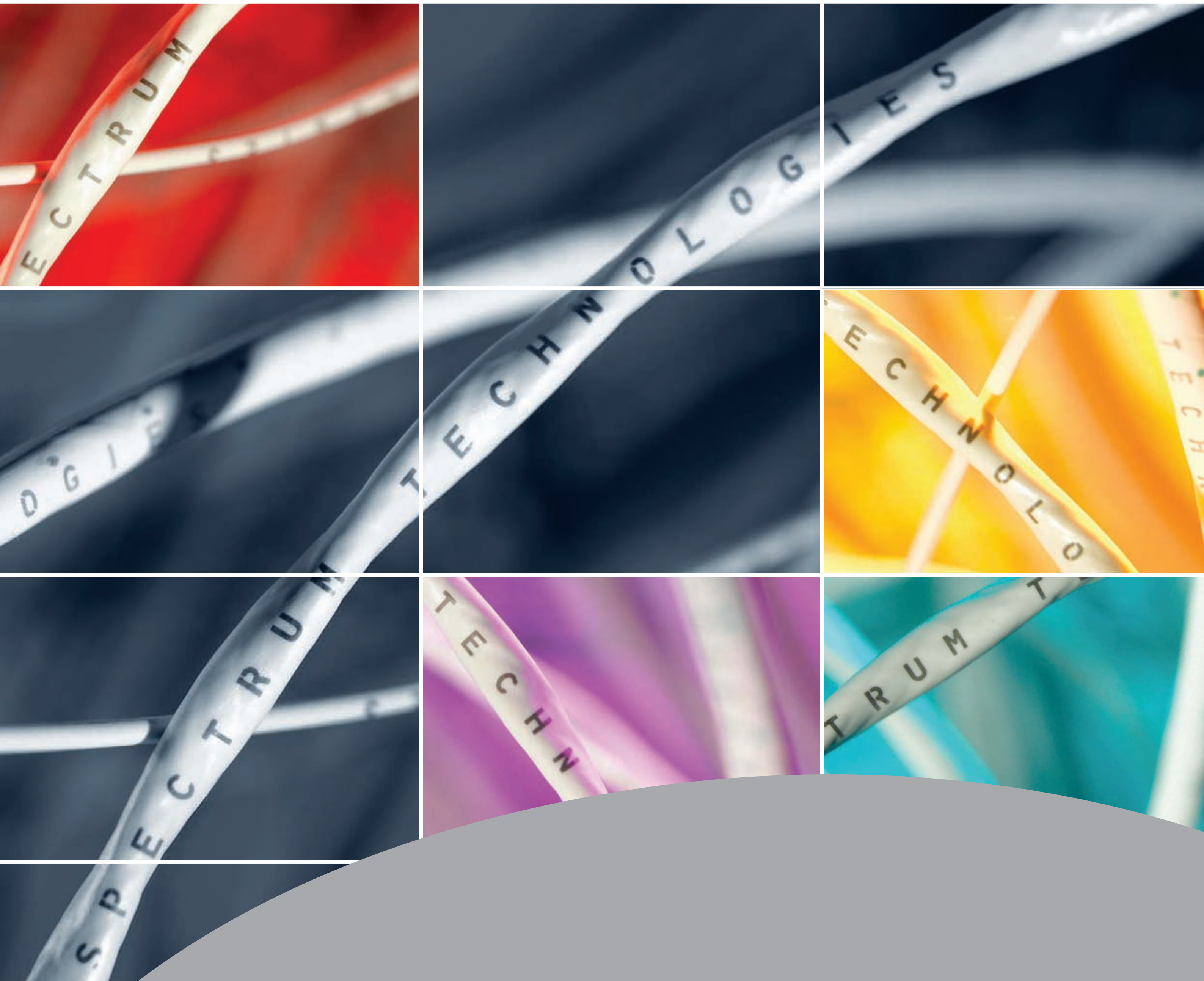
SPECTRUM
TECHNOLOGIES

THE QUEEN'S AWARDS
FOR ENTERPRISE
2006



SPECTRUM TECHNOLOGIES PLC

Annual Report & Financial Statements

2005

CONTENT

COMPANY INFORMATION

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

CHAIRMAN'S STATEMENT

Spectrum Technologies has made good progress during 2005 as sales increased significantly during the year following the introduction of the new 4th generation range of CAPRIS wire marking products in 2003/4, enabling the company to make a welcome return to profitability. The Group recorded increased sales, up 54% at £7.12 million (£4.62 million 2004), within a whisker of the company's all time high achieved in 2001, while recording a profit before tax of £422,998 (£198,801 loss 2004).

As predicted the global aerospace industry returned to full health in the latter part of 2004 and continued with increasing vigour through 2005 as Boeing and Airbus scored record new order levels. The Company had a particularly strong first half, winning a string of key orders against the competition as sales of the Company's new CAPRIS 60-200 wire marker took off, including a major order from Boeing for 5 fully automated systems as they started the process of re-equipping their main commercial aircraft factory near Seattle.

Total new order intake during 2005 was £6.5M, up 54% compared to 2004. Margins improved compared to 2004, as forecast, although disappointingly not as much as they might have due to the adverse impact of the £/ $ exchange rate. Following a profitable second half in 2004 and the strong first half order intake Spectrum recorded profits during both the first and second half of 2005, marking three consecutive profitable trading periods.

***CAPRIS* 60-200, UV Laser Wire Marker with 4 station dereeler as purchasd by Shenyang Aircraft Corp, in China.**

The Company's cash position remained under tight control as production was ramped up to meet market demand with a consequent increasing working capital requirement. Following achievement of a small positive cash balance at the half year point the cash position then reversed with the increasing level of work in progress, but due also to a decision to build up a stock of demonstrator and loan equipment to support marketing and customer requirements. The latter was a short term measure which has been unwound through the first half of 2006.

