SPECTRUM TECHNOLOGIES

THE QUEEN'S AWARDS FOR ENTERPRISE 2006

SPECTRUM TECHNOLOGIES PLC

Annual Report & Financial Statements

2006

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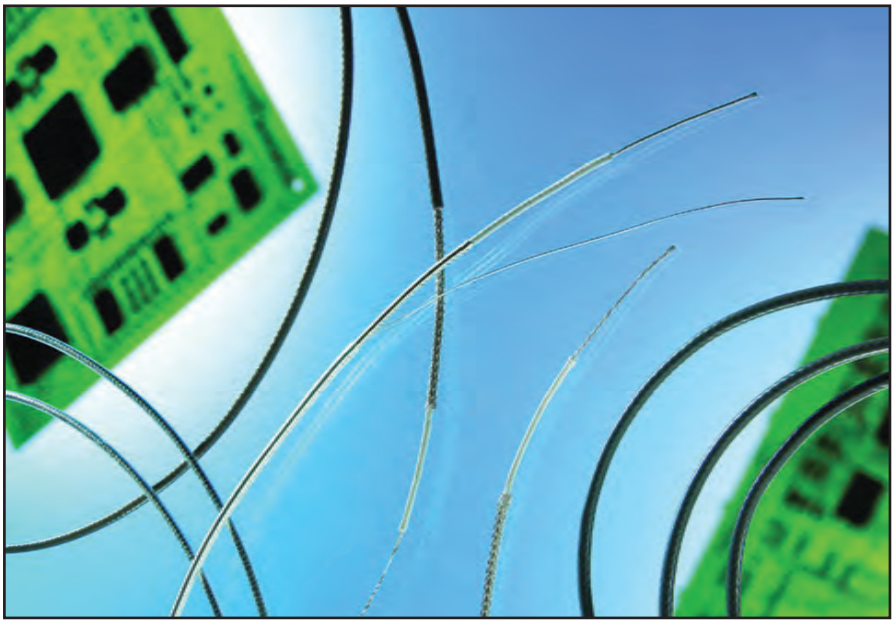

Micro miniature coaxes for wireless antennae in mobile phones and laptop computers as processed with a SIENNA laser wire stripper (Copyright AXON' CABLE / Photo: Studio Nickelkrome)

COMPANY INFORMATION

Company registration number	2385991
Registered office	Western Avenue Bridgend CF31 3RT Wales, UK
Directors	Dr P H Dickinson A J Williams A E Jones M A Reason
Secretary	A J Williams
Bankers	HSBC Bank PLC 13 Dunraven Place Bridgend CF31 1JQ Wales, UK
	Wells Fargo Bank N.A. PO BOX 63020 San Francisco CA94163 United States of America
Solicitors	Geldards LLP Dumfries House Dumfries Place Cardiff CF1 1YF Wales, UK
	Berry Smith LLP Haywood House Dumfries Place Cardiff CF10 3GA Wales, UK
Auditors	Grant Thornton UK LLP Chartered Accountants 11-13 Penhill Road Cardiff CF11 9UP Wales, UK

CHAIRMAN'S STATEMENT

Spectrum Technologies Plc has maintained a strong level of sales and profit during 2006 despite a challenging situation with the declining value of the dollar in the USA, Spectrum's key market. This follows the exceptionally strong sales growth in 2005. Although the US$ declined in value by some 11% over the year Spectrum was still able to increase total sales, which rose to a record of £7.34M (£7.12M – 2005) up 3% and profits before tax of £438K (£423K – 2005), up 3.5%.

As anticipated at the half year point the Company recorded further significant order intake in the second half leading to a more balanced position in 2006 compared to 2005. The Company has seen a healthy ongoing level of enquiries throughout the year and in to 2007. This reflects the recent strong state of the aerospace sector following the development of the backlog in large commercial jetliners at Boeing and Airbus in particular as they clocked up record orders over the last few years.

Exports once again dominated the business with 92% of sales being overseas. The North American market was as usual the largest market for our products with 60% of sales but the Asian market grew significantly to 15% of the total with sales up 124% over 2005 and surpassing European sales. We were delighted to be the recipient of a third Queens' Award for International Trade in recognition of the significant increase in exports achieved over the previous three years, a truly outstanding success and one of which the whole Company can be proud.

