneration Committee. The membership of this Committee is set out on page 12. The remuneration of Non-executive Directors is determined in accordance with the Articles of Association and is based on their experience as well as surveys of fees paid to Non-executive Directors of similar companies. Fees paid to Non-executive Directors are set out in the audited section below. Non-executive Directors cannot participate in any of the Company's share option schemes and are not eligible to join the Company's pension scheme.

### Remuneration policy

In order to motivate, attract, and retain senior management of sufficient calibre, it is the Group's policy to provide a remuneration package which is competitive, reflects individual experience and performance, takes account of local market practice and the specific characteristics of the Company. The ability to recruit high quality staff, particularly staff with valuable skills in newer and higher technology areas, is a significant factor affecting the Group's ability to grow. Acal needs to continue to have the flexibility to be able to compete for high quality staff with scarce skills.

There are four main elements of the remuneration package for executive directors and senior management:

- Basic annual salary (including directors' fees) and benefits
- Annual bonus payments (short-term incentive)
- Share option incentive schemes (long-term incentive)
- Pension arrangements

The Committee reserves the right to ensure that the results of any specific formula or calculation for determining any part of the remuneration package lead to an amount which is reasonable in all the circumstances.

The Company's policy is that a substantial proportion of the remuneration of the executive directors and senior management should be performance related. As an approximate guideline, the Company aims to have annual bonus payments which can vary from nothing to up to

100% of basic salary. The average value of the annual bonus as a percentage of basic salaries for the executive directors over the last five years has been 30.9%. The basis of calculation of the annual bonus, which as described below depends on a number of factors, is agreed at the beginning of the financial year. Since the calculation depends on objective targets, it can result in the relative proportions of the annual bonus and basic salary being outside the range described above.

In addition, executive directors and senior management may participate in share option schemes.

Executive directors may accept non-executive appointments outside the Company with the consent of the Board. The Board requires to be satisfied that the time commitment involved is consistent with the responsibilities of the relevant executive director. Where fees from such appointments are not required to be accounted for to the Company, the relevant time commitment is taken into account in determining the relevant director's remuneration.

*Basic annual salary*

An executive director's basic salary is reviewed by the Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the role and responsibilities of the relevant director as well as his experience and performance, and if considered necessary takes appropriate external advice. In addition to basic salary, the executive directors receive certain benefits-in-kind, principally comprising a car or car allowance, life assurance and private medical insurance.

*Annual bonus payments*

The Committee establishes the financial objectives that must be met and the basis of calculation of the annual bonus for each financial year before the beginning of the relevant year. Acal believes that annual bonus payments should be tied to the interests of the Company's shareholders. Whilst the principal long term measure of shareholder interests is total shareholder return, the Company believes that for the purposes of determining annual bonuses, account has to be taken of those aspects of trading performance which senior management can influence by their actions. Thus the annual bonuses depend on specific targets in respect of return on capital employed, the growth of profits and the quality of profits which is measured by the net margin as a percentage of sales.

*Share options*

The Group has two share option schemes, one of which is approved for UK Inland Revenue purposes and the other is not. In all other respects the two schemes are the same.

The grant of Options to executive directors and senior management is recommended by the Committee on the basis of their contribution to the Group's success. The exercise of options is subject to the meeting of performance targets set by the Committee. It is Acal's policy to grant options to employees on a phased and regular basis and not in one block. However, at certain times, particularly when recruiting new people or to reward major achievements, it may be necessary to apply the policy flexibly.

The performance criterion that must be met was determined when the relevant schemes were established and requires that the growth in the Company's earnings per share in any three year period before exercise must have exceeded the percentage increase in the Retail Price Index over the same period plus two per cent per annum. This criterion is kept under review.

The Company does not operate any long-term incentive schemes other than the share option schemes described above.

*Pension arrangements*

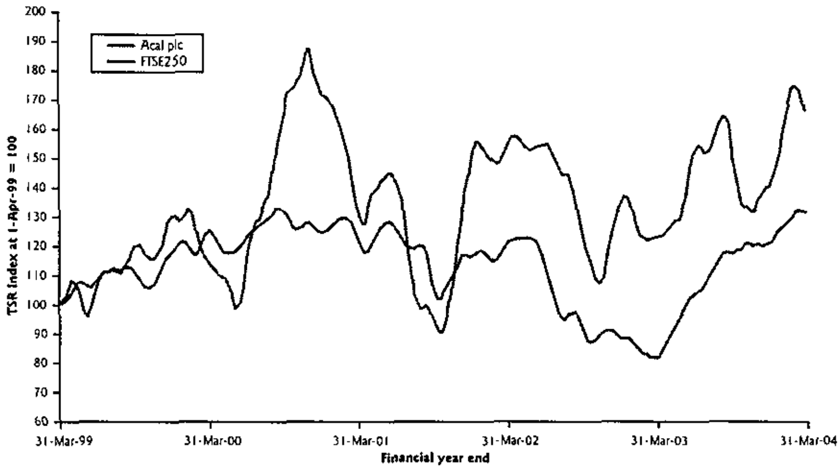
Some executive directors are members of the Group's pension scheme, which is a defined contribution scheme. In respect of these directors, as in the case of all other members of the scheme, the Company makes a contribution of one per cent of pensionable salary plus the amount of the director's own contribution, provided that the Company's contribution does not exceed 6.5% of pensionable salary. These payments may in some cases be supplemented to reflect long-service. All members of the scheme are eligible for a further Company contribution which is not guaranteed and may be paid depending on the performance of the Company. No such performance-related contribution has been payable since 31st March 2001.

# Directors' Remuneration Report

*Performance graph*

The following graph compares the Company's performance, measured by total shareholder return, with the performance of the FTSE mid 250 index also measured by total shareholder return. The FTSE mid 250 index is made up of companies in the FTSE 350, excluding those in the FTSE 100 index. Total shareholder return measures share price growth with dividends deemed to be reinvested gross on the ex-dividend date and the data points are shown using a moving one month average. The FTSE mid 250 index has been used as the Company aspires to be, and is close to being, part of it.

**Total Shareholder Return for period 1st April 1999 to 31st March 2004**




*Directors' contracts*

It is the Company's policy that executive directors should have service contracts with an indefinite term providing for a maximum of one year's notice. However, it may be necessary occasionally to apply this policy flexibly and offer longer initial notice periods to new directors.

All Non-executive Directors have specific terms of engagement, which provide for a notice period of no more than one year, and their remuneration is recommended by the Non-executive Directors' Remuneration Committee.

Mr J A H Curry who is proposed for re-election at the next Annual General Meeting has a service contract which provides for a notice period of one year. Mr R J Williams is proposed for re-election and Mr G J Williams for election, and being Non-executive Directors do not have service contracts, but their terms of engagement provide a notice period of one year.

## Audited information

The total amounts for directors' remuneration were as follows:

| | **2004 Total £** | 2003 Total £ |
|---|---|---|
| Fees | **70,666** | 57,104 |
| Salary and benefits | **848,933** | 907,393 |
| Performance-related bonuses | **81,500** | 117,255 |
| Money purchase pension contributions | **59,585** | 51,425 |
| | **1,060,684** | 1,133,177 |

# Directors' Remuneration Report

Details of the remuneration of Directors who served during the years ended 31st March 2004 and 31st March 2003 are as follows:

| | Salary or Fees £ | Bonus £ | Benefits £ | Pension Contributions £ | **2004 Total £** | 2003 Total £ |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| J A H Curry | 220,000 | 22,500 | 15,124 | – | **257,624** | 319,217 |
| A J Laughton | 268,000 | 26,000 | 14,662 | 30,020 | **338,682** | 345,348 |
| J V Pomeroy *(retired 23rd May 2003)* | 2,500 | – | 2,269 | – | **4,769** | 31,987 |
| J S Virdee | 160,500 | 16,000 | 20,894 | 19,993 | **217,387** | 212,051 |
| R A Allen | 134,000 | 17,000 | 10,984 | 9,572 | **171,556** | 167,470 |
| **Non-executive Directors** | | | | | | |
| A B Brooker | – | – | – | – | – | 5,770 |
| R J Williams | 23,000 | – | – | – | **23,000** | 21,000 |
| G J Williams *(appointed 1st December 2003)* | 6,500 | – | – | – | **6,500** | – |
| D Channing-Williams *(retired 30th April 2004)* | 19,500 | – | – | – | **19,500** | 18,667 |
| E Barton | 21,666 | – | – | – | **21,666** | 11,667 |
| | 855,666 | 81,500 | 63,933 | 59,585 | **1,060,684** | 1,133,177 |

Mr A J Laughton made a gain of £179,700 and Mr J S Virdee made a gain of £71,750 upon exercise of options during the year.

Mr A J Laughton was the highest paid director (excluding pension contributions and gains on share options) in the year ended 31st March 2004 (2003 Mr J A H Curry). Including gains on share options, Mr A J Laughton was the highest paid director in 2004 (2003 Mr J S Virdee).