Overall the World economy progressed positively throughout 2005 with significant growth in Asia Pacific, driven by China and India in particular, but with the important Japanese economy beginning to emerge from its long term downturn. The North American economies also posted good growth levels as did the UK, while the key European economies made rather less positive progress. In addition to the positive advances within the aerospace sector, the electronics sector, which represents the Company's other key market, also made solid progress.

CAPRIS 50-100 PCS Benchtop UV Laser Wire Marker.
Over 100 systems now installed at customer locations worldwide.

Spectrum maintained its position as the leading global supplier of laser wire marking and stripping equipment throughout 2005. The Board is satisfied with the general progress made during the year and believes that there is significant potential for organic growth in the future based on new product development and market development and diversification. The Board will however 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

11 May 2006

REPORT OF THE DIRECTORS

The directors present their report and the consolidated financial statements of the group for the year ended 31 December 2005.

Principal activities and business review

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

There was a profit for the year after taxation amounting to £300,000 (2004 : loss of £198,801).

Results and dividends

The trading results for the year and the group's financial position at the end of the year are shown in the attached consolidated financial statements.

The directors have not recommended a dividend.

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:

	5p ordinary shares			
		31 December 2005		1 January 2005
	Options	**Shares**	Options	Shares
Dr P H Dickinson	**–**	**7,481,900**	–	7,461,900
A J Williams	**–**	**50,455**	–	50,455
A E Jones	**–**	**22,516**	–	22,516
T F Knibb	–	–	–	–
	–	**7,554,871**	–	7,534,871

A E Jones and A J Williams' shares included 455 (2004: 455) held on trust by Spectrum Technologies Profit Sharing Trustees Limited.