C50-300ES - The new CAPRIS 50-300ES introduced in 2006, designed for mid to high volume manufacturing applications, employs a higher power laser and enhanced control system to enable higher speed marking.

It has been a key goal to rebuild Spectrum's financial strength and the Company has maintained tight control over cash while it has ramped up production to meet the continuing demand from the market. I am pleased to report positive progress on this front as the Company has overall managed to stay comfortably within its bank facility limits during 2006. The cash position strengthened noticeably as we approached the year-end and moved into the 2007 with strong positive inflows.

During the first part of 2006 the Company undertook a review of its US operations, where SIENNA wire strippers had continued to be manufactured since the Company acquired RtMc Inc in 2001. It was concluded that it would be both more efficient and accelerate new product development if SIENNA engineering and production activities were transferred to the UK. Following this decision production of standard SIENNA laser wire stripper products duly ceased at the Company's Phoenix, USA facility in November 2006. The new SIENNA 210 laser wire stripper product range introduced in 2006 is now in full production in the UK with further new SIENNA products starting to come through the development pipeline. The Company's US subsidiary, Spectrum Technologies USA Inc, is now in the final throes of being reorganised into a full sales and service organisation dedicated to developing the Company's North American market further. The reorganisation process should be largely complete by mid 2007.

Clockwise from top left: SIENNA 220SR - provides the highest quality, most reliable method of scribing and cutting of very fine gauge micro-coaxial(MCX) shields for high volume industrial electronics applications; SIENNA 210D - Dual axis laser wire stripping system, used extensively in the manufacture of mobile phones, laptop computers and medical ultrasound transducers; Selection of wires stripped with a SIENNA laser stripper - Micro miniature coaxes for wireless antennae in mobile phones and laptop computers (Copyright AXON' CABLE / Photos: Studio Nickelkrome); Typical mobile phone hinge cable stripped with a SIENNA laser stripper; Vetinary ultrasound probe head assembly (Copyright AXON' CABLE / Photos: Studio Nickelkrome).

The World economy has continued to progress positively with significant growth driven again primarily by Asia Pacific. In the main markets in which the Company sells its products the aerospace industry continues its positive momentum, including a noticeable firming of aerospace activity in Asia Pacific and the Middle East. In addition, the electronics sector, which represents the Company's other key market, also made good progress. Given that the Asian electronics industry also represents the key market for SIENNA products, Spectrum has taken the opportunity to open a new branch office in Hong Kong to support its developing Asia Pacific markets and customer base, which until recently has been supported solely by distributors and agents

Spectrum has maintained its position as the clear leading global supplier of laser wire marking and stripping equipment throughout 2006 and fully expects to do so throughout 2007 and beyond. The Board is pleased with the general progress made during the year and believes that the actions taken in 2006 have positioned the Company to take advantage of the significant potential for organic growth in the future based on new product development and market development and diversification. The Board will, as ever, keep the Company's operations under continuous review with a view to maximising profitability, cash and the efficient use of resources.

Dr. Peter Dickinson

Chairman

REPORT OF THE DIRECTORS

The directors present their report and the consolidated financial statements of the group for the year ended 31 December 2006.

Principal activities and business review

The principal activity of the company during the year was the design and manufacture of laser wire marking and stripping systems.

Results and dividends

The profit for the year, after taxation, amounted to £310,482 (2005 : £300,000). The directors have not recommended a dividend.

Overall business levels were as expected and the Company performed and developed to expectations and plan during the year, maintaining its position as the global market leader within its chosen niche markets. The Company's principal markets remained buoyant throughout the year. Gross margins and net margins were maintained at similar levels to 2005 on marginally higher volume while liquidity improved with a significant improvement in cash generated from £57k in 2005 to £249k in 2006.

Key Performance Indicators

The directors have monitored the progress of the overall company strategy and the individual strategic elements by reference to certain financial and non-financial key performance indicators.

	2006	2005
Gross Margin	34%	34%
Net Margin	6%	6%
Current Ratio	1.54	1.33

Strategy

The future strategy for the Company remains to develop the business as a global supplier of niche high technology industrial equipment for high value manufacturing applications focussed particularly on the aerospace and transportation sectors and the electronics markets using the companies core expertise and knowledge of the aerospace sector, wire processing and laser technology.