Movements in the Directors' holdings of options under the Acal plc Executive Share Option Schemes during the year were as follows:

| | Held at 1.04.03 | Movements during the year | | Held at 31.03.04 | | | |
|---|---|---|---|---|---|---|---|
| Director | | Granted | Exercised | Number | Date of Grant | Exercise Price | When Exercisable |
| J A H Curry | 72,000 | – | – | 72,000 | June 1998 | 363.5p | June 2001 to June 2005 |
| J A H Curry | 50,000 | – | – | 50,000 | July 1999 | 462.5p | July 2002 to July 2006 |
| J A H Curry | 110,000 | – | – | 110,000 | July 2000 | 517.5p | July 2003 to July 2007 |
| J A H Curry | 34,000 | – | – | 34,000 | July 2001 | 537.5p | July 2004 to July 2008 |
| J A H Curry | 23,000 | – | – | 23,000 | June 2002 | 586.5p | June 2005 to June 2009 |
| A J Laughton | 100,000 | – | (100,000) | – | June 1995 | 339p | June 1999 to June 2003 |
| A J Laughton | 72,000 | – | – | 72,000 | June 1998 | 363.5p | June 2001 to June 2005 |
| A J Laughton | 50,000 | – | – | 50,000 | July 1999 | 462.5p | July 2002 to July 2006 |
| A J Laughton | 50,000 | – | – | 50,000 | July 2000 | 517.5p | July 2003 to July 2007 |
| A J Laughton | 34,000 | – | – | 34,000 | July 2001 | 537.5p | July 2004 to July 2008 |
| A J Laughton | 23,000 | – | – | 23,000 | June 2002 | 586.5p | June 2005 to June 2009 |
| A J Laughton | – | 20,000 | – | 20,000 | June 2003 | 525.0p | June 2006 to June 2010 |
| J S Virdee | 50,000 | – | (50,000) | – | June 1998 | 363.5p | June 2001 to June 2005 |
| J S Virdee | 30,000 | – | – | 30,000 | July 1999 | 462.5p | July 2002 to July 2006 |
| J S Virdee | 35,000 | – | – | 35,000 | July 2000 | 517.5p | July 2003 to July 2007 |
| J S Virdee | 18,000 | – | – | 18,000 | July 2001 | 537.5p | July 2004 to July 2008 |
| J S Virdee | 13,000 | – | – | 13,000 | June 2002 | 586.5p | June 2005 to June 2009 |
| J S Virdee | – | 12,000 | – | 12,000 | June 2003 | 525.0p | June 2006 to June 2010 |
| R A Allen | 10,000 | – | – | 10,000 | July 1999 | 462.5p | July 2002 to July 2006 |
| R A Allen | 19,000 | – | – | 19,000 | July 2000 | 517.5p | July 2003 to July 2007 |
| R A Allen | 16,000 | – | – | 16,000 | July 2001 | 537.5p | July 2004 to July 2008 |
| R A Allen | 11,000 | – | – | 11,000 | June 2002 | 586.5p | June 2005 to June 2009 |
| R A Allen | – | 10,000 | – | 10,000 | June 2003 | 525.0p | June 2006 to June 2010 |

# Directors' Remuneration Report

The market price of the shares at 31st March 2004 was 523.5p and the range during the year ended on that date was 450p to 625p.

Each of J A H Curry, A J Laughton, J S Virdee and R A Allen have a service contract with the Acal Group, with a notice period of one year. J V Pomeroy had a service contract which expired on 30th April 2003.

Save for the service contracts referred to above no contract of significance to which any member of the Acal Group is a party and in which a Director is or was materially interested, subsisted at the end of, or during the year.

The interests of the Directors who served during the year (including family interests) in the shares of the Company were as follows:

| | At 31st March 2004 | | At 31st March 2003 | |
|---|---|---|---|---|
| | Ordinary shares (5p) fully paid | | Ordinary shares (5p) fully paid | |
| | Beneficial | Non-Beneficial | Beneficial | Non-Beneficial |
| J A H Curry | **2,600,000** | **715,000** | 2,800,000 | 715,000 |
| A J Laughton | **1,500,900** | **–** | 1,565,900 | – |
| J V Pomeroy *(on retirement)* | **165,000** | **113,000** | 165,000 | 113,000 |
| J S Virdee | **105,778** | **–** | 55,778 | – |
| R A Allen | **–** | **–** | – | – |
| R J Williams | **2,345** | **–** | 2,345 | – |
| G J Williams | **–** | **–** | – | – |
| D Channing-Williams | **–** | **–** | – | – |
| E A Barton | **1,000** | **–** | 1,000 | – |

J A H Curry's non-beneficial shareholding at 31st March 2004 comprises 715,000 shares (2003 715,000) owned by E.I.F. Consultants Limited, a company of which his wife is a director and shareholder.

The interests of Directors in the shares of the Company at 7th June 2004 are unchanged from those at 31st March 2004.

### Approval

This Directors' remuneration report has been approved by the Board and signed on its behalf by

J. V. Pomeroy

**J V Pomeroy**

**Secretary**

7th June 2004

# Directors' Report

The Directors submit their Eighteenth Annual Report with the audited financial statements of the Company for the year to 31st March 2004.

### 1. Activities

Acal plc is the parent company of a Group engaged in the sale and marketing of electronic and industrial control products. Further details of the Group's activities are set out on page 13.

### 2. Results

The results of activities of the Group for the year to 31st March 2004 are set out in detail in the consolidated profit and loss account on page 29. A review of the results and future prospects is included in the Chairman's Statement, the Operations Review and the Financial Review on pages 2 to 10.

The Directors recommend a final dividend of **14.0p** per share (2003 13.4p). The final dividend together with the interim dividend of **7.0p** (2003 6.7p) makes a total dividend for the year of **21.0p** per ordinary share (2003 20.1p). The total dividends on ordinary shares will absorb **£5,548,000** (2003 £5,262,000).

### 3. Fixed assets

The Directors are of the opinion that the market value of land is not significantly different from its book value.

### 4. Acquisition

On 16th May 2003, the Company announced the acquisition of 70% of the issued share capital of Computer Parts International Limited ("CPI").

CPI's principal activity is the provision of service parts and related logistics services for mid-range and higher-end computers. It is based in the UK and approximately 70% of its sales are in the UK with the rest mainly in Continental Europe and the USA.

The consideration for the acquisition of Acal's 70% interest was £6.0 million (including costs) and was paid for in cash. The remaining 30% of CPI's shares ("the Remaining Shares") will continue to be held by its management and employees (the "Remaining Shareholders"). The Remaining Shareholders will have the option to sell the Remaining Shares to Acal at an aggregate consideration of between £2.5 million and £7.3 million depending upon the future performance of CPI and Acal will have the option to buy the Remaining Shares for an aggregate consideration of £7.3 million. If these options are not exercised or exercisable then any purchase of the Remaining Shares will be by negotiation at the time.

### 5. Directors' remuneration, service contracts and interests

Directors' remuneration, service contracts and interests are disclosed in the Directors' Remuneration Report on pages 22 to 24.

### 6. Issue of shares under option schemes

During the year the Company issued 188,639 ordinary shares of 5p each under the Group's share option schemes.

### 7. Substantial shareholdings

As at 7th June 2004 the Company had been notified of the following major shareholdings (in addition to the interests of Messrs Curry and Laughton) equal to or in excess of 3 per cent of the issued share capital.

| | Holdings of ordinary shares (5p) |
|---|---|
| The Capital Group Companies Inc. | 1,593,220 |
| Herald Investment Trust plc | 1,042,196 |
| Scottish Widows Investment Partnership Ltd | 802,266 |
| Legal and General Investment Management Ltd | 793,925 |

In certain cases the holdings above are for investment management clients of the groups specified.

### 8. Donations

During the year **£1,262** (2003 £366) were donated by Group companies for charitable purposes. No contributions (2003 £nil) were made for political purposes.

### 9. Auditors

During the year Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors used their powers under the Companies Act 1985 to appoint Deloitte & Touche LLP as the Company's auditors to fill the vacancy created by Deloitte & Touche's resignation.

A resolution is to be proposed at the forthcoming Annual General Meeting for the re-appointment of Deloitte & Touche LLP as auditors of the Company.

### 10. Supplier payments

The Group makes arrangements for payment of suppliers in the ordinary course of its business, taking into account local good practice. It is the Group's policy to adhere to agreed arrangements when goods or services have been delivered satisfactorily.

### 11. Special business at the annual general meeting

At the Annual General Meeting to be held on 23rd July 2004, a total of three resolutions comprising items of special business will be proposed:

(a) Resolution 8 would renew the authority for the Company to purchase its own shares. The maximum number of shares capable of being purchased under the proposed authority is 2,600,000 ordinary shares of 5p each (representing approximately 10% of the issued share capital of the Company) at a price not exceeding 105% of the average middle market quotation for an ordinary share derived from the UK Listing Authority's Daily Official List for the five business days immediately preceding the day on which the purchase is made and at a price not less than 5p per ordinary share. Such authority shall expire on the earlier of the next Annual General Meeting of the Company or 15 months from the passing of the resolution. The Directors have no present intention of exercising this authority. Any authority granted would only be exercised if the Directors had an expectation that such purchase would result in an increase in earnings per share and would be in the best interests of shareholders generally.