T F Knibb resigned as a director on 31 December 2005

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 2005 were equivalent to 37 days (2004:42 days) of purchases during the year ended on that date

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

United Kingdom company law requires the directors to prepare consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that year. In preparing those consolidated 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 consolidated financial statements
- prepare the consolidated 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, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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
Date: 11 May 2006

REPORT OF THE INDEPENDENT AUDITORS 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 2005 which comprise the principal accounting policies, profit and loss account, group balance sheet and company company balance sheet, group cash flow statement, statement of total recognised gains and losses and notes 1 to 26. 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 Report of the Directors and the consolidated 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 if, in our opinion, the Report of the Directors is not consistent with the consolidated 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 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.

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.

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

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 consolidated 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 and of the group as at 31 December 2005 and of the profit of the group for the year then ended; and

have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP

GRANT THORNTON UK LLP

REGISTERED AUDITORS

CHARTERED ACCOUNTANTS

CARDIFF

11 May 2006

PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

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

Changes in accounting policies

In preparing the financial statements for the current year, the group has adopted the following Financial Reporting Standards:

The presentation requirements of FRS 25 'Financial Instruments: Disclosure and Presentation (IAS 32)

The above accounting standard has become mandatory for companies for accounting periods beginning on or after 1 January 2005. Its adoption has had no material effect on the company, hence comparative figures have not been restated.

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 represents net goods and services provided to customers during the period, less returns and excluding VAT.

Income is recorded on despatch of manufactured goods, and upon provision of ad-hoc service support to customers.

Research and development

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

Goodwill

On acquisition of a business, fair values are attributed to the group's share of net tangible assets . Where the cost of acquisition exceeds the values attributable to such net assets, the difference is treated as purchased goodwill and is written off over its estimated economic life.

Goodwill arising on consolidation is amortised over a period of 20 years. Provision is made for any impairment.

Purchased goodwill is capitalised and amortised over a period of three years.

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
Plant & Machinery	-	10% - 20% per annum
Fixtures & Fittings	-	10% per annum
Equipment	-	10% per annum

Investments

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

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

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 denominated in foreign currencies are recorded at either the rate ruling at the date of the transaction or the rates in any related forward foreign exchange contracts.

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.

The only derivative instruments utilised by the group are forward exchange contracts. The group does not enter into speculative derivative contracts. Forward contracts are used for hedging purposes to alter the risk profile of an existing underlying exposure of the group in line with its risk management policies.

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.

PROFIT AND LOSS ACCOUNT

	Note	2005 £	2004 £
Group turnover	1	**7,122,165**	4,623,316
Cost of sales		**4,701,805**	3,158,814
Gross profit		**2,420,360**	1,464,502
Other operating charges	2	**2,008,720**	1,710,976
Other operating income	3	**(51,753)**	(74,963)
Operating profit/(loss)	4	**463,393**	(171,511)
Interest receivable and similar income		**–**	10,753
Interest payable and similar charges	7	**(40,395)**	(38,043)
Profit/(loss) on ordinary activities before taxation		**422,998**	(198,801)
Tax on profit/(loss) on ordinary activities	8	(122,998)	–
Profit/(loss) for the financial year		**300,000**	(198,801)

Earnings per share

	Note	Pence	Pence
Basic	10	**2.126**	(1.409)
Diluted	10	**2.126**	(1.409)

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	2005 £	2004 £
Fixed assets			
Intangible assets	11	**1,108,441**	1,216,581
Tangible assets	12	**343,223**	348,837
		1,451,664	1,565,418
Current assets			
Stocks	14	**1,100,997**	846,574
Debtors	15	**1,338,054**	1,005,821
Cash at bank and in hand		**167,271**	360,288
		2,606,322	2,212,683
Creditors: amounts falling due within one year	16	**1,966,461**	2,009,669
Net current assets		**639,861**	203,014
Total assets less current liabilities		**2,091,525**	1,768,432
Government grants	18	**90,000**	105,626
		2,001,525	1,662,806
Capital and reserves			
Called-up equity share capital	20	**705,273**	705,273
Profit and loss account	21	**1,296,252**	957,533
Shareholders' funds	22	**2,001,525**	1,662,806