Principal risks and uncertainties

The management of the business and the company's strategy are subject to a number of risks. The directors have set out below the principal risks facing the business. The directors are of the opinion that a thorough risk management process is adopted that involves the formal review of all the risks identified below. Where possible, processes are in place to monitor and mitigate such risks.

- Competition

The company operates in a competitive market and as a result there is constant pressure on product pricing and margins. To mitigate this risk the Company operates a policy of continuous improvement and new product development to enable it to stay ahead of the competition and to grow revenues and maintain margins and profits. A policy of constant price monitoring and continuing to focus on our high level of service is also in place to mitigate such risks.

- Economic recession or adverse trends within the key markets that would reduce the requirement for the Company's products.

The success of the business is reliant on continued requirements from the aerospace and electronics sector, in particular, for capital equipment for manufacturing and maintenance applications. A global economic downturn, resulting in reduction in corporate capital equipment procurement, will have a direct impact on the income achieved by the company. To mitigate this risk the Company operates a policy of increasing service revenues and market diversification to spread the risk from a downturn in a single market.

- Deterioration in foreign exchange rates.

The Company is highly dependant on exports and North America is a key market representing historically greater than 50% of the Company's business; all North American business is denominated in US dollars. To mitigate against exchange rate volatility and excessive sterling strength the Company operates a policy of adopting conservative exchange rates within its budgets combined with maximising its costs in US dollars as far as possible. In addition the Company maintains a constant vigilance of exchange rate movements and employs forward exchange contracts to offset uncertainty and risks in US$ exchange rates as it enters into contracts with North American customers to supply goods and services.

Financial risk management objectives and policies

The company uses financial instruments, other than derivatives, comprising borrowings, cash and other liquid resources and various other items such as trade debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the company's operations. The main risks arising from the company financial instruments are interest rate risk, liquidity risk and foreign currency risk. The directors review and agree policies for managing each of these risks and they are summarised below. The policies have remained unchanged from previous periods.

Interest rate risk

The company finances its operations through a mixture of retained profits, inter-company accounts and bank borrowings. The company's exposure to interest rate fluctuations on its borrowings is managed on a group basis by the use of both fixed and floating facilities.

Liquidity risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Primarily this is achieved through inter-company accounts or through loans arranged at group level. Short term flexibility is achieved by overdraft facilities.

Currency risk

The company is exposed to transaction and translation foreign exchange risk. In relation to translation risk the proportion of assets held in the foreign currency are matched to an appropriate level of borrowings in the same currency. Transaction exposures are hedged when known, mainly using the forward hedge market.

The directors and their interests

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows:

	Ordinary shares of £0.05 each	
	At 31 December 2006	**At 1 January 2006 or later date of appointment**
Dr P H Dickinson	**7,461,900**	7,461,900
A J Williams	**50,455**	50,455
A E Jones	**22,516**	22,516
M A Reason	–	–

A E Jones and A J Williams' shares included 455 (2005 : 455) held on trust by Spectrum Technologies Profit Sharing Trustees Limited.

M A Reason was appointed as a director on 7 February 2006.

Policy on the payment of creditors

The company's current policy concerning the payment of creditors is to:

(i) settle the terms of payment with suppliers when agreeing the terms of transactions;

(ii) ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts:

(iii) pay in accordance with its contractual and legal obligations.

Trade creditors at 31 December 2006 were equivalent to 37 days (2005 : 37 days) of purchases during the year ended on that date.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to 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 year.

In preparing these 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the consolidated financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the group's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors' are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

Dr P H Dickinson
Director

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SPECTRUM TECHNOLOGIES PLC

We have audited the group and parent company consolidated financial statements ("the consolidated financial statements") of Spectrum Technologies Plc for the year ended 31 December 2006 which comprise the principal accounting policies, profit and loss account, group balance sheet and company balance sheet, group cash flow statement, statement of total recognised gains and losses and notes 1 to 25. These consolidated financial statements have been prepared under the accounting policies set out therein.