(b) Resolution 9 would authorise the Directors to issue authorised but unissued share capital of the Company of up to 8,680,000 ordinary shares of 5p each (being approximately 33% of the existing issued ordinary share capital). The Directors have no present intention of exercising this authority.

(c) Resolution 10 would disapply the pre emption provisions of Section 89 of the Companies Act 1985 to allow the Directors to allot equity securities up to an aggregate nominal amount of £65,000 (being approximately 5% of the existing issued ordinary share capital of the Company) for cash otherwise than pro rata to existing shareholders.

By Order of the Board

**J V Pomeroy**

**Secretary**

7th June 2004

J. V. Pomeroy

2 Chancellor Court,
Occam Road,
Surrey Research Park,
Guildford,
Surrey GU2 7AH

# Statement of Directors' Responsibilities

United Kingdom 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 the Group and of the profit or loss of the Group 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; and
- use the going concern basis unless it is inappropriate to presume that the Company and the Group 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 the Group 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 Group and to prevent and detect fraud and other irregularities.

ACAL plc

# Independent Auditors' Report to the Members of Acal plc

We have audited the financial statements of Acal plc for the year ended 31st March 2004 which comprise the consolidated profit and loss account, the balance sheets, the consolidated statement of cash flows and reconciliation of net cash flow to movements in net debt, the consolidated statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the accounting policies and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

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 auditors' 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 described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report that is described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report that is described as having been audited have been 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 and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the UK Listing Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 circumstances of the company and the group, 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 affairs of the Company and the Group as at 31st March 2004 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report that is described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

7th June 2004

# Consolidated Profit and Loss Account

*for the year to 31st March 2004*

| | Notes | Ongoing Activities £'000 | Terminated Operations £'000 | Acquisition £'000 | Year to 31st March 2004 £'000 | 2003 £'000 |
|---|---|---|---|---|---|---|
| **Turnover** | | | | | | |
| Ongoing activities | | **256,423** | **–** | **–** | **256,423** | 256,511 |
| Operations terminated/sold | | **–** | **2,703** | **–** | **2,703** | 15,630 |
| Acquisition | | **–** | **–** | **9,794** | **9,794** | – |
| | 1 | **256,423** | **2,703** | **9,794** | **268,920** | 272,141 |
| **Operating Profit** | | | | | | |
| Continuing business | | **13,068** | **(131)** | **1,246** | **14,183** | 16,710 |
| Goodwill amortisation | 10 | **(2,730)** | **–** | **(195)** | **(2,925)** | (2,774) |
| **Group Operating Profit (excluding associated undertakings)** | 2 | **10,338** | **(131)** | **1,051** | **11,258** | 13,936 |
| **Group Share of Operating Profits of Associated Undertakings** | | **430** | **–** | **–** | **430** | 440 |
| **Total Operating Profit (including associated undertakings)** | | | | | | |
| Excluding goodwill amortisation | | **13,500** | **(131)** | **1,246** | **14,615** | 17,152 |
| Goodwill amortisation | | **(2,732)** | **–** | **(195)** | **(2,927)** | (2,776) |
| | 3 | **10,768** | **(131)** | **1,051** | **11,688** | 14,376 |
| (Loss)/profit on termination/sale of operations | | **–** | **(600)** | **–** | **(600)** | 575 |
| Net interest payable and similar charges – group | 4 | **(1,606)** | **12** | **(259)** | **(1,853)** | (1,452) |
| Net interest payable and similar charges – associated undertakings | | **(42)** | **–** | **–** | **(42)** | (108) |
| **Profit before Taxation** | | | | | | |
| Excluding goodwill amortisation | | **11,852** | **(719)** | **987** | **12,120** | 16,167 |
| Goodwill amortisation | | **(2,732)** | **–** | **(195)** | **(2,927)** | (2,776) |
| **Profit on Ordinary Activities before Taxation** | | **9,120** | **(719)** | **792** | **9,193** | 13,391 |
| **Taxation on Profit on Ordinary Activities** | | | | | | |
| United Kingdom | | | | | **(3,792)** | (3,400) |
| Overseas | | | | | **(200)** | (1,889) |
| Associated Undertakings | | | | | **(146)** | (73) |
| | 5 | | | | **(4,138)** | (5,362) |
| **Profit after Taxation** | | | | | | |
| Excluding goodwill amortisation | | | | | **7,982** | 10,805 |
| Amortisation of goodwill | | | | | **(2,927)** | (2,776) |
| **Profit on Ordinary Activities after Taxation** | | | | | **5,055** | 8,029 |
| **Minority Interest** | | | | | **(206)** | – |
| **Profit Attributable to Ordinary Shareholders** | | | | | **4,849** | 8,029 |
| **Dividends on Ordinary Shares** | 6 | | | | **(5,548)** | (5,262) |
| **Retained (Loss)/Profit for the Year** | 20 | | | | **(699)** | 2,767 |
| **Earnings per Share** | 8 | | | | **18.4p** | 30.7p |
| **Diluted Earnings per Share** | 8 | | | | **18.4p** | 30.6p |
| **Earnings per Share Excluding Goodwill Amortisation** | 8 | | | | **29.6p** | 41.3p |
| **Earnings per Share Excluding Goodwill Amortisation and Exceptionals** | 8 | | | | **31.8p** | 39.1p |

The results for the year and the prior year relate wholly to continuing operations.

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# Balance Sheets

*at 31st March 2004*

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | At 31st March | | At 31st March | |
| | | **2004** | 2003 | **2004** | 2003 |
| | Notes | **£'000** | £'000 | **£'000** | £'000 |
| **Fixed Assets** | | | | | |
| Intangible assets | 10 | **46,859** | 46,287 | **–** | – |
| Tangible assets | 11 | **14,101** | 13,827 | **–** | – |
| Investments | 12 | **6,429** | 6,028 | **116,386** | 111,404 |
| | | **67,389** | 66,142 | **116,386** | 111,404 |
| **Current Assets** | | | | | |
| Stocks | 13 | **23,610** | 24,443 | **–** | – |
| Debtors | 14 | **50,779** | 53,242 | **2,570** | 9,312 |
| Cash at bank and in hand | | **10,828** | 20,246 | **230** | – |
| | | **85,217** | 97,931 | **2,800** | 9,312 |
| **Creditors:** | | | | | |
| Amounts falling due within one year | 15 | **(57,644)** | (65,413) | **(20,413)** | (19,397) |
| **Net Current Assets/(Liabilities)** | | **27,573** | 32,518 | **(17,613)** | (10,085) |
| **Total Assets less Current Liabilities** | | **94,962** | 98,660 | **98,773** | 101,319 |
| **Creditors:** | | | | | |
| Amounts falling due after more than one year | 15 | **(20,341)** | (22,487) | **(20,000)** | (22,000) |
| **Provisions for Liabilities and Charges** | 17 | **(1,256)** | (2,279) | **(18)** | (1,000) |
| **Net Assets excluding Pension Liability** | | **73,365** | 73,894 | **78,755** | 78,319 |
| **Net Pension Liability** | 18 | **(4,816)** | (5,931) | **–** | – |
| **Net Assets including Pension Liability** | | **68,549** | 67,963 | **78,755** | 78,319 |
| **Capital and Reserves** | | | | | |
| Called up share capital | 19 | **1,318** | 1,309 | **1,318** | 1,309 |
| Share premium account | 20 | **37,805** | 37,109 | **37,805** | 37,109 |
| Revaluation reserve | 20 | **323** | 334 | **–** | – |
| Profit and loss account and other reserves | 20 | **28,230** | 29,211 | **39,632** | 39,901 |
| **Equity Shareholders' Funds** | | **67,676** | 67,963 | **78,755** | 78,319 |
| Minority interest | 26 | **873** | – | **–** | – |
| **Total Capital Employed** | | **68,549** | 67,963 | **78,755** | 78,319 |

These financial statements were approved by the Board of Directors on 7th June 2004 and signed on its behalf by:

J A H Curry

J S Virdee

## Consolidated Statement of Cash Flows

*for the year to 31st March 2004*

| | Notes | Year to 31st March 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net cash inflow from operating activities | 24a | **19,822** | 23,574 |
| **Dividends from Associated Undertaking** | | **54** | 82 |
| **Returns on Investments and Servicing of Finance** | | | |
| Interest paid | | **(2,430)** | (2,014) |
| Interest paid on finance leases | | **(17)** | (22) |
| Interest received | | **594** | 509 |
| | | **(1,853)** | (1,527) |
| **Taxation** | | **(4,921)** | (7,250) |
| **Capital Expenditure and Financial Investment** | | | |
| Payments to acquire tangible fixed assets | | **(3,729)** | (3,882) |
| Payments to acquire investments | | **(513)** | (1,428) |
| Receipts from sale of tangible fixed assets | | **319** | 441 |
| Receipts from sale of investments | | **66** | – |
| | | **(3,857)** | (4,869) |
| **Acquisitions and Disposals** | | | |
| Acquisition of subsidiary | 9 | **(5,964)** | (8,277) |
| Net (overdrafts)/cash acquired with subsidiary | | **(679)** | 1,860 |
| Disposal of businesses | 24c | **371** | 2,497 |
| | | **(6,272)** | (3,920) |
| **Equity Dividends Paid** | | **(5,365)** | (4,935) |
| **Net Cash (Outflow)/Inflow before Financing** | | **(2,392)** | 1,155 |
| **Financing** | | | |
| Issue of ordinary shares | | **705** | 328 |
| Decrease in debt due within one year | | **(1,770)** | (379) |
| (Decrease)/increase in debt due after more than one year | | **(2,000)** | 7,000 |
| Payment of capital element of finance leases | | **(41)** | (51) |
| | | **(3,106)** | 6,898 |
| **(Decrease)/Increase in Cash in the Year** | 24b | **(5,498)** | 8,053 |

## Reconciliation of Net Cash Flow to Movements in Net Debt

*for the year to 31st March 2004*

| | Notes | Year to 31st March 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| (Decrease)/increase in cash in the year | | **(5,498)** | 8,053 |
| Cash outflow/(inflow) from decrease/(increase) in debt and lease financing | 24b | **3,811** | (6,570) |
| Change in net debt from cash flows | | **(1,687)** | 1,483 |
| Issue of loan notes | | – | (1,616) |
| Debt acquired with subsidiary | | – | (257) |
| New finance leases | | – | (13) |
| Translation difference and other movements | | **(133)** | (123) |
| Movement in net debt in the period | | **(1,820)** | (526) |
| Net debt at 1st April 2003 | | **(13,404)** | (12,878) |
| Net debt at 31st March 2004 | | **(15,224)** | (13,404) |

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# Consolidated Statement of Total Recognised Gains and Losses

*for the year to 31st March 2004*

| | Year to 31st March | |
|---|---|---|
| | **2004** | 2003 |
| | **£,000** | £'000 |
| Profit attributable to ordinary shareholders | **4,849** | 8,029 |
| Actuarial gain/(loss) on pension scheme | **1,212** | (7,150) |
| Deferred tax relating to pension scheme | **(478)** | 1,911 |
| (Loss)/gain on currency translation – Subsidiary Undertakings | **(727)** | 1,782 |
| Loss on currency translation – Associated Undertakings | **(300)** | (136) |
| Total recognised gains and losses for the financial year | **4,556** | 4,436 |

# Reconciliation of Movements in Shareholders' Funds

*for the year to 31st March 2004*

| | Group | Group | Parent Company | Parent Company |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Profit attributable to ordinary shareholders | **4,849** | 8,029 | **5,279** | 7,645 |
| Dividends | **(5,548)** | (5,262) | **(5,548)** | (5,262) |
| (Loss)/gain on currency translation | **(1,027)** | 1,646 | – | – |
| New share capital issued | **705** | 328 | **705** | 328 |
| Actuarial gain/(loss) on pension scheme | **1,212** | (7,150) | **–** | – |
| Deferred tax relating to pension scheme | **(478)** | 1,911 | **–** | – |
| Net (reduction in)/addition to shareholders' funds | **(287)** | (498) | **436** | 2,711 |
| Shareholders' funds at 1st April | **67,963** | 68,461 | **78,319** | 75,608 |
| Shareholders' funds at 31st March | **67,676** | 67,963 | **78,755** | 78,319 |

All of the shareholders' funds are equity.

# Accounting Policies

### 1. Accounting convention

The financial statements are prepared in accordance with United Kingdom applicable accounting standards and under the historical cost convention, modified to include the revaluation of certain assets.

### 2. Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and all subsidiary undertakings prepared to 31st March. Sales between group undertakings together with related profits are eliminated on consolidation.

### 3. Subsidiary undertakings

The investment in subsidiary undertakings is stated in the parent company balance sheet at cost, less provision where appropriate for impairment. Cost comprises cash consideration, the fair value of shares issued as consideration and expenses of acquisition.

Where subsidiary undertakings are acquired or disposed of during the year, the Group's trading results include only profits or losses from the effective date of acquisition or to the effective date of disposal.

### 4. Associated undertakings

The Group includes its share of associated undertakings' profits or losses in the consolidated profit and loss account. The investments in associated undertakings are stated in the consolidated balance sheet at the Group's share of the underlying net asset value.

### 5. Investments

Trade investments held as fixed assets are stated at cost less any provision for impairment.

### 6. Goodwill

Goodwill arising on acquisitions is capitalised within fixed assets in the year of acquisition and amortised on a straight line basis over its expected useful life. Goodwill represents the excess of the fair value of the consideration paid over the fair value of the net assets acquired.

Purchased goodwill arising on consolidation in respect of acquisitions before 1st April 1998, when FRS 10 "Goodwill and intangible assets" was adopted, was written off to reserves in the year of acquisition as a matter of accounting policy. When a subsequent disposal occurs, any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

### 7. Turnover

Turnover represents the invoiced value of goods, commission and other services provided to third parties, excluding VAT and similar taxes levied overseas.

### 8. Depreciation and amortisation

Depreciation and amortisation of fixed assets is provided on a straight line basis at such rates as will write off the cost or valuation of the assets (less residual values) over their expected lives. The principal annual rates used for this purpose are:

| | |
|---|---|
| Land | nil% |
| Buildings | 2-3% |
| Leasehold property | 10-20% |
| Plant, equipment and IT Systems | 10-33% |
| Goodwill | 5% |

### 9. Taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell an asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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# Accounting Policies

### 10. Fixed assets

Fixed assets are stated at cost (adjusted for any revaluations made prior to the adoption of FRS15 "Tangible Fixed Assets" during the year ended 31st March 2000) less any provision for impairments.

### 11. Stocks

Stocks and work in progress are stated at the lower of average cost and net realisable value.

### 12. Pensions

The Group makes payments to various defined contribution pension schemes, the assets of which are held separately in independently administered funds. The amount charged to the profit and loss account represents employer contributions payable in respect of the accounting period.

When the Group acquired Sedgemoor Ltd in June 1999, it brought with it certain defined benefit schemes which have been curtailed and future service accrual under which has ceased.

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

Further information relating to pension schemes is set out in note 18 to the Financial Statements.

### 13. Hire purchase contracts, finance leases and operating leases

The capital cost of assets acquired under hire purchase contracts and finance leases is included in tangible fixed assets and the capital element of future rentals and lease payments is treated as a liability. Interest is charged to the profit and loss account over the period of the contract in proportion to the balance outstanding.

Expenditure on operating leases is charged to the profit and loss account on a straight line basis over the lease period.

### 14. Foreign currency and financial instruments

Exchange profits and losses resulting from trading are accounted for in the results for the period.

Assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year, or at forward rates where covered by forward exchange contracts. Results of foreign subsidiary undertakings are translated at the average rate of exchange for the year. Differences on exchange arising from the translation of the net assets and results of those subsidiary undertakings are taken to reserves on consolidation.

# Notes to the Financial Statements

## 1. Turnover

| | Year to 31st March | |
|---|---|---|
| | **2004** | 2003 |
| | **£'000** | £'000 |
| Sales were made to the following markets: | | |
| Western Europe (excluding UK) | **143,112** | 150,123 |
| United Kingdom | **106,975** | 105,050 |
| Rest of the World | **18,833** | 16,968 |
| | **268,920** | 272,141 |

Only one class of business, the sale and marketing of electronic and industrial control products, is undertaken within the Group. Due to the nature of the Group's relationships with suppliers in each territory, the analysis of sales by origin is not materially different from the analysis of sales by destination as reported above. Further geographical analysis of sales, net assets and results has not been given since, in the opinion of the Directors, this would be prejudicial to the commercial interests of the Group.

