

**Spectrum Technologies Plc**  
Consolidated financial statements  
For the year ended 31 December 2007

**Company No. 2385991**

## Company information

Company registration number	2385991
Registered office	Western Avenue Bridgend CF31 3RT
Directors	Dr P H Dickinson M A Reason R W Griffiths Dr P Taylor
Secretary	R W Griffiths
Bankers	HSBC Bank PLC 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 LLP Haywood House Dumfries Place Cardiff CF10 3GA
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors 11-13 Penhill Road Cardiff CF11 9UP

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## Chairman's Statement

Following a good first half in 2007 order intake and sales continued more or less in line with expectations from the half year point. The international economic situation has clearly become rather less stable than in the preceding years, which is a concern, and the continued weakness of the dollar in Spectrum's key export market remains an issue. Nevertheless I am pleased to report that the Company has again been able to increase sales and profits with sales rising to a new record of £8.38M (£7.34M – 2006), up 14.2%, and profits before tax increasing to £566K (£438K – 2006), up 29.2%.

Exports again continued to lead the business with 93% of sales being overseas, this being the sixth consecutive year that exports have exceeded 90% of turnover; in fact since trading started in 1990 Spectrum has now exported on average 89% of its total output. Last year the North American market continued as our largest market but the declining value of the US dollar plus increased marketing efforts in the growing Asian market, in particular, have seen a gradual rebalancing of our overseas markets over the last three years. During this period US sales have been more or less flat in absolute terms, as have sales to the European market, while sales to Asia have tripled from GBP477K in 2005 to GBP1.47M in 2007, with sales to Asia now exceeding those to Europe by nearly 40%.

Cash control has remained a top priority throughout this period and we have made further progress in strengthening the Company's financial position. Overall Spectrum managed to stay well within its bank facility limits during the year and the cash position again strengthened throughout the year.

I am also pleased to report good progress on the organisational changes required to underpin the future development of the Company. In particular, we completed the key stages of the reorganisation of the Company's subsidiary, Spectrum Technologies USA Inc., with the appointment of Mr Jonathan Golding, who has been with the Company since 2004, as Vice President and General Manager and the completion of the management team and the enlargement of the sales and service team that supports our activities in the key US market. At the end of last year our Operations Director, Mr Alan Jones retired from the Company following 14 years of unstinting service and we wish him well for the future. I am pleased to note that we have subsequently been able to strengthen the Board with the appointment of Dr Paul Taylor, who has been with the company since 2005. Dr Taylor joins the Board in the new position of Engineering Director, underlying our commitment to new product development as the engine of future growth. Going forward it will be a continuing goal to strengthen the Board further, as well as the senior and middle management teams, to support the anticipated future growth of the Company.

The continually changing economic environment is presenting some new challenges but the Board is satisfied with the progress made during the year and believes that, subject to the global economy continuing to grow, the Company remains well positioned for the future. Plans are continuing to be developed and refined to achieve further significant organic growth into the medium to long term with key new markets now being targeted for diversification based on new product and market development. In the meantime the Company's operations remain 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 financial statements of the Group for the year ended 31 December 2007.

### Principal activities and business review

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

### Results and dividends

The profit for the year, after taxation, amounted to £255,271 (2006 : £310,482). The directors have not recommended a dividend.

Overall business levels were as expected and the Group performed and developed to expectations and plan during the year, maintaining its position as the global market leader within its chosen niche markets. The Group's principal markets remained buoyant throughout the year. Gross margins were maintained at similar levels to 2006 on marginally higher volume while cash generation was in line with the prior year.

### Key Performance Indicators

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

	2007	2006
Gross Margin	35%	34%
Net Margin	3%	6%
Current Ratio	1.74	1.54

### Strategy

The future strategy for the Group 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 Group'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.

## Report of the directors

- Competition

The Group operates in a competitive market and as a result there is constant pressure on product pricing and margins. To mitigate this risk the Group 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 Group'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 Group 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 Group is highly dependant on exports and North America is a key market representing historically greater than 50% of the Group's business; all North American business is denominated in US dollars. To mitigate against exchange rate volatility and excessive sterling strength the Group 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 Group 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 Group uses financial instruments, including 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 group's operations. The main risks arising from the Group's 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 Group 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 using both fixed and floating facilities.