This report, is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the consolidated financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SPECTRUM TECHNOLOGIES PLC (continued)

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated 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 consolidated financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's profit for due year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
CARDIFF
8TH MAY 2007

PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention, and in accordance with applicable UK accounting standards (United Kingdom Generally Accepted Accounting Principles) and Companies Act 1985.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies. As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group consolidated financial statements by virtue of section 230 of the Companies Act 1985.

Turnover

Turnover is the revenue arising from the sales of machines and services. It is stated at the fair value of the consideration receivable, net of value added tax, rebates and discounts.
Revenue from the sale of machines is recognised when the significant risks and benefits of ownership of the product have transferred to the buyer, which may be upon shipment, completion of the product or the product being ready for delivery, based on specific contract terms.
Revenue from services provided by the group is recognised when the group has performed its obligations and in exchange obtained the right to consideration.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Goodwill

Purchased goodwill arising on acquisitions is the difference between the fair value of the purchase consideration and the fair value of the group's share of the identifiable assets and liabilities of the acquired business at the date of acquisition. Positive goodwill is capitalised and classified as an asset on the balance sheet and amortised over its estimated useful life up to a maximum of 20 years.

Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently when necessary if circumstances indicate that its carrying value may not be recoverable. The goodwill is treated as an asset of the foreign subsidiary, and is retranslated at the exchange rate prevailing at the year end date

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Goodwill	-	5% per annum

The decision to amortise over 20 years was made as it was deemed that the foreign entity would generate an economic benefit to the group over this time period.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold Property	-	20% per annum straight line
Plant & Machinery	-	10% - 20% per annum straight line
Fixtures & Fittings	-	10% per annum straight line
Equipment	-	10% per annum straight line

Investments

Investments held as fixed assets are stated at cost less provision for impairment.

Stocks

Stocks are stated at the lower of cost and net realisable value, after provisions are made in respect of obsolete and slow moving items, based on historical experience of utilisation on a category-by-category basis.

Cost of raw materials, consumables and goods for resale is based on purchased cost on a first-in, first-out basis.

Work in progress

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction, except where the transaction is to be settled using a contracted rate, in which case that rate is used. Where a trading transaction is covered by a related or matching forward contract, the rate in that contract is used to translate the transaction.
Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date, except where there are related or matching forward contracts, in which case the rate in that contract is used.
Foreign exchange gains and losses are credited or charged to the profit and loss account as they arise.

The costs of the company's investment in overseas subsidiaries are translated at the rate ruling at the date of investment. All other monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year, or where there are related forward foreign exchange contracts, at contract rates. These exchange differences are dealt with through the profit and loss account.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Deferred government grants

Deferred government grants in respect of capital expenditure are treated as deferred income and are credited to the profit and loss account over the estimated useful life of the assets to which they relate.

GROUP PROFIT AND LOSS ACCOUNT

	Note	2006 £	2005 £
Group turnover	1	**7,340,389**	**7,122,165**
Cost of sales		**4,880,752**	**4,701,805**
Gross profit		**2,459,637**	2,420,360
Other operating charges	2	**2,048,526**	2,008,720
Other operating income		**(74,517)**	(51,753)
Operating profit	3	**485,628**	463,393
Interest receivable		**1,037**	–
Interest payable and similar charges	6	**(48,542)**	(40,395)
Profit on ordinary activities before taxation		**438,123**	422,998
Tax on profit on ordinary activities	7	**127,641**	122,998
Profit for the financial year		**310,482**	300,000

Earnings per share (pence)

		Pence	Pence
Basic / Diluted	9	2.2	2.13

All of the activities of the company are classed as continuing.

The company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account.

The accompanying accounting policies and notes form part of these consolidated financial statements.

GROUP BALANCE SHEET

	Note	2006 £	2005 £
Fixed assets			
Intangible assets	10	**1,000,301**	1,108,441
Tangible assets	11	**241,588**	343,223
		1,241,889	1,451,664
Current assets			
Stocks	13	**862,875**	1,100,997
Debtors	14	**1,960,492**	1,338,054
Cash at bank and in hand		**374,426**	167,271
		3,197,793	2,606,322
Creditors: amounts falling due within one year	15	**2,080,383**	1,966,461
Net current assets		**1,117,410**	639,861
Total assets less current liabilities		**2,359,299**	2,091,525
Government grants	18	**72,000**	90,000
		2,287,299	2,001,525
Capital and reserves			
Called-up equity share capital	20	**705,273**	705,273
Profit and loss account	21	**1,582,026**	1,296,252
Shareholders' funds	22	**2,287,299**	2,001,525

These consolidated financial statements were approved by the directors on 30 April 2007 and are signed on their behalf by:

Dr P H Dickinson
Director

The accompanying accounting policies and notes form part of these consolidated financial statements.