## 2. Cost of sales and net operating expenses

| | Year to 31st March | |
|---|---|---|
| | **2004** | 2003 |
| Operating profit is stated after deducting cost of sales and net operating expenses as shown below: | **£'000** | £'000 |
| Cost of sales | **199,335** | 204,574 |
| Gross margin | **69,585** | 67,567 |
| | | |
| Net operating expenses: | | |
| Distribution and selling costs | **33,204** | 31,170 |
| Goodwill amortisation | **2,925** | 2,774 |
| Administrative expenses – excluding goodwill | **22,808** | 21,205 |
| Total administrative expenses | **25,733** | 23,979 |
| | **58,937** | 55,149 |
| Less: other operating income | **(610)** | (1,518) |
| | **58,327** | 53,631 |

## 3. Operating profit

| | Year to 31st March | |
|---|---|---|
| | **2004** | 2003 |
| Operating profit is stated after charging/(crediting): | **£'000** | £'000 |
| Depreciation of tangible fixed assets – owned | **3,491** | 3,454 |
| Depreciation of tangible fixed assets – leased | **21** | 27 |
| Profit on disposal of fixed assets and investments | **(88)** | (110) |
| Amortisation of goodwill in respect of: | | |
| Subsidiary undertakings | **2,925** | 2,774 |
| Associated undertakings | **2** | 2 |
| Auditors' remuneration in respect of: | | |
| Services as auditors | **247** | 197 |
| (of which, Parent Company £23,800 (2003 £23,100)) | | |
| Tax compliance and advisory services | **133** | 111 |
| Other non-audit services | **26** | 35 |
| Operating lease rentals: | | |
| Plant and machinery | **545** | 608 |
| Land and buildings | **3,371** | 2,617 |

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# Notes to the Financial Statements

## 4. Net interest payable and similar charges

| | Year to 31st March | |
|---|---|---|
| | **2004** | 2003 |
| This comprises: | **£'000** | £'000 |
| Interest on bank overdrafts and loans | **2,105** | 2,014 |
| Interest on finance leases | **17** | 22 |
| Interest payable | **2,122** | 2,036 |
| Less: interest receivable and similar income | **(594)** | (509) |
| Net interest payable | **1,528** | 1,527 |
| Expected return on pension scheme assets | **(1,367)** | (1,643) |
| Interest cost on pension scheme liabilities | **1,692** | 1,568 |
| Net interest payable and similar charges | **1,853** | 1,452 |

## 5. Tax on profit on ordinary activities

| | Year to 31st March | |
|---|---|---|
| | **2004** | 2003 |
| The tax charge represents: | **£'000** | £'000 |
| UK Corporation tax at **30%** (2003 30%) | | |
| Current year | **3,483** | 3,380 |
| Prior year | **21** | (36) |
| | **3,504** | 3,344 |
| Overseas tax | | |
| Current year | **391** | 1,968 |
| Prior year | **(54)** | 3 |
| | **337** | 1,971 |
| Associated undertakings | **146** | 73 |
| Total current tax | **3,987** | 5,388 |
| Deferred tax – UK | **288** | 56 |
| Deferred tax – overseas | **(137)** | (82) |
| | **4,138** | 5,362 |

The current tax charge for the year can be reconciled to the United Kingdom standard rate of corporation tax as follows:

| | Year to 31st March | |
|---|---|---|
| | **2004** | 2003 |
| | **£'000** | £'000 |
| Profit on ordinary activities before tax | **9,193** | 13,391 |
| Tax on profit at UK standard rate of 30% | **2,758** | 4,017 |
| Foreign tax charges at a higher rate | **5** | 287 |
| Expenses not deductible for tax purposes | **579** | 704 |
| Capital allowances in excess of depreciation | **(156)** | (231) |
| Other timing differences | **834** | 644 |
| Amounts in respect of prior years | **(33)** | (33) |
| Current tax | **3,987** | 5,388 |

# Notes to the Financial Statements

## 6. Dividends

| | Year to 31st March | |
|---|---|---|
| | **2004** | 2003 |
| These comprise: | **£'000** | £'000 |
| Ordinary equity shares | | |
| Interim dividend | **1,857** | 1,754 |
| Proposed final dividend | **3,691** | 3,508 |
| | **5,548** | 5,262 |

The total dividends payable on ordinary shares for the year represent an amount of **21.0p** (2003 20.1p) per ordinary share.

## 7. Directors and employees

| | *Year to 31st March* | |
|---|---|---|
| | **2004** | 2003 |
| (a) The aggregate emoluments of the Directors were: | **£** | £ |
| Fees | **70,666** | 57,104 |
| Salary and benefits | **848,933** | 907,393 |
| *Performance-related bonuses* | ***81,500*** | *117,255* |
| Pension contributions | **59,585** | 51,425 |
| | **1,060,684** | 1,133,177 |

During the year A J Laughton, J S Virdee and R A Allen were members of the Group's pension scheme which is a defined contribution scheme. Further details of the emoluments of and options held by the Directors, including the highest paid director, are set out under Audited Information in the Directors' Remuneration Report.

(b) The average number of employees (including Executive Directors) during the year was as follows:

| | **No.** | No. |
|---|---|---|
| Marketing, sales and service | **824** | 785 |
| Administration | **213** | 203 |
| | **1,037** | 988 |

(c) Group employment costs for all employees (including Executive Directors) were as follows:

| | Year to 31st March | |
|---|---|---|
| | **£'000** | £'000 |
| Salaries and bonuses | **29,786** | 28,080 |
| Social security costs | **4,420** | 4,081 |
| Pension contributions | **1,322** | 1,424 |
| | **35,528** | 33,585 |

*Further details on pension contributions are shown in note 18.*

## 8. Earnings per share

Earnings per share of **18.4p** (2003 30.7p) represent the profit attributable to shareholders of Acal plc of **£4,849,000** (2003 £8,029,000) divided by **26,300,789** (2003 26,145,445) being the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share are calculated after recognising weighted average dilutive options in respect of **1,200,898** (2003 587,695) ordinary shares, adjusted by a weighting factor between the average exercise price of the share options and the average market price per share during the year. The number of shares used for the calculation is **26,412,629** (2003 26,278,517).

Earnings per share excluding goodwill amortisation of **29.6p** (2003 41.3p) has been presented to provide additional information to shareholders and is equal to the earnings per share of **18.4p** (2003 30.7p) plus **11.2p** (2003 10.6p) in respect of goodwill amortisation excluded of **£2,927,000** (2003 £2,776,000), based on the same weighted average number of ordinary shares as for earnings per share. Earnings per share excluding goodwill amortisation and exceptionals of **31.8p** (2003 39.1p) is equal to the earnings per share excluding goodwill amortisation of **29.6p** (2003 41.3p) plus **2.2p** (2003 less 2.2p) in respect of exceptional costs excluded of **£600,000** (2003 exceptional gains £575,000).

ACAL plc

# Notes to the Financial Statements

## 9. Acquisition

On 16th May 2003, the Group acquired 70% of the issued share capital of Computer Parts International Ltd (CPI) for a consideration of £6.0 million (including costs). An analysis of the consideration paid, assets acquired and goodwill arising is set below. The profits after taxation of Computer Parts International Ltd were as follows:

| | Profit after tax |
|---|---|
| | £'000 |
| 1st July 2002 to the date of acquisition | 183 |
| Preceding financial year ended 30th June 2002 | 654 |

This acquisition has been accounted for using the acquisition method.

The following table summarises the book value of the major category of assets and liabilities included in *the consolidated financial statements at the date of acquisition.*

| | Book value | Fair value adjustments | Fair value |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Tangible fixed assets | 543 | (130) | 413 |
| Investments | 57 | – | 57 |
| Stock | 2,883 | (500) | 2,383 |
| Debtors | 2,172 | – | 2,172 |
| Cash and financing | (679) | – | (679) |
| Creditors | (1,913) | – | (1,913) |
| Net assets | 3,063 | (630) | 2,433 |
| Minority interest | | | (720) |
| Goodwill arising on acquisition | | | 4,251 |
| Total investment | | | 5,964 |
| Satisfied by Cash | | | 5,964 |

Fair value adjustments have been made to certain fixed assets and to stock in order to align CPI's policies with those of the Group.

## *10. Goodwill*

| | Associated Undertakings | Subsidiary Companies | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Cost of Goodwill: | | | |
| At 1st April 2003 | 39 | 56,042 | 56,081 |
| Additions during the year | – | 4,251 | 4,251 |
| Adjustment to goodwill | – | (752) | (752) |
| At 31st March 2004 | 39 | 59,541 | 59,580 |
| Amortisation: | | | |
| At 1st April 2003 | 9 | 9,785 | 9,794 |
| Amortisation during the year | 2 | 2,925 | 2,927 |
| At 31st March 2004 | 11 | 12,710 | 12,721 |
| Net book value of goodwill at 31st March 2004 | 28 | 46,831 | 46,859 |
| Net book value of goodwill at 31st March 2003 | 30 | 46,257 | 46,287 |

The amortisation of goodwill on the above investments is charged over a period of 20 years. The adjustment to goodwill represents a £982,000 reduction in the contingent consideration and a £230,000 adjustment to the fair value of stock acquired, in respect of the acquisition of ATM Parts Company Ltd in the prior year.