#### **Liquidity risk**

The Group 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 borrowings arranged at group level. Short term flexibility is achieved by overdraft facilities.

## Report of the directors

### Currency risk

The Group 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.

### Directors

The directors who served the company during the year were as follows:

Dr P H Dickinson  
A J Williams  
A E Jones  
M A Reason  
R W Griffiths

A E Jones and A J Williams' shares included 455 (2006 : 455) held on trust by Spectrum Technologies Profit Sharing Trustees Limited.

R W Griffiths was appointed as a director and a secretary on 1 May 2007.

A J Williams resigned as a secretary on 30 April 2007.

A E Jones resigned as a director on 21 December 2007.

Dr P Taylor was appointed as a director on 1 January 2008.

### 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 2007 were equivalent to 65 days (2006 : 48 days) of purchases during the year ended on that date.

# Report of the directors

## Directors' responsibilities

The directors are responsible for preparing the Directors 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 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 auditor is 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 auditor is aware of that information.

## 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 2007 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 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 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.

# Report of the independent auditor 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 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 as at 31 December 2007 and of the group's profit for the year then ended;
- the consolidated 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 consolidated financial statements.

GRANT THORNTON UK LLP  
REGISTERED AUDITORS  
CHARTERED ACCOUNTANTS

**CARDIFF**

.....

## Principal accounting policies

### Basis of accounting

The 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 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.

## Principal accounting policies

### 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	-	10% 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 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.

## Principal accounting policies

### 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.

### 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.

## Principal accounting policies

### 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.

## Profit and loss account

	Note	2007 £	2006 £
<b>Group turnover</b>	1	<b>8,384,232</b>	7,340,389
Cost of sales		<u>5,473,559</u>	4,880,752
Gross profit		<b>2,910,673</b>	2,459,637
Other operating charges	2	<b>2,323,337</b>	2,048,526
Other operating income	3	–	(74,517)
<b>Operating profit</b>	4	<b>587,336</b>	485,628
Interest receivable and similar income		<b>1,690</b>	1,037
Interest payable and similar charges	7	<b>(22,855)</b>	(48,542)
<b>Profit on ordinary activities before taxation</b>		<b>566,171</b>	438,123
Tax on profit on ordinary activities	8	<b>310,900</b>	127,641
<b>Profit for the financial year</b>		<b>255,271</b>	310,482
<b>Earnings per share (pence)</b>			
Basic / Diluted	10	<b>1.81</b>	2.20

All of the activities of the group 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.

## Group balance sheet

	Note	2007 £	2006 £
<b>Fixed assets</b>			
Intangible assets	11	892,161	1,000,301
Tangible assets	12	166,440	241,588
		<u>1,058,601</u>	<u>1,241,889</u>
<b>Current assets</b>			
Stocks	14	1,078,060	862,875
Debtors	15	2,224,281	1,960,492
Cash at bank and in hand		425,882	374,426
		<u>3,728,223</u>	<u>3,197,793</u>
<b>Creditors: amounts falling due within one year</b>	16	<u>2,144,019</u>	<u>2,080,383</u>
<b>Net current assets</b>		<u>1,584,204</u>	<u>1,117,410</u>
<b>Total assets less current liabilities</b>		<u>2,642,805</u>	<u>2,359,299</u>
Government grants	19	54,000	72,000
		<u>2,588,805</u>	<u>2,287,299</u>
<b>Capital and reserves</b>			
Called-up equity share capital	21	705,273	705,273
Profit and loss account	22	1,883,532	1,582,026
<b>Shareholders' funds</b>	23	<u>2,588,805</u>	<u>2,287,299</u>

These consolidated financial statements were approved by the directors and authorised for issue on ....., and are signed on their behalf by:

.....  
 Dr P H Dickinson

## Company balance sheet

	Note	2007 £	2006 £
<b>Fixed assets</b>			
Tangible assets	12	150,885	210,196
Investments	13	1,799,085	1,799,085
		<u>1,949,970</u>	<u>2,009,281</u>
<b>Current assets</b>			
Stocks	14	1,078,060	793,033
Debtors	15	2,216,632	1,898,510
Cash at bank and in hand		424,682	374,197
		<u>3,719,374</u>	<u>3,065,740</u>
<b>Creditors: amounts falling due within one year</b>	16	<u>2,110,681</u>	<u>2,086,007</u>
<b>Net current assets</b>		<u>1,608,693</u>	<u>979,733</u>
<b>Total assets less current liabilities</b>		<u>3,558,663</u>	<u>2,989,014</u>
Government grants	19	54,000	72,000
		<u>3,504,663</u>	<u>2,917,014</u>
<b>Capital and reserves</b>			
Called-up equity share capital	21	705,273	705,273
Profit and loss account	22	2,799,390	2,211,741
<b>Shareholders' funds</b>		<u>3,504,663</u>	<u>2,917,014</u>