COMPANY BALANCE SHEET

	Note	2006 £	2005 £
Fixed assets			
Tangible assets	11	**210,196**	260,505
Investments	12	**1,799,085**	1,799,085
		2,009,281	2,059,590
Current assets			
Stocks	13	**793,033**	1,022,964
Debtors	14	**1,898,510**	1,279,121
Cash at bank and in hand		**374,197**	167,205
		3,065,740	2,469,290
Creditors: amounts falling due within one year	15	**2,086,007**	1,911,128
Net current assets		**979,733**	558,162
Total assets less current liabilities		**2,989,014**	2,617,752
Government grants	18	**72,000**	90,000
		2,917,014	2,527,752
Capital and reserves			
Called-up equity share capital	20	**705,273**	705,273
Profit and loss account	21	**2,211,741**	1,822,479
Shareholders' funds		**2,917,014**	2,527,752

These consolidated financial statements were approved by the directors on 30 April 2007 and are signed on their behalf by:

Dr P H Dickinson
Director

The accompanying accounting policies and notes form part of these consolidated financial statements.

GROUP CASH FLOW STATEMENT

	Note	2006 £	2005 £
Net cash inflow from operating activities	23	**293,270**	202,942
Returns on investments and servicing of finance	23	(**47,505**)	(40,395)
Taxation	23	**(7,517)**	(2,567)
Capital expenditure and financial investment	23	**10,288**	(102,481)
Increase in cash	23	**248,536**	57,499

OTHER PRIMARY STATEMENTS

Statement of total recognised gains and losses

	2006	2005
	£	£
Profit for the financial year attributable to the shareholders of the parent company	**310,482**	300,000
Currency translation differences on foreign currency net investments	**(24,708)**	38,719
Total gains and losses recognised for the year	**285,774**	338,719

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Turnover

The turnover and profit (2005: profit) before tax are attributable to the one principal activity of the group. An analysis of turnover is given below:

	2006	2005
	£	£
United Kingdom	**625,877**	323,370
Europe	**1,026,795**	1,241,088
North America	**4,374,251**	4,882,998
Far East	**1,072,858**	476,662
Australia	**57,943**	33,643
Africa	**167,704**	9,540
South America	**14,961**	154,864
	7,340,389	7,122,165

2 Other operating charges

	2006	2005
	£	£
Distribution costs	**340,711**	377,006
Administrative expenses	**1,707,815**	1,631,714
	2,048,526	2,008,720

3 Other operating charges

Operating profit is stated after charging/(crediting):

	2006	2005
	£	£
Amortisation of government grants re fixed assets	**(18,000)**	(15,626)
Amortisation	**108,140**	108,140
Depreciation of owned fixed assets	**102,680**	113,529
Profit on disposal of fixed assets	**(21,375)**	–
Auditor's remuneration:		
Audit fees	**16,250**	16,250
Non audit fees:		
Taxation	**2,000**	2,000
Operating lease costs:		
Other	**8,680**	7,863
Net loss/(profit) on foreign currency translation	**62,248**	(82,453)

4 Particulars of directors and employees

The average number of staff employed by the group during the financial year amounted to:

	2006	2005
	£	£
Number of production staff	**41**	41
Number of distribution staff	**8**	6
Number of administrative staff	**9**	10
	58	57

The aggregate payroll costs of the above were:

	2006	2005
	£	£
Wages and salaries	**1,313,750**	1,287,710
Social security costs	**127,839**	112,534
Other pension costs	**43,363**	36,282
	1,484,952	1,436,526

5 Directors

Remuneration in respect of directors was as follows:

	2006	2005
	£	£
Emoluments	**209,398**	199,407
Value of company pension contributions to money purchase schemes	**15,063**	14,567
	224,461	213,974

Emoluments of highest paid director:

	2006	2005
	£	£
Total emoluments (excluding pension contributions)	**79,362**	74,679
Value of company pension contributions to money purchase schemes	**5,548**	5,433
	84,910	80,112

The number of directors who accrued benefits under company pension schemes was as follows:

	2006	2005
	No	No
Money purchase schemes	3	3

6 Interest payable and similar charges

	2006	2005
	£	£
Interest payable on bank borrowing	**48,542**	40,395

7 Taxation on ordinary activities

(a) Analysis of charge in the year

	2006	2005
	£	£
Current tax:		
UK Taxation		
UK Corporation tax based on the results for the year at 30% (2005 - 30%)	**122,000**	124,000
(Over) provision in prior year	**(5,445)**	-
	116,555	124,000
Foreign tax		
Current tax on income for the year	**11,086**	(1,002)
Total current tax	**127,641**	122,998

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2005 - 30%).

	2006	2005
	£	£
Profit on ordinary activities before taxation	**438,123**	422,998
Profit on ordinary activities by rate of tax	**131,437**	126,899
Expenses not deductible for tax purposes	**4,860**	4,146
Capital allowances for period in excess of depreciation	**3,208**	5,306
Consolidation adjustment	**30,571**	28,477
Non-qualifying depreciation	**8,408**	10,003
Other timing differences	**(36,714)**	(43,330)
Adjustments to tax charge in respect of prior years	**(5,445)**	-
Marginal relief	**(8,684)**	(8,503)
Total current tax (note 8(a))	**127,641**	122,998

(c) A deferred tax asset of £30,261 has not been recognised within the financial statements

8 Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £389,262 (2005 :£393,921).

9 Earnings per share

The basic and diluted earnings per ordinary share is calculated by dividing profit for the year less dividends by the weighted average number of equity shares outstanding during the year.

The calculation of basic and diluted earnings per ordinary share is based upon the following data:

Earnings

	2006	2005
	£	£
Earnings for the purposes of basic / diluted earnings per share	**310,482**	300,000

Number of shares

	2006	2005
	No	No
Weighted average number of shares for the purposes of basic / diluted earnings per share	**14,105,460**	14,105,460

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

10 Intangible fixed assets

Group	**Goodwill £**
Cost	
At 1 January 2006	2,352,171
Foreign exchange difference	(6,608)
At 31 December 2006	**2,345,563**
Amortisation	
At 1 January 2006	**1,243,730**
Charge for the year	**108,140**
Foreign exchange difference	**(6,608)**
At 31 December 2006	**1,345,262**
Net book value	
At 31 December 2006	**1,000,301**
At 31 December 2005	1,108,441

11 Tangible fixed assets

Group	Leasehold Property £	Plant & Machinery £	Fixtures & Fittings £	Equipment £	Total £
Cost					
At 1 January 2006	470,300	328,912	30,322	123,204	952,738
Additions	–	12,257	–	15,210	27,467
Disposals	–	(23,400)	–	–	(23,400)
Foreign exchange difference	–	(21,903)	(28)	(16,959)	(38,890)
At 31 December 2006	470,300	295,866	30,294	121,455	917,915
Depreciation					
At 1 January 2006	260,921	222,706	21,388	104,500	609,515
Charge for the year	46,529	44,215	2,098	9,838	102,680
On disposals	–	(7,020)	–	–	(7,020)
Foreign exchange difference	–	(11,988)	–	(16,860)	(28,848)
At 31 December 2006	307,450	247,913	23,486	97,478	676,327
Net book value					
At 31 December 2006	**162,850**	**47,953**	**6,808**	**23,977**	**241,588**
At 31 December 2005	209,379	106,206	8,934	18,704	343,223

Company	Leasehold Property £	Plant & Machinery £	Fixtures & Fittings £	Equipment £	Total £
Cost					
At 1 January 2006	470,300	106,584	25,614	91,883	694,381
Additions	–	–	–	15,210	15,210
At 31 December 2006	470,300	106,584	25,614	107,093	709,591
Depreciation					
At 1 January 2006	260,921	82,040	16,915	74,000	433,876
Charge for the year	46,529	7,983	1,891	9,116	65,519
At 31 December 2006	307,450	90,023	18,806	83,116	499,395
Net book value					
At 31 December 2006	**162,850**	**16,561**	**6,808**	**23,977**	**210,196**
At 31 December 2005	209,379	24,544	8,699	17,883	260,505