# Notes to the Financial Statements

## 11. Tangible fixed assets

| GROUP | Freehold property £'000 | Leasehold property (short) £'000 | Plant & equipment £'000 | Total £'000 |
|---|---|---|---|---|
| Cost or valuation: | | | | |
| At 1st April 2003 | 3,090 | 2,549 | 21,085 | 26,724 |
| Acquisitions | – | 269 | 1,091 | 1,360 |
| Additions | 48 | 116 | 3,565 | 3,729 |
| Disposals | – | – | (1,779) | (1,779) |
| Exchange adjustments | (49) | (8) | (268) | (325) |
| At 31st March 2004 | 3,089 | 2,926 | 23,694 | 29,709 |
| Depreciation: | | | | |
| At 1st April 2003 | 772 | 1,047 | 11,078 | 12,897 |
| Acquisitions | – | 137 | 810 | 947 |
| Charge for the year | 96 | 289 | 3,127 | 3,512 |
| Disposals | – | – | (1,539) | (1,539) |
| Exchange adjustments | (16) | (5) | (188) | (209) |
| At 31st March 2004 | 852 | 1,468 | 13,288 | 15,608 |
| Net book value at 31st March 2004 | 2,237 | 1,458 | 10,406 | 14,101 |
| Net book value at 31st March 2003 | 2,318 | 1,502 | 10,007 | 13,827 |
| Comparable amounts under the historical cost convention: | | | | |
| Cost | 2,215 | 2,926 | 23,694 | 28,835 |
| Accumulated depreciation | (749) | (1,468) | (13,288) | (15,505) |
| Net book value at 31st March 2004 | 1,466 | 1,458 | 10,406 | 13,330 |

The historical cost depreciation charge for the year would have been £3,490,000, being £22,000 lower than the amount charged in the year as set out above.

A freehold property was revalued at 31st March 1993 at open market valuation of £931,000 based on the report of independent professional valuers. Freehold property includes land at **£444,000** (2003 £452,000) which is not depreciated.

The net book value of assets held under finance leases at 31st March 2004 was **£41,000** (2003 £85,000).

## 12. Investments

| (a) MOVEMENTS | Associates £'000 | Trade Investments £'000 | Total Group £'000 | Parent Company £'000 |
|---|---|---|---|---|
| At 1st April 2003 | 4,251 | 1,777 | 6,028 | 111,404 |
| Additions | – | 513 | 513 | 5,964 |
| Reduction in contingent consideration | – | – | – | (982) |
| Share of retained profit of associated undertakings | 242 | – | 242 | – |
| Dividends received from associated undertakings | (54) | – | (54) | – |
| Exchange adjustments | (300) | – | (300) | – |
| At 31st March 2004 | 4,139 | 2,290 | 6,429 | 116,386 |

The Group's investments are mainly in unlisted undertakings and include **£3,062,000** (2003 £3,174,000) in respect of the post-acquisition retained profits of associated undertakings.

Listed UK trade investments were carried at a cost of £1,942,000 and the market value at 31st March 2004 was £2,259,000.

## 12. Investments (continued)

Investments in the Parent Company balance sheet represent the investment in shares of Group undertakings including an amount of **£2,142,000** (2003 £2,142,000) in respect of associated undertakings.

The further investments by the Parent Company during the year relate to the acquisition of Computer Parts International Ltd. The adjustment to investments relates to the reduction in contingent consideration on the acquisition of ATM Parts Company Limited.

### (b) PRINCIPAL GROUP AND ASSOCIATED UNDERTAKINGS AND OTHER INVESTMENTS AS AT 31st MARCH 2004

| Name of Undertaking | Country of incorporation or registration and operation | Type of shares/investment | Percentage of issued ordinary share capital held By Parent Company | By Subsidiary Undertakings |
|---|---|---|---|---|
| **Agency, marketing and distribution** | | | | |
| Acal Controls Ltd | England | Ordinary | 100% | – |
| Acal Electronics Ltd | England | Ordinary | – | 100% |
| EAF (UK) Ltd | England | Ordinary | – | 100% |
| Acal Technology Ltd | England | Ordinary | – | 100% |
| Headway Technology Group Ltd | England | Ordinary | 100% | – |
| Acal Electronic Services Ltd | England | Ordinary | – | 100% |
| Stortech Electronics Ltd | England | Ordinary | – | 100% |
| Vertec Scientific Ltd | England | Ordinary | – | 100% |
| ATM Parts Company Ltd | England | Ordinary | 100% | – |
| Computer Parts International Ltd | England | Ordinary | 70% | – |
| Acal SA | France | Ordinary | – | 100% |
| EAF France SA | France | Ordinary | – | 100% |
| Headway Technology SA | France | Ordinary | – | 100% |
| Acal NV/SA | Belgium | Ordinary | – | 100% |
| Acal Networking and Security NV/SA | Belgium | Ordinary | – | 100% |
| Acal GmbH | Germany | Ordinary | – | 100% |
| EAF Computer Service Supplies GmbH | Germany | Ordinary | – | 100% |
| Amega Ireland Ltd | Eire | Ordinary | – | 100% |
| Acal Auriema AB | Sweden | Ordinary | – | 100% |
| Acal Nederland BV | Netherlands | Ordinary | – | 100% |
| Acal Italia Srl | Italy | Ordinary | – | 100% |
| Acal Iberia SL | Spain | Ordinary | – | 100% |
| Acal New York Inc | USA | Ordinary | – | 100% |
| Acal Australia Pty Ltd | Australia | Ordinary | 100% | – |
| Ceratech Holdings PLC | England | Ordinary | – | 30% |
| Premark Products (Pty) Ltd | South Africa | Ordinary | 45% | – |
| Scientific Digital Business (Pte) Ltd | Singapore | Ordinary | 40% | – |
| Westech Electronics (Pte) Ltd | Singapore | Ordinary | 36.7% | – |
| Sartek (UK) Ltd | England | Preference | – | – |
| **Management services** | | | | |
| Acal Management Services Ltd | England | Ordinary | 100% | – |

The issued share capital of Ceratech Holdings PLC comprises 100,000 £1 shares of which a Group undertaking owns 30,000. There are no debt securities or loan capital in issue. The year end accounting date is 31st December. The Group has included its appropriate share of the results based on the audited accounts for the year ended 31st December 2003.

The issued share capital of Premark Products (Pty) Ltd, which trades as ImageTek, comprises 1,000 ordinary shares of R1 each, of which 450 are owned by the Group. Its accounting period ends on 31st March and the Group has included its appropriate share of the results to 31st March 2004.

## 12. Investments (continued)

The issued share capital of Scientific Digital Business (Pte) Ltd comprises 416,667 ordinary shares of S$1 each, of which the Group owns 166,667. In addition, the Group owns the entire issued preference share capital of Scientific Digital Business (Pte) Ltd comprising 100,000 preference shares of S$1 each. Its accounting period ends on 30th September and the Group has included its appropriate share of the results to 31st December 2003.

The issued share capital of Westech Electronics (Pte) Ltd comprises 112,460,000 ordinary shares of $0.10 each, of which the Group owns 41,287,000. Its accounting period ends on 31st December and the Group has included its appropriate share of the results to 31st March 2004.

## 13. Stocks

| | Group | Group | Parent Company | Parent Company |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Finished goods and goods for resale | **23,610** | 24,443 | – | – |

There were no significant differences between the replacement cost and the carrying value of finished goods and goods for resale.

## 14. Debtors

| | Group | Group | Parent Company | Parent Company |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Trade debtors | **47,048** | 49,901 | – | – |
| Amounts owed by subsidiary undertakings | – | – | **2,396** | 9,106 |
| Amounts owed by associated undertakings | **205** | 235 | – | – |
| Other debtors | **1,305** | 954 | **171** | 204 |
| Prepayments and accrued income | **2,221** | 2,152 | **3** | 2 |
| | **50,779** | 53,242 | **2,570** | 9,312 |

No debtors were receivable after more than one year (2003 £nil).

## 15. Creditors

| | Group | Group | Parent Company | Parent Company |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 |
| **Amounts falling due within one year:** | | | | |
| Bank loans and overdrafts | **5,690** | 9,485 | **371** | 2,341 |
| Loan notes | – | 1,616 | – | 1,616 |
| Trade creditors | **32,976** | 35,150 | – | 40 |
| Trade bills payable | – | 53 | – | – |
| Amounts owed to subsidiary undertakings | – | – | **16,129** | 11,623 |
| Other creditors | **1,695** | 1,365 | **12** | 10 |
| Corporation tax | **1,641** | 2,459 | – | – |
| Social security and other taxes | **4,176** | 3,210 | – | – |
| Proposed dividend | **3,691** | 3,508 | **3,691** | 3,508 |
| Accruals and deferred income | **7,754** | 8,505 | **210** | 259 |
| Finance lease obligations | **21** | 62 | – | – |
| | **57,644** | 65,413 | **20,413** | 19,397 |

Bank loans and overdrafts of certain subsidiary undertakings amounting to **£64,000** (2003 £66,000) included above were secured on the assets of those subsidiary undertakings.