These consolidated financial statements were approved by the directors and authorised for issue on ....., and are signed on their behalf by:

.....  
 Dr P H Dickinson

## Group cash flow statement

	<b>Note</b>	<b>2007</b> <b>£</b>	<b>2006</b> <b>£</b>
<b>Net cash inflow from operating activities</b>	24	<b>428,599</b>	293,270
<b>Returns on investments and servicing of finance</b>	24	<b>(21,165)</b>	(47,505)
<b>Taxation</b>	24	<b>(153,023)</b>	(7,517)
<b>Capital expenditure and financial investment</b>	24	<b>(5,535)</b>	10,288
<b>Increase in cash</b>	24	<b><u>248,876</u></b>	<b><u>248,536</u></b>

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

## Other primary statements

### Statement of total recognised gains and losses

	2007 £	2006 £
Profit for the financial year attributable to the shareholders of the parent company	255,271	310,482
Currency translation differences on foreign currency net investments	46,235	(24,708)
<b>Total gains and losses recognised for the year</b>	<b>301,506</b>	<b>285,774</b>

## Notes to the consolidated financial statements

### 1 Turnover

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

	2007 £	2006 £
United Kingdom	<b>564,336</b>	625,877
Europe	<b>1,059,660</b>	1,026,795
North America	<b>4,810,907</b>	4,374,251
Far East	<b>1,468,048</b>	1,072,858
Australia	<b>153,135</b>	57,943
Africa	<b>153,917</b>	167,704
South America	<b>174,229</b>	14,961
	<b><u>8,384,232</u></b>	<u>7,340,389</u>

### 2 Other operating charges

	2007 £	2006 £
Distribution costs	<b>436,530</b>	340,711
Administrative expenses	<b>1,886,807</b>	1,707,815
	<b><u>2,323,337</u></b>	<u>2,048,526</u>

### 3 Other operating income

	2007 £	2006 £
Other operating income	<b><u>-</u></b>	<u>74,517</u>

#### 4 Operating profit

Operating profit is stated after charging/(crediting):

	2007 £	2006 £
Amortisation of government grants re fixed assets	(18,000)	(18,000)
Amortisation	108,140	108,140
Depreciation of owned fixed assets	79,481	105,069
Profit on disposal of fixed assets	–	(21,375)
Auditor's remuneration:		
Audit fees	16,500	16,250
Non Audit fees:		
Taxation	2,000	2,000
Operating lease costs:		
Other	11,572	8,680
Net (profit)/loss on foreign currency translation	<u>(57,259)</u>	<u>62,248</u>

#### 5 Particulars of employees directors and employees

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

	2007 No	2006 No
Number of production staff	48	41
Number of distribution staff	11	8
Number of administrative staff	11	9
	<u>70</u>	<u>58</u>

The aggregate payroll costs of the above were:

	2007 £	2006 £
Wages and salaries	1,564,682	1,313,750
Social security costs	142,737	127,839
Other pension costs	61,002	43,363
	<u>1,768,421</u>	<u>1,484,952</u>

#### 6 Directors

Remuneration in respect of directors was as follows:

	2007 £	2006 £
Emoluments	194,486	209,398
Value of company pension contributions to money purchase schemes	16,109	15,063
	<u>210,595</u>	<u>224,461</u>

## 6 Directors (continued)

Emoluments of highest paid director:

	2007 £	2006 £
Total emoluments (excluding pension contributions)	84,533	79,362
Value of company pension contributions to money purchase schemes	5,708	5,548
	<u>90,241</u>	<u>84,910</u>

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

	2007 No	2006 No
Money purchase schemes	<u>4</u>	<u>3</u>

## 7 Interest payable and similar charges

	2007 £	2006 £
Other charges	2,052	-
Interest payable on bank borrowing	20,803	48,542
	<u>22,855</u>	<u>48,542</u>