12 Investments

Company	Group Companies £
Cost	
At 1 January 2006 and 31 December 2006	**2,602,061**
Amounts written off	
At 1 January 2006 and 31 December 2006	**1,179,408**
Loans	
At 1 January 2006 and 31 December 2006	**376,432**
Net book value	
At 31 December 2006	**1,799,085**
At 31 December 2005	1,799,085

At 31 December 2006 the company held more than 20% of the allotted share capital of the following undertakings:

	Country of incorporation	Class of share capital held	Proportion of shares held	Nature of business
Spectrum Technologies USA Inc	USA	Ordinary	100%	Laser wire stripping products and sales and servicing
Spectrum Technologies Profit Sharing Trustees Limited	UK	Ordinary	100%	Dormant

The group has established, through Spectrum Technologies Profit Sharing Trustees Limited, an approved profit sharing scheme for the benefit of its employees.

13 Stocks

	The group		The company	
	2006	2005	**2006**	2005
	£	£	£	£
Raw materials	**674,042**	547,944	**604,200**	522,823
Work in progress	**78,419**	295,735	**78,419**	268,415
Finished goods	**110,414**	257,318	**110,414**	231,726
	862,875	1,100,997	**793,033**	1,022,964

14 Debtors

	The group		The company	
	2006	2005	**2006**	2005
	£	£	£	£
Trade debtors	**1,830,047**	1,107,495	1,771,282	1,056,659
Other debtors	**53,505**	53,594	53,505	49,316
Prepayments and accrued income	**76,940**	176,965	73,723	173,146
	1,960,492	1,338,054	**1,898,510**	1,279,121

15 Creditors: amounts falling due within one year

	The group		The company	
	2006	2005	**2006**	2005
	£	£	**£**	£
Bank loans and overdrafts	**326,234**	367,615	**340,623**	353,804
Trade creditors	**617,909**	698,319	**580,755**	626,346
Amounts owed to group undertakings	**–**	–	**44,134**	48,828
Corporation tax	**244,124**	124,000	**244,124**	124,000
PAYE and social security	**38,937**	59,112	**38,937**	59,112
Other creditors	**161,659**	277,530	**161,659**	277,530
Accruals and deferred income	**691,520**	439,885	**675,775**	421,508
	2,080,383	1,966,461	**2,086,007**	1,911,128

The bank overdraft is secured by a fixed and floating charge over all assets of the Group.

16 Pensions

The company operates a defined contribution pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in funds independent from those of the company. The contributions are charged to the profit and loss account as they arise. The expense for the year ended 31 December 2006 is £43,363 (2005 : £36,283). There was an outstanding balance at this date amounting to £2,168 (2005 : £3,949).

17 Financial Instruments

The Group does not trade in financial instruments. Group cash flows are affected by currency fluctuations, primarily in respect of sales denominated in US dollars. At 31 December 2006, outstanding US dollar trade debtors amounted to £969,928 (2005: £694,066) and euro trade debtors amounted to £315,220 (2005: £214,066). All other monetary assets and liabilities are denominated in sterling.

The company has entered into a number of forward exchange contracts during the year. The purpose of the contracts are to hedge the risk of currency fluctuations. At 31 December 2006, open contracts can be summarised as follows:

	Currency sold $	Currency be purchased £	**Fair value gain / (loss) £**	Redemption date
Date the contract was entered into:				
15 November 2006	**1,000,000**	528,569	**17,870**	30 Mar 2007
29 November 2006	**1,000,000**	511,221	**522**	28 Nov 2007
30 November 2006	**1,000,000**	507,588	**(3,111)**	30 Nov 2007
	3,000,000	1,547,378	**15,281**	

As at 31 December 2006, the group had no financial liabilities (2005: £nil) other than the bank overdraft disclosed in note 15 which is offset against the bank balances as shown in note 23. There was no significant difference between the book value and the fair value of the Group's financial assets and liabilities as at 31 December 2006 or 31 December 2005.

The group had no un-drawn committed borrowing facilities with HSBC Bank PLC at 31 December 2006 (2005:£nil).