## 15. Creditors (continued)

| Amounts falling due after more than one year: | Group 2004 | Group 2003 | Parent Company 2004 | Parent Company 2003 |
|---|---|---|---|---|
| Secured Borrowings | **£'000** | £'000 | **£'000** | £'000 |
| Long term loans repayable by instalments secured by fixed charges over certain group freehold property at market interest rates: | | | | |
| Repayable 1-2 years | **51** | 7 | **-** | - |
| Repayable 2-5 years | **139** | 148 | **-** | - |
| Repayable after 5 years | **28** | 137 | **-** | - |
| | **218** | 292 | **-** | - |
| Unsecured Borrowings | | | | |
| Term loans repayable by instalments at market interest rates: | | | | |
| Repayable 1-2 years | **58** | 72 | **-** | - |
| Repayable 2-5 years | **20,065** | 22,123 | **20,000** | 22,000 |
| | **20,123** | 22,195 | **20,000** | 22,000 |
| Total loans (secured and unsecured) | **20,341** | 22,487 | **20,000** | 22,000 |

## 16. Financial instruments

Financial instruments are used as appropriate to achieve the operational and financial objectives of the Group. Bank loans and overdrafts both in sterling and foreign currencies are used to finance local working capital.

It is the Group's policy to hedge foreign currency exposure on trading transactions into the local currencies of the operating companies conducting the relevant transactions. This is carried out primarily by entering into short term forward contracts to match cashflows. It is not the Group's policy to hedge the net investment in overseas subsidiaries.

Short term debtors and creditors have been excluded from the disclosures in this note, with the exception of the currency profile note below.

**Financial liabilities**

An analysis of bank loans, overdrafts and finance leases by currency is as follows: Sterling denominated **£21,544,000** (2003 £26,215,000): Euro denominated **£3,755,000** (2003 £5,881,000): US$ denominated **£437,000** (2003 £1,032,000) and other currencies **£316,000** (2003 £460,000).

**Cash**

An analysis of cash by currency is as follows: Sterling denominated **£1,714,000** (2003 £5,947,000); Euro denominated **£8,267,000** (2003 £9,921,000); US$ denominated **£581,000** (2003 £4,314,000); and other currencies **£266,000** (2003 £64,000). Cash balances carry floating rate interest based on relevant national interbank rates.

**Interest rate profile**

Bank overdrafts carry floating rate interest based on relevant national inter bank rates. Group and parent company loans include a sterling denominated term loan of **£13 million** (2003 £15 million) which carries interest based on Libor and a further sterling loan of **£7 million** (2003 £7 million) which carries a rate of interest based on Libor. The weighted average maturity of sterling denominated loans is **3.0 years** (2003 1.7 years). The balance of group loans of **£300,000** (2003 £415,000) are Euro denominated and carry fixed interest rates of between 4.95% and 5.75%. The weighted average rate and maturity were **5.05%** (2003 5.12%) and **2.59 years** (2003 2.86 years) respectively.

**Currency profile**

Group companies reporting in Sterling had net currency monetary assets/(liabilities) as follows: **US$ £1,396,000** (2003 £1,892,000), **Euro £2,693,000** (2003 (£3,486,000)) and other **£503,000** (2003 (£1,501,000)). Group companies reporting in Euros had net monetary (liabilities)/assets as follows: Sterling **(£73,000)** (2003 £258,000), **US$ (£727,000)** (2003 £3,599,000) and other **(£88,000)** (2003 £61,000). Group companies reporting in other currencies had net monetary (liabilities)/assets as follows: Sterling **£438,000** (2003 (£18,000)), **US$ £546,000** (2003 £5,000) and **Euro £47,000** (2003 £90,000).

**Fair values**

There is no material difference between the fair value and book value of cash, borrowings and other financial liabilities. The fair value of listed investments held by the Group exceeds the book value by £317,000 (see note 12).

### 16. Financial instruments (continued)

**Gains and losses on financial instruments**

At 31st March 2004 the Group had total unrecognised gains and losses relating to forward exchange contracts entered into to hedge cash flows amounting to £38,647 and £113,667 respectively. These gains and losses are expected to be recognised in the profit and loss accounts in the year ending 31st March 2005 so as to match equal and opposite gains and losses on the underlying cash flows which were being hedged by these instruments. Gains and losses unrecognised in previous years of £50,000 and £165,000 respectively were included in the profit and loss account for this year, and matched by equal and opposite gains and losses on the underlying cash flows which were being hedged.

### 17. Provisions for liabilities and charges

(a) Provisions for liabilities and charges are as follows:

| Group | Severance indemnity | Deferred tax | Other | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| At 1st April 2003 | 438 | 183 | 1,658 | 2,279 |
| Charge/(credit) to profit and loss | 503 | 151 | (568) | 86 |
| Adjustment to goodwill | – | – | (982) | (982) |
| Utilised | (96) | (13) | (15) | (124) |
| Exchange adjustments | (7) | 7 | (3) | (3) |
| At 31st March 2004 | 838 | 328 | 90 | 1,256 |

The provision for severance indemnity includes costs associated with the operation terminated during the current year, which are expected to be utilised within the next two years.

(b) Deferred taxation provided in the Group is as follows:

| | **At 31st March 2004** | At 31st March 2003 |
|---|---|---|
| | **£'000** | £'000 |
| Difference between accumulated depreciation and capital allowances | **(614)** | (390) |
| Other timing differences | **281** | 202 |
| Capital gains | **5** | 5 |
| | **(328)** | (183) |

In the Company there are no deferred taxation liabilities provided or unprovided for (2003 £nil).

No provision has been made for the taxation liabilities which could arise in the Group if certain freehold properties were realised at their balance sheet values. The potential liability is estimated at **£326,000** (2003 £329,000).

No provision has been made for the additional taxation liabilities which may arise if retained profits of certain overseas subsidiaries and associated undertakings were remitted to the United Kingdom.

### 18. Pensions

The Group makes payments to various defined contribution pension schemes, the assets of which are held in separately administered funds. In the United Kingdom the relevant scheme is the Acal Group Employee Pension Scheme ("the Acal Scheme"). The amount charged to the profit and loss account represents employer contributions payable in respect of the accounting period of **£612,000** (2003 £613,000). Employer contributions charged in respect of overseas pension schemes were **£710,000** (2003 £811,000).

The Sedgemoor Group's principal pension scheme was the Sedgemoor Group Pension Fund ("the Sedgemoor Scheme"). The Sedgemoor Scheme provides retirement benefits based on final pensionable salary and its assets are held in a separate trustee-administered fund.

Following the acquisition of Sedgemoor by Acal in June 1999, the Sedgemoor Scheme was closed to new members. Shortly thereafter, employees were given the opportunity to join the Acal Scheme and future service benefits ceased to accrue to members under the Sedgemoor Scheme.

## 18. Pensions (continued)

### FRS 17 disclosures

The latest actuarial valuation of the scheme was carried out as at 31st March 2003 and updated to 31st March 2004 by a qualified actuary. The main actuarial assumptions used are set as at follows:

| | **At 31st March 2004** | At 31st March 2003 | At 31st March 2002 |
|---|---|---|---|
| Rate of increase of salaries | **n/a** | n/a | n/a |
| Rate of increase of pensions in payment | **2.75%** | 2.5% | 2.5% |
| Discount rate | **5.5%** | 5.5% | 5.9% |
| Inflation assumption | **2.75%** | 2.5% | 2.5% |

The fair value of assets and expected rates of return are as follows:

| | **At 31st March 2004** | **At 31st March 2004** | At 31st March 2003 | At 31st March 2003 | At 31st March 2002 | At 31st March 2002 |
|---|---|---|---|---|---|---|
| | | **£'000** | | £'000 | | £'000 |
| Equities | **7.5%** | **12,948** | 7.5% | 11,380 | 8% | 14,141 |
| Gilts | **5%** | **12,844** | 4.5% | 9,500 | 5% | 9,335 |
| Cash | **4%** | **120** | 3.75% | 198 | 4% | 1,686 |
| Total market value of assets | | **25,912** | | 21,078 | | 25,162 |
| Actuarial value of liability | | **(32,792)** | | (29,551) | | (27,266) |
| Deficit in the scheme | | **(6,880)** | | (8,473) | | (2,104) |
| Related deferred tax asset | | **2,064** | | 2,542 | | 631 |
| Net pension liability | | **(4,816)** | | (5,931) | | (1,473) |

There was no impact on operating profit as there is no current service cost and the scheme has been curtailed.

An analysis of the movement in the scheme deficit in the year is as follows:

| | **At 31st March 2004** | At 31st March 2003 |
|---|---|---|
| Deficit in scheme at start of year | **(8,473)** | (2,104) |
| Current service costs | **–** | – |
| Contributions | **706** | 706 |
| Net (interest costs)/return on assets | **(325)** | 75 |
| Actuarial gain/(loss): | | |
| Actual return less expected return on assets | **2,358** | (5,178) |
| Changes in actuarial assumptions | **(1,146)** | (1,972) |
| Deficit in scheme at end of year | **(6,880)** | (8,473) |

History of experience gains and losses

| | **2004** | 2003 |
|---|---|---|
| Difference between the expected and actual return on pension scheme assets: | | |
| Amount (£'000) | **2,358** | (5,178) |
| Percentage of pension scheme assets | **9%** | (24%) |
| Experience gains and losses on pension scheme liabilities: | | |
| Amount (£'000) | **–** | – |
| Percentage of present value of pension scheme liabilities | **0%** | 0% |
| Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses: | | |
| Amount (£'000) | **1,212** | (7,150) |
| Percentage of present value of pension scheme liabilities | **4%** | (24%) |

## 19. Called up share capital

| | Ordinary Shares of 5p | | | |
|---|---|---|---|---|
| | Authorised | | Issued (fully paid) | |
| | Number | Nominal value £'000 | Number | Nominal value £'000 |
| At 1st April 2003 | 35,000,000 | 1,750 | 26,178,215 | 1,309 |
| Issued under option schemes | – | – | 188,639 | 9 |
| At 31st March 2004 | 35,000,000 | 1,750 | 26,366,854 | 1,318 |

All ordinary shares in issue have equal voting and dividend rights.