## 8 Taxation on ordinary activities

(a) Analysis of charge in the year

	2007 £	2006 £
Current tax:		
UK Corporation tax based on the results for the year at 30% (2006 - 30%)	280,000	122,000
Over provision in prior year	-	(5,445)
Total current tax	<u>280,000</u>	<u>116,555</u>
Foreign tax:		
Current tax on income for the period	-	11,086
Under provision in prior year	30,900	-
	<u>30,900</u>	<u>11,086</u>
Tax on profit on ordinary activities	<u>310,900</u>	<u>127,641</u>

## 8 Taxation on ordinary activities (continued)

### (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% (2006 - 30%).

	2007 £	2006 £
Profit on ordinary activities before taxation	<u>566,171</u>	<u>438,123</u>
Profit on ordinary activities by rate of tax	<b>169,851</b>	131,437
Expenses not deductible for tax purposes	<b>8,773</b>	4,860
Capital allowances for period in excess of depreciation	<b>9,821</b>	3,208
Consolidation adjustments	<b>32,263</b>	30,571
Adjustments to tax charge in respect of previous periods	<b>30,900</b>	(5,445)
Non-qualifying depreciation	<b>8,979</b>	8,408
Other timing differences	<b>50,313</b>	(36,714)
Marginal relief	-	(8,684)
Total current tax (note 8(a))	<u><b>310,900</b></u>	<u>127,641</u>

## 9 Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £587,649 (2006 :£389,262).

## 10 Earnings per share

The basic 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

	2007 £	2006 £
Earnings for the purposes of basic / diluted earnings per share	<u><b>255,271</b></u>	<u>310,482</u>

### Number of shares

	2007 No	2006 No
Weighted average number of shares for the purposes of basic / diluted earnings per share	<u><b>14,105,460</b></u>	<u>14,105,460</u>

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

<b>Group</b>	<b>Goodwill £</b>
Cost	
At 1 January 2007	2,345,563
Foreign exchange difference	915
At 31 December 2007	<u><u>2,346,478</u></u>
Amortisation	
At 1 January 2007	1,345,262
Charge for the year	108,140
Foreign exchange difference	915
At 31 December 2007	<u><u>1,454,317</u></u>
Net book value	
At 31 December 2007	<u><u>892,161</u></u>
At 31 December 2006	<u><u>1,000,301</u></u>

## 12 Tangible fixed assets

<b>Group</b>	<b>Leasehold Property £</b>	<b>Plant &amp; Machinery £</b>	<b>Fixtures &amp; Fittings £</b>	<b>Equipment £</b>	<b>Total £</b>
Cost or valuation					
At 1 January 2007	470,300	295,866	30,294	121,455	917,915
Additions	5,535	–	–	–	5,535
Foreign exchange difference	–	(3,623)	(234)	(275)	(4,132)
At 31 December 2007	<u><u>475,835</u></u>	<u><u>292,243</u></u>	<u><u>30,060</u></u>	<u><u>121,180</u></u>	<u><u>919,318</u></u>
Depreciation					
At 1 January 2007	307,450	247,913	23,486	97,478	676,327
Charge for the year	50,680	20,840	2,464	5,497	79,481
Foreign exchange difference	–	(2,513)	(191)	(226)	(2,930)
At 31 December 2007	<u><u>358,130</u></u>	<u><u>266,240</u></u>	<u><u>25,759</u></u>	<u><u>102,749</u></u>	<u><u>752,878</u></u>
Net book value					
At 31 December 2007	<u><u>117,705</u></u>	<u><u>26,003</u></u>	<u><u>4,301</u></u>	<u><u>18,431</u></u>	<u><u>166,440</u></u>
At 31 December 2006	<u><u>162,850</u></u>	<u><u>47,953</u></u>	<u><u>6,808</u></u>	<u><u>23,977</u></u>	<u><u>241,588</u></u>