These financial statements were approved by the directors on 11 May 2006 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	2005 £	2004 £
Fixed assets			
Tangible assets	12	**260,505**	303,362
Investments	13	**1,799,085**	1,799,085
		2,059,590	2,102,447
Current assets			
Stocks	14	**1,022,964**	712,159
Debtors	15	**1,279,121**	951,414
Cash at bank and in hand		**167,205**	360,158
		2,469,290	2,023,731
Creditors: amounts falling due within one year	16	**1,911,128**	1,886,721
Net current assets		**558,162**	137,010
Total assets less current liabilities		**2,617,752**	2,239,457
Government grants	18	**90,000**	105,626
		2,527,752	2,133,831
Capital and reserves			
Called-up equity share capital	20	**705,273**	705,273
Profit and loss account	21	**1,822,479**	1,428,558
Shareholders' funds		**2,527,752**	2,133,831

These consolidated financial statements were approved by the directors on 11 May 2006 and are signed on their behalf by:

P.H. Dickinson

Dr P H Dickinson
Director

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

GROUP CASH FLOW STATEMENT

	Note	**2005** **£**	2004 £
Net cash inflow from operating activities	23	**74,221**	55,733
Returns on investments and servicing of finance	23	**121,608**	(27,290)
Taxations	23	**(2,567)**	–
Capital expenditure and financial investment	23	**(102,478)**	(3,892)
Increase in cash	23	**90,784**	24,551

OTHER PRIMARY STATEMENTS

Statement of total recognised gains and losses

	2005	2004
	£	£
Profit/(loss) for the financial year attributable to the shareholders of the parent company	**300,000**	(198,801)
Currency translation differences on foreign currency net investments	**(15,687)**	(34,699)
Total gains and losses recognised for the year	**284,313**	(233,500)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Turnover

The turnover and profit (2004:loss) before tax are attributable to the one principal activity of the group. An analysis of turnover is given below:

	2005	2004
	£	£
United Kingdom	**323,370**	295,169
Europe	**1,241,088**	704,172
North America	**4,882,998**	2,473,450
Far East	**476,662**	788,463
Australia	**33,643**	236,742
Africa	**9,540**	2,026
South America	**154,864**	123,294
	7,122,165	4,623,316

The turnover and operating loss are analysed by activities and geographic locations as follows:

	Turnover 2005	Turnover 2004	**Loss before tax 2005**	Loss before tax 2004	**Net assets 2005**	Net assets 2004
	£	£	**£**	£	**£**	£
Laser wire marking products(UK)	**5,972,836**	3,857,485	**391,195**	(193,839)	**2,187,091**	1,841,057
Laser wire stripping products, sales and servicing(USA)	**1,149,329**	765,831	**31,803**	(4,962)	**(185,566)**	(178,251)
Total by activity	**7,122,165**	4,623,316	**422,998**	(198,801)	**2,001,525**	1,662,806

2 Other operating charges

	2005	2004
	£	£
Distribution costs	**377,006**	448,166
Administrative expenses	**1,631,714**	1,262,810
	2,008,720	1,710,976

3 Other operating income

	2005	2004
	£	£
Other operating income	**51,753**	74,963

4 Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting):

	2005	2004
	£	£
Amortisation of government grants	**(15,626)**	(13,328)
Amortisation	**108,140**	116,244
Depreciation of owned fixed assets	**113,529**	98,424
Auditor's remuneration:		
Audit fees	**16,250**	15,750
Operating lease costs:		
Vehicles	**7,863**	5,781
Net (profit)/loss on foreign currency translation	**(82,453)**	46,819

5 Particulars of directors and employees

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

	2005	2004
	No	No
Number of production staff	**41**	31
Number of distribution staff	**6**	4
Number of administrative staff	**10**	6
	57	41

The aggregate payroll costs of the above were:

	2005	2004
	£	£
Wages and salaries	**1,482,264**	1,147,035
Social security costs	**149,208**	118,063
Other pension costs	**38,933**	35,980
	1,670,405	1,301,078

6 Directors

Remuneration in respect of directors was as follows:

	2005	2004
	£	£
Emoluments	**199,407**	195,699
Value of company pension contributions to money purchase schemes	**14,567**	13,105
	213,974	208,804

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

	2005	2004
	No	No
Money purchase schemes	**3**	3

7 Interest payable and similar charges

	2005	2004
	£	£
Interest payable on bank borrowing	**40,395**	38,043

8 Taxation on ordinary activities

(a) Analysis of charge in the year

	2005	2004
	£	£
Current tax:		
UK Taxation		
UK Corporation tax based on the results for the year at 30% (2004 - 19%)	124,000	–
Over provision in prior year	(1,002)	–
Total current tax	122,998	–

8 Taxation on ordinary activities (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the year is lower / higher than the standard rate of corporation tax in the UK of 30% (2004 - 19%).

	2005	2004
	£	£
Profit/(Loss) on ordinary activities before taxation	**422,998**	(198,801)
Profit/(loss) on ordinary activities by rate of tax	**126,899**	(37,772)
Expenses not deducted for tax purposes	**4,884**	727
Capital allowances for period in excess of depreciation	**5,306**	3,297
Rounding on tax charge	**(738)**	5,442
Non-qualifying depreciation	**10,003**	–
Other timing differences	**(14,853)**	28,306
Marginal relief	**(8,503)**	–
Total current tax (note 8(a))	**122,998**	–

(c) Factors that may affect future tax charges

The group has UK losses of £nil (2004: £215,391) which are available to offset future UK taxable profits when they arise.

9 Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £393,921 (2004 : loss of £114,349).

10 Earnings per share

The calculation of basic earnings per share is based upon the profit on ordinary activities after taxation of £300,000 (year to 31 December 2004 - loss of £198,801) divided by the weighted average of ordinary shares in issue during the period of 14,105,460 (year to 31 December 2004 - 14,105,460).

In accordance with FRS 22 "Earnings per share", diluted earnings per share have been disclosed, however due to the options in issue being anti-dilutive, the basic and diluted earnings per share are both 2.126p as disclosed on the face of the profit & loss account.

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.

11 Intangible fixed assets

Group	Goodwill £
Cost	
At 1 January 2005	2,346,359
Foreign exchange difference	5,812
At 31 December 2005	**2,352,171**
Amortisation	
At 1 January 2005	1,129,778
Charge for the year	108,140
Foreign exchange difference	5,812
At 31 December 2005	**1,243,730**
Net book value	
At 31 December 2005	**1,108,441**
At 31 December 2004	1,216,581

12 Tangible fixed assets

Group	Leasehold Property £	Plant & Machinery £	Fixtures & Fittings £	Equipment £	Total £
Cost					
At 1 January 2005	451,803	241,928	29,820	106,492	830,043
Additions	18,497	70,611	–	13,370	102,478
Foreign exchange difference	–	16,373	502	3,342	20,217
At 31 December 2005	470,300	328,912	30,322	123,204	952,738
Depreciation					
At 1 January 2005	205,568	169,997	18,175	87,466	481,206
Charge for the year	55,353	41,211	2,837	14,128	113,529
Foreign exchange difference	–	11,498	376	2,906	14,780
At 31 December 2005	260,921	222,706	21,388	104,500	609,515
Net book value					
At 31 December 2005	**209,379**	**106,206**	**8,934**	**18,704**	**343,223**
At 31 December 2004	246,235	71,931	11,645	19,026	348,837