18 Government grants

	The group		**The company**	
	2006 £	2005 £	**2006 £**	2005 £
Received and receivable:				
At 1 January 2006	**(132,282)**	(132,282)	**(132,282)**	(132,282)
At 31 December 2006	**(132,282)**	(132,282)	**(132,282)**	(132,282)
Amortisation:				
At 1 January 2006	**42,282**	26,656	**42,282**	26,656
Credit to profit and loss account	**18,000**	15,626	**18,000**	15,626
At 31 December 2006	**60,282**	42,282	**60,282**	42,282
Net balance at 31 December 2006	**72,000**	90,000	**72,000**	90,000

19 Commitments under operating leases

At 31 December 2006 the group had annual commitments under non-cancellable operating leases as set out below.

The group	**Land and buildings**	
	2006	2005
	£	£
Operating leases which expire:		
Within 1 year	-	10,800
Within 2 to 5 years	**100,260**	118,271
	100,260	129,071

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below.

The company	**Land and buildings**	
	2006	2005
	£	£
Operating leases which expire:		
Within 2 to 5 years	**78,813**	78,813

20 Share capital

Authorised share capital:

	2006	2005
	£	£
30,000,000 Ordinary shares of £0.05 each	**1,500,000**	1,500,000

Allotted, called up and fully paid:

	2006		2005	
	No	**£**	No	£
Ordinary shares of £0.05 each	**14,105,460**	**705,273**	14,105,460	705,273

21 Reserves

Group	**Profit and loss account £**
At 1 January 2006	**1,296,252**
Profit for the year	**310,482**
Foreign Exchange differences	**(24,708)**
At 31 December 2006	**1,582,026**

Company	**Profit and loss account £**
At 1 January 2006	**1,822,479**
Profit for the year	**389,262**
At 31 December 2006	**2,211,741**

22 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
Profit for the financial year	**310,482**	300,000
Foreign Exchange differences	**(24,708)**	38,719
Net addition to shareholders' funds	**285,774**	338,719
Opening shareholders' funds	**2,001,525**	1,662,806
Closing shareholders' funds	**2,287,299**	2,001,525

23 Notes to the statement of cash flows

Reconciliation of operating profit to net cash inflow from operating activities

	2006	2005
	£	£
Operating profit	**485,628**	463,393
Amortisation	**108,140**	108,140
Depreciation	**102,680**	113,529
Profit on disposal of fixed assets	**(21,375)**	–
Amortisation of government grants	**(18,000)**	(15,626)
Decrease/(increase) in stocks	**238,122**	(254,423)
(Increase) in debtors	**(622,438)**	(332,233)
Increase in creditors	**20,513**	120,162
Net cash inflow from operating activities	**293,270**	202,942

Returns on investments and servicing of finance

	2006	2005
	£	£
Interest received	**1,037**	–
Interest paid	**(48,542)**	(40,395)
Net cash outflow from returns on investments and servicing of finance	**(47,505)**	(40,395)

Taxation

	2006	2005
	£	£
Taxation	**(7,517)**	(2,567)

Capital expenditure

	2006	2005
	£	£
Payments to acquire tangible fixed assets	**(27,467)**	(102,481)
Receipts from sale of fixed assets	**37,755**	–
Net cash inflow/(outflow) from capital expenditure	**10,288**	(102,481)

Reconciliation of net cash flow to movement in net funds

	2006	2005
	£	£
Increase in cash in the period	**248,536**	57,499
Movement in net funds in the period	**248,536**	57,499
Net debt at 1 January 2006	**(200,344)**	(257,843)
Net funds at 31 December 2006	**48,192**	(200,344)

Analysis of changes in net funds

	At 1 Jan 2006	**Cash flows**	**At 31 Dec 2006**
	£	**£**	**£**
Net cash:			
Cash in hand and at bank	**167,271**	**207,155**	**374,426**
Overdrafts	**(367,615)**	**41,381**	**(326,234)**
Net funds	**(200,344)**	**248,536**	**48,192**

24 Contingencies

The directors have confirmed that there were no contingent liabilities which should be disclosed at 31 December 2006 or 31 December 2005.

25 Capital commitments

The directors have confirmed that there were no capital commitments at 31 December 2006 or 31 December 2005.

Company Registration No. 2385991

SPECTRUM
TECHNOLOGIES

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