Company	Leasehold Property £	Plant & Machinery £	Fixtures & Fittings £	Equipment £	Total £
Cost or valuation					
At 1 January 2007	470,300	106,584	25,614	107,093	709,591
Additions	5,535	–	–	–	5,535
At 31 December 2007	<u>475,835</u>	<u>106,584</u>	<u>25,614</u>	<u>107,093</u>	<u>715,126</u>
Depreciation					
At 1 January 2007	307,450	90,023	18,806	83,116	499,395
Charge for the year	50,680	6,205	2,464	5,497	64,846
At 31 December 2007	<u>358,130</u>	<u>96,228</u>	<u>21,270</u>	<u>88,613</u>	<u>564,241</u>
Net book value					
At 31 December 2007	<u><b>117,705</b></u>	<u><b>10,356</b></u>	<u><b>4,344</b></u>	<u><b>18,480</b></u>	<u><b>150,885</b></u>
At 31 December 2006	<u>162,850</u>	<u>16,561</u>	<u>6,808</u>	<u>23,977</u>	<u>210,196</u>

### 13 Investments

Company	Group companies £
Cost	
At 1 January 2007 and 31 December 2007	<u><b>2,602,061</b></u>
Amounts written off	
At 1 January 2007 and 31 December 2007	<u><b>1,179,408</b></u>
Loans	
At 1 January 2007 and 31 December 2007	<u><b>376,432</b></u>
Net book value	
At 31 December 2007	<u><b>1,799,085</b></u>
At 31 December 2006	<u>1,799,085</u>

At 31 December 2007 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 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.

#### 14 Stocks

	The group		The company	
	2007	2006	2007	2006
	£	£	£	£
Raw materials	<b>586,358</b>	674,042	<b>586,358</b>	604,200
Work in progress	<b>365,756</b>	78,419	<b>365,756</b>	78,419
Finished goods	<b>125,946</b>	110,414	<b>125,946</b>	110,414
	<b><u>1,078,060</u></b>	<u>862,875</u>	<b><u>1,078,060</u></b>	<u>793,033</u>

#### 15 Debtors

	The group		The company	
	2007	2006	2007	2006
	£	£	£	£
Trade debtors	<b>1,984,400</b>	1,830,047	<b>1,984,400</b>	1,771,282
Other debtors	<b>130,463</b>	53,505	<b>122,814</b>	53,505
Prepayments and accrued income	<b>109,418</b>	76,940	<b>109,418</b>	73,723
	<b><u>2,224,281</u></b>	<u>1,960,492</u>	<b><u>2,216,632</u></b>	<u>1,898,510</u>

## 16 Creditors: amounts falling due within one year

	<b>The group</b>		<b>The company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Overdrafts	<b>128,814</b>	326,234	<b>93,583</b>	340,623
Trade creditors	<b>841,456</b>	617,909	<b>841,456</b>	580,755
Amounts owed to group undertakings	–	–	<b>9,628</b>	44,134
Corporation tax	<b>402,001</b>	244,124	<b>402,001</b>	244,124
PAYE and social security	<b>55,787</b>	38,937	<b>55,787</b>	38,937
Other creditors	<b>173,506</b>	161,659	<b>173,506</b>	161,659
Accruals and deferred income	<b>542,455</b>	691,520	<b>534,720</b>	675,775
	<b><u>2,144,019</u></b>	<u>2,080,383</u>	<b><u>2,110,681</u></b>	<u>2,086,007</u>

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 2007 is £61,002 (2006 : £43,363). There was an outstanding balance at this date amounting to £5,038 (2006 : £2,168).

## 18 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 2007, outstanding US dollar trade debtors amounted to £1,211,156 (2006: £969,928) and euro trade debtors amounted to £316,109 (2006: £315,220). 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 2007, open contracts can be summarised as follows:

	<b>Currency sold</b>	Currency to be purchased	<b>Fair value loss</b>	Redemption date
	<b>\$</b>	<b>£</b>	<b>£</b>	
Date the contract was entered into:				
17 November 2007	<b><u>2,000,000</u></b>	<u>943,396</u>	<b><u>2,441</u></b>	16 January 2008

As at 31 December 2007, the group had no financial liabilities (2006: £nil) other than the bank overdraft disclosed in note 16 which is offset against the bank balances as shown in note 24. 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 2007 or 31 December 2006.