The following options over ordinary shares have been granted under various Group share option schemes and remain outstanding at 31st March 2004:

| Outstanding at 31st March 2003 | Granted during the year | Lapsed during the year | Exercised during the year | Outstanding at 31st March 2004 | Exercise price | Exercise dates |
|---|---|---|---|---|---|---|
| 100,000 | – | – | (100,000) | – | 339.00p | 1999-2003 |
| 23,000 | – | (21,000) | (2,000) | – | 527.00p | 1999-2003 |
| 287,000 | – | – | (102,000) | 185,000 | 363.50p | 2001-2005 |
| 1,000 | – | (1,000) | – | – | 363.50p | 1998-2003 |
| 3,500 | – | – | (3,500) | – | 447.50p | 1999-2004 |
| 188,500 | – | (3,500) | (16,000) | 169,000 | 462.50p | 2002-2006 |
| 423,000 | – | (5,000) | (13,000) | 405,000 | 517.50p | 2003-2007 |
| 102,000 | – | – | – | 102,000 | 537.50p | 2004-2008 |
| 242,500 | – | (5,000) | – | 237,500 | 515.00p | 2004-2008 |
| 254,500 | – | (2,000) | – | 252,500 | 586.50p | 2005-2009 |
| – | 180,500 | (1,500) | – | 179,000 | 525.00p | 2006-2010 |
| 1,625,000 | 180,500 | (39,000) | (236,500) | 1,530,000 | | |

Included within the above number of shares exercised during the year are options over 50,000 shares, which had been exercised but not issued at 31st March 2004.

As part of the acquisition of Sedgemoor, certain option holders in Sedgemoor converted their holdings to options in Acal. The movements on these options are as follows:

| Outstanding at 31st March 2003 | Lapsed during the year | Exercised during the year | Outstanding at 31st March 2004 | Exercise price | Exercise dates |
|---|---|---|---|---|---|
| 10,695 | – | (2,139) | 8,556 | 465.72p | 2001-2008 |

The total consideration received on the exercise of options during the year was **£705,459** (2003 £328,405). The market value per Acal share on the date of exercise of those options exercised during the year ranged between 520.0 pence and 610.0 pence.

## 20. Reserves

Movements in the year are as follows:

| | Share premium account | Revaluation reserve | Profit and loss and other reserves Merger reserve | Profit & loss account | Goodwill elimination | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| (a) Group | | | | | | |
| At 1st April 2003 | 37,109 | 334 | 819 | 44,833 | (16,441) | 29,211 |
| Retained loss for the year | – | – | – | (699) | – | (699) |
| Loss on currency translation | – | (11) | (10) | (1,006) | – | (1,016) |
| Actuarial gain on pension schemes | – | – | – | 734 | – | 734 |
| Issue of shares | 696 | – | – | – | – | – |
| At 31st March 2004 | 37,805 | 323 | 809 | 43,862 | (16,441) | 28,230 |

The goodwill elimination represents the cumulative amount of goodwill on acquisitions written off (net of goodwill attributable to subsidiary undertakings or businesses disposed of) prior to the introduction of FRS 10.

| | | | | | | |
|---|---|---|---|---|---|---|
| (b) Parent Company | | | | | | |
| At 1st April 2003 | 37,109 | – | 2,970 | 36,931 | – | 39,901 |
| Retained loss for the year | – | – | – | (269) | – | (269) |
| Issue of shares | 696 | – | – | – | – | – |
| At 31st March 2004 | 37,805 | – | 2,970 | 36,662 | – | 39,632 |

Under the exemption given in the Companies Act 1985 S230 the Parent Company does not present its own profit and loss account. The profit for the financial year ended 31st March 2004 was **£5,279,000** (2003 £7,645,000).

## 21. Capital commitments

At 31st March 2004 capital expenditure for the Group amounting to **£70,000** (2003 £109,000) had been approved and contracted for. The Parent Company had no capital commitments (2003 £nil).

## 22. Contingent liabilities

At 31st March 2004 Group companies had given counter indemnities to bankers in respect of their guarantees to the value of **£2,210,000** (2003 £2,210,000).

The Parent Company has given guarantees and offset arrangements to support bank facilities made available to subsidiary undertakings. At 31st March 2004 the relevant subsidiary bank borrowings amounted to **£1,729,000** (2003 £1,576,000).

## 23. Commitments under leases

(a) The Group has annual commitments (Parent Company £nil) under non cancellable operating leases having expiry periods as follows:

| | **2004 Land & buildings** | **2004 Other** | 2003 Land & buildings | 2003 Other |
|---|---|---|---|---|
| | **£'000** | **£'000** | £'000 | £'000 |
| Within 1 year | **182** | **178** | 373 | 266 |
| Between 2-5 years | **808** | **532** | 728 | 794 |
| After 5 years | **1,769** | **76** | 1,411 | 3 |
| | **2,759** | **786** | 2,512 | 1,063 |

# Notes to the Financial Statements

## 23. Commitments under leases (continued)

(b) The Group has the following obligations (Parent Company £nil) under non-cancellable finance leases payable over the following periods:

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Within 1 year | **16** | 36 |
| Between 2-5 years | **5** | 26 |
| | **21** | 62 |

## 24. Notes to the consolidated statement of cash flows

| | | Year to 31st March 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| (a) | Reconciliation of operating profit to net cash inflow from operating activities: | | |
| | Operating profit | **11,258** | 13,936 |
| | Depreciation and amortisation | **6,437** | 6,255 |
| | Change in provisions | **(451)** | 58 |
| | Pension scheme funding | **(706)** | (706) |
| | Profit on sale of fixed assets and investments | **(88)** | (110) |
| | Decrease in stocks | **2,618** | 6,823 |
| | Decrease in debtors | **3,170** | 5,289 |
| | Decrease in creditors | **(2,416)** | (7,971) |
| | Net cash inflow from operating activities | **19,822** | 23,574 |

(b) Analysis of changes in net debt

| | At 1st April 2003 £'000 | Cash flow £'000 | Other movements £'000 | Exchange movement £'000 | At 31st March 2004 £'000 |
|---|---|---|---|---|---|
| Cash in hand and at bank | 20,246 | (9,133) | – | (285) | 10,828 |
| Overdrafts | (9,332) | 3,635 | – | 142 | (5,555) |
| | 10,914 | (5,498) | – | (143) | 5,273 |
| Debt due within a year | (1,769) | 1,770 | (139) | 3 | (135) |
| Debt due beyond a year | (22,487) | 2,000 | 139 | 7 | (20,341) |
| Finance leases | (62) | 41 | – | – | (21) |
| | (24,318) | 3,811 | – | 10 | (20,497) |
| Total | (13,404) | (1,687) | – | (133) | (15,224) |

# Notes to the Financial Statements

## 24. Notes to the consolidated statement of cash flows (continued)

(c) During the year £371,000 was received relating to the sale of a division in the prior year.

## 25. Related party transactions

The Group has taken advantage of the exemptions from disclosure permitted under FRS 8.

During the year the Group had interests in Ceratech Holdings Ltd, Premark Products (Pty) Ltd, Scientific Digital Business (Pty) Ltd and Westech Electronics (Pty) Ltd, all of which were Associated Undertakings, and St@r Technology Group Ltd which was a trade investment (together "Related Parties").

During the year ended 31st March 2004, purchases amounting in aggregate to **£nil** (2003 £nil) were made from Related Parties and sales amounting in aggregate to **£51,000** (2003 £232,000) were made to them. In addition fees amounting to **£19,000** (2003 £34,000) were charged in respect of services provided to them. All these transactions were on an arms length basis.

At 31st March 2004 aggregate amounts of **£208,000** (2003 £233,000) were receivable from Related Parties and of **£nil** (2003 £nil) were payable to them.

During the year ended 31st March 2004 interest of **£13,000** (2003 £13,000) was received from Related Parties.

## 26. Minority interest

| | £'000 |
|---|---|
| At 1st April 2003 | – |
| Acquisition of subsidiary undertaking | 720 |
| Profit on ordinary activities after tax | 206 |
| Dividends paid | (53) |
| At 31st March 2004 | 873 |