Company	Leasehold Property £	Plant & Machinery £	Fixtures & Fittings £	Equipment £	Total £
Cost					
At 1 January 2005	451,803	104,931	25,614	78,513	660,861
Additions	18,497	1,653	–	13,370	33,520
At 31 December 2005	470,300	106,584	25,614	91,883	694,381
Depreciation					
At 1 January 2005	205,568	73,775	15,020	63,136	357,499
Charge for the year	55,353	8,265	1,895	10,864	76,377
At 31 December 2005	260,921	82,040	16,915	74,000	433,876
Net book value					
At 31 December 2005	**209,379**	**24,544**	**8,699**	**17,883**	**260,505**
At 31 December 2004	246,235	31,156	10,594	15,377	303,362

13 Investments

Company	**Shares** £	**Loans** £	**Total** £
Cost			
At 1 January 2004 and 31 December 2005	**2,602,061**	**376,432**	**2,978,493**
Amounts written off			
At 1 January 2004 and 31 December 2005	**1,179,408**	**–**	**1,179,408**
Net book value			
At 31 December 2005	**1,422,653**	**376,432**	**1,799,085**
At 31 December 2004	1,422,653	376,432	1,799,085

At 31 December 2005 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 and consolidated**	**Nature of business**
Spectrum Technologies USA Inc.	USA	Ordinary	100%	Laser wire stripping products andsales 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.

14 Stocks

			The group	**The company**
	2005	2004	**2005**	2004
	£	£	**£**	**£**
Raw materials	**547,944**	–	**522,823**	–
Work in progress	**295,735**	331,160	**268,415**	331,160
Finished goods	**257,318**	515,414	**231,726**	380,999
	1,100,997	846,574	**1,022,964**	712,159

15 Debtors

	The group		The company	
	2005	2004	**2005**	2004
	£	£	**£**	£
Trade debtors	**1,107,495**	869,737	**1,056,659**	792,326
Amounts owed by group undertakings	**–**	–	**-**	27,428
Other debtors	**53,594**	38,653	**49,316**	34,229
Prepayments and accrued income	**176,965**	97,431	**173,146**	97,431
	1,338,054	1,005,821	**1,279,121**	951,414

16 Creditors: amounts falling due within one year

	The group		The company	
	2005	2004	**2005**	2004
	£	£	**£**	£
Bank loans and overdrafts	**367,615**	651,416	**353,804**	656,740
Trade creditors	**698,319**	535,824	**626,346**	446,988
Amounts owed to group undertakings	**–**	–	**48,828**	–
Corporation tax	**124,000**	3,569	**124,000**	3,569
PAYE and social security	**59,112**	30,302	**59,112**	30,302
Other creditors	**277,530**	176,172	**277,530**	176,172
Accruals and deferred income	**439,885**	612,386	**421,508**	572,950
	1,966,461	2,009,669	**1,911,128**	1,886,721

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

17 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 2005 is £36,283 (2004 : £33,592). There was no outstanding or prepaid balance at this date (2004 : Nil).

18 Government grants

	The group		The company	
	2005	2004	**2005**	2004
	£	£	**£**	£
Received and receivable:				
At 1 January 2005	**(132,282)**	(132,282)	**(132,282)**	(132,282)
At 31 December 2005	**(132,282)**	(132,282)	**(132,282)**	(132,282)
Amortisation:				
At 1 January 2005	**26,656**	13,328	**26,656**	13,328
Released in the year	**15,626**	13,328	**15,626**	13,328
At 31 December 2005	**42,282**	26,656	**42,282**	26,656
Net balance at 31 December 2005	**90,000**	105,626	**90,000**	105,626

19 Commitments under operating leases

At 31 December 2005 the group had annual commitments under non-cancellable operating leases as set out below.

The group	Land and Buildings	
	2005	2004
	£	£
Operating leases which expire:		
Within 1 year	10,800	–
Within 2 to 5 years	**118,271**	22,056
After more than 5 years	**–**	66,264
	129,071	88,320

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as set out below.