## 19 Government grants

	<b>The group</b>		<b>The company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Received and receivable:				
At 1 January 2007	<u>(132,282)</u>	<u>(132,282)</u>	<u>(132,282)</u>	<u>(132,282)</u>
At 31 December 2007	<u>(132,282)</u>	<u>(132,282)</u>	<u>(132,282)</u>	<u>(132,282)</u>
Amortisation:				
At 1 January 2007	<u>60,282</u>	<u>42,282</u>	<u>60,282</u>	<u>42,282</u>
Credit to profit and loss account	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>
At 31 December 2007	<u>78,282</u>	<u>60,282</u>	<u>78,282</u>	<u>60,282</u>
Net balance at 31 December 2007	<u>54,000</u>	<u>72,000</u>	<u>54,000</u>	<u>72,000</u>

## 20 Commitments under operating leases

At 31 December 2007 the group had annual commitments under non-cancellable operating leases as set out below.

<b>The group</b>	<b>Land and buildings</b>	
	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
Operating leases which expire:		
Within 2 to 5 years	<u>78,813</u>	<u>100,260</u>

At 31 December 2007 the company had annual commitments under non-cancellable operating leases as set out below.

<b>The company</b>	<b>Land and buildings</b>	
	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
Operating leases which expire:		
Within 2 to 5 years	<u>78,813</u>	<u>78,813</u>

## 21 Share capital

Authorised share capital:

	2007 £	2006 £
30,000,000 Ordinary shares of £0.05 each	<u>1,500,000</u>	<u>1,500,000</u>

Allotted, called up and fully paid:

	2007 No	£	2006 No	£
Ordinary shares of £0.05 each	<u>14,105,460</u>	<u>705,273</u>	<u>14,105,460</u>	<u>705,273</u>

## 22 Reserves

### Group

	Profit and loss account £
At 1 January 2007	1,582,026
Profit for the year	255,271
Foreign Exchange Retranslation	46,235
At 31 December 2007	<u>1,883,532</u>

### Company

	Profit and loss account £
At 1 January 2007	2,211,741
Profit for the year	587,649
At 31 December 2007	<u>2,799,390</u>

## 23 Reconciliation of movements in shareholders' funds

	2007 £	2006 £
Profit for the financial year	255,271	310,482
Foreign Exchange Retranslation	46,235	(24,708)
Net addition to shareholders' funds	<u>301,506</u>	285,774
Opening shareholders' funds	<u>2,287,299</u>	2,001,525
Closing shareholders' funds	<u>2,588,805</u>	<u>2,287,299</u>

## 24 Notes to the statement of cash flows

### Reconciliation of operating profit to net cash inflow from operating activities

	2007 £	2006 £
Operating profit	587,336	485,628
Amortisation	108,140	108,140
Depreciation	79,481	102,680
Profit on disposal of fixed assets	–	(21,375)
Amortisation of government grants	(18,000)	(18,000)
(Increase)/decrease in stocks	(215,185)	238,122
Increase in debtors	(263,789)	(622,438)
Increase in creditors	150,616	35,179
Net cash inflow from operating activities	<u>428,599</u>	<u>307,936</u>

### Returns on investments and servicing of finance

	2007 £	2006 £
Interest received	1,690	1,037
Interest paid	(22,855)	(48,542)
Net cash outflow from returns on investments and servicing of finance	<u>(21,165)</u>	<u>(47,505)</u>

### Taxation

	2007 £	2006 £
Taxation	<u>(153,023)</u>	<u>(7,517)</u>

### Capital expenditure

	2007 £	2006 £
Payments to acquire tangible fixed assets	(5,535)	(27,467)
Receipts from sale of fixed assets	–	37,755
Net cash (outflow)/inflow from capital expenditure	<u>(5,535)</u>	<u>10,288</u>

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

### Reconciliation of net cash flow to movement in net funds

	2007 £	2006 £
Increase in cash in the period	<b>248,876</b>	248,536
Movement in net funds in the period	<b>248,876</b>	248,536
Net funds at 1 January 2007	<b>48,192</b>	(200,344)
Net funds at 31 December 2007	<b>297,068</b>	48,192

### Analysis of changes in net funds

	At 1 Jan 2007 £	Cash flows £	At 31 Dec 2007 £
Net cash:			
Cash in hand and at bank	374,426	51,456	425,882
Overdrafts	(326,234)	197,420	(128,814)
Net funds	<b>48,192</b>	<b>248,876</b>	<b>297,068</b>

## 25 Contingencies

The directors have confirmed that there were no contingent liabilities which should be disclosed at 31 December 2007 or 31 December 2006.

## 26 Capital commitments

The directors have confirmed that there were no capital commitments at 31 December 2007 or 31 December 2006.