The company

	Land and Buildings	
	2005	2004
	£	£
Operating leases which expire:		
Within 2 to 5 years	**78,813**	–
After more than 5 years	**–**	66,264
	78,813	66,264

20 Share capital

Authorised share capital:

	2005 £	2004 £
30,000,000 Ordinary shares of £0.05 each	**1,500,000**	1,500,000

Allotted, called up and fully paid:

	2005 No	2005 £	2004 No	2004 £
Ordinary shares of £0.05 each	**14,105,460**	705,273	14,105,460	705,273
Equity shares				
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 2005	**957,533**
Profit for the year	**300,000**
Foreign exchange difference	**38,719**
At 31 December 2005	**1,296,252**

Company

	Profit and loss account £
At 1 January 2005	**1,428,558**
Profit for the year	**393,921**
At 31 December 2005	**1,822,479**

22 Reconciliation of movements in shareholders' funds

	2005 £	2004 £
Profit/(Loss) for the financial year	**300,000**	(198,801)
Foreign currency retranslation	**38,719**	(44,897)
Net addition/(reduction) to shareholders' funds	**338,719**	(243,698)
Opening shareholders' funds	**1,662,806**	1,906,504
Closing shareholders' funds	**2,001,525**	1,662,806

23 Notes to the statement of cash flows

Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	2005 £	2004 £
Operating profit/(loss)	**301,390**	(171,511)
Amortisation	**108,140**	116,244
Depreciation	**113,529**	96,856
Amortisation of government grants	**(15,626)**	(13,328)
Increase in stocks	**(254,423)**	(186,285)
(Increase)/decrease in debtors	**(332,233)**	106,884
Increase in creditors	**153,444**	106,873
Net cash inflow from operating activities	**74,221**	55,733

Returns on investments and servicing of finance

	2005 £	2004 £
Interest received	**–**	10,753
Interest paid	**(40,395)**	(38,043)
Net cash inflow/(outflow) from returns on investments and servicing of finance	**40,395**	(27,290)

Taxation

	2005 £	2004 £
Taxation	**(2,567)**	–

Capital expenditure

	2005 £	2004 £
Payments to acquire tangible fixed assets	**(102,478)**	(3,892)
Net cash outflow from capital expenditure	**(102,478)**	(3,892)

Reconciliation of net cash flow to movement in net debt

	2005 £	2004 £
Increase in cash in the year	**90,784**	24,551
Foreign currency translation differences	**–**	(38,824)
Movement in net debt in the period	**90,874**	(14,273)
Net debt at 1 January 2005	**(291,128)**	(276,855)
Net debt at 31 December 2005	**(200,344)**	(291,128)

Analysis of changes in net debt

	At 1 Jan 2005 £	Cash flows £	At 31 Dec 2005 £
Net cash:			
Cash in hand and at bank	**360,288**	**(193,017)**	**167,271**
Overdrafts	**(651,416)**	**283,801**	**(367,615)**
Net debt	**(291,128)**	**90,784**	**(200,344)**

24 Contingencies

The directors have confirmed that there were no contingent liabilities which should be disclosed at 31 December 2005 or 31 December 2004.

25 Capital commitments

The directors have confirmed that there were no capital commitments at 31 December 2005 or 31 December 2004.

26 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 2005, outstanding US dollar trade debtors amounted to £694,066 (2004: £661,072) and euro trade debtors amounted to £214,066 (2004: nil). All other monetary assets and liabilities are denominated in sterling.

Forward exchange contracts are entered into with the group's bankers in order to fix exchange risks associated with US dollar and Euro sales. At 31 December 2005, there was a forward currency contact of US$1,200,000 in place that is due to mature during 2006 at a rate of $1.7596/£. This contract is held at its fair value within the accounts. There were no forward currency contracts is place as at 31 December 2004.

As at 31 December 2005, the group had no financial liabilities (2004: £nil) other than the bank overdraft disclosed in note 16 which is offset against than 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 2005 or 31 December 2004.

The group had no un-drawn committed borrowing facilities with HSBC Bank PLC at 31 December 2005 (2004:£nil).

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