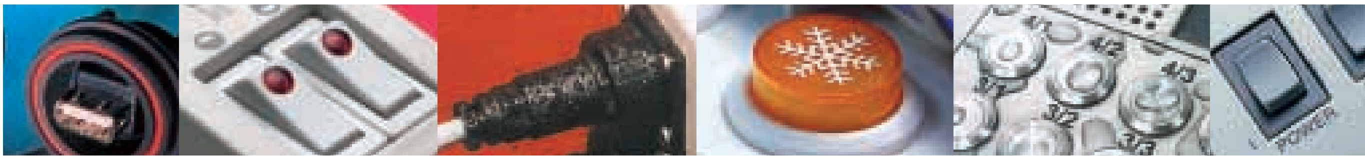
elektron plc



Annual Report 2004

Contents

Year in Brief

- Operating profits on continuing operations and acquisitions before goodwill release of £796,000 (2003: operating loss £409,000)
- Profit before taxation of £1,605,000 (2003: loss before taxation £3,366,000)
- Earnings per share before goodwill 0.63p (2003: loss 5.45p). Earnings per share after goodwill 2.42p (2003: loss 6.18p)
- Net gearing on net tangible assets 36% (2003: 284%)
- Negative balance on profit and loss account substantially reduced. Dividend under consideration in current year
- Group refocused following acquisition of Arcolectric and disposal of Milmega
- Current year has started well

Chairman's Statement

I am pleased to be able to report an improvement in the Group's fortunes. During the year the Group refocused on its core business of manufacturing electro-mechanical components with the acquisition in December 2003 of Arcolectric and the sale of Milmega at the end of the financial year.

The figures reported show just over one month of trading at Arcolectric together with negative goodwill releases following the assessment of fair value of net assets acquired compared with purchase consideration.

From a difficult financial position eighteen months ago the Group has undergone a remarkable transformation. This could not have been achieved without the support of an excellent team of managers both at Bulgin and Arcolectric. In addition we were fortunate to have the support of a number of Shareholders (including certain Arcolectric staff members) who believed in our vision and provided finance at short notice when the opportunity to acquire Arcolectric arose.

Bulgin Components designs and manufactures connectors, switches and other electro-mechanical components for industrial markets.

Turnover was down on the previous year to £7,931,000 *(2003: £8,349,000)* returning operating profits of £376,000 compared to £489,000 in the previous year. Gross margins remained steady at 41%.

The market has picked up in the first four months of the new financial year with incoming orders of £3,463,000 and outgoing shipments of £3,195,000 up 16% and 14% respectively compared with the first four months of the prior year.

Arcolectric specialises in the manufacture of appliance switches, indicator lights and fuseholders for the consumer and industrial markets.

Arcolectric manufactures from three locations. Automated assembly is housed in an 80,000 square foot facility in Surrey employing 188 staff. Hand assembly takes place in Tunisia at a leasehold premises of 30,000 square feet employing 270 staff and in China from a 42,000 square foot leasehold premises employing 165 staff.

Worldwide Sales and Administration are based in Surrey except for US Sales which is based in California. Arcolectric exports 75 per cent. of its products to over sixty countries including the US, China and Turkey.

Chairman's Statement

Arcolectric was acquired by Elektron on 23 December 2003 for a consideration of £352,000 cash and the assumption of £1,441,000 of lease finance debt. Under current accounting conventions this transaction has resulted in a negative goodwill balance of £2,430,000. That amount is released to the profit and loss account in line with estimated asset utilisation. £1,173,000 has been released to profit in the year just ended. The remaining £1,257,000 will be released mainly in the year ending 31 January 2005.

Turnover for the period from 23 December 2003 to 31 January 2004 was £1,403,000 returning operating profits of £160,000.

In the first four months of the new financial year incoming orders were £5,178,000 and outgoing shipments were £5,436,000. During the receivership a backlog of orders built up which resulted in an exceptional level of sales in the first few months of ownership. Going forward we expect that monthly sales at Arcolectric will settle at a lower level.

BP Purchasing distributes hard to find electronic and electromechanical components. Turnover was up on the previous year to £799,000 *(2003: £730,000)* returning operating losses of £16,000 compared to £91,000 in the previous year. Gross margins improved from 28% to 30%.

Milmega, which manufactures microwave amplifiers, was sold on 3 February 2004 to the local management for a final consideration of £947,000. The operating loss of £38,000 has been included in the consolidated accounts but the net assets at 31 January 2004 have been excluded.

Gearing and balance sheet

At 31 January 2004, net gearing on net tangible assets was 36% compared with 284% the previous year.

Net tangible assets at the year-end have increased 740% to £4,596,000, which equates to a tangible net asset value per share of 6.2p per share compared to 1.1p per share at 31 January 2003.

Earnings per share and dividends

Earnings per share for the year ended 31 January 2004, before goodwill release/amortisation were 0.63p *(year ended 31 January 2003: loss 5.45p)*. Earnings per share for

Chairman's Statement

the year ended 31 January 2004, after goodwill release/amortisation were 2.42p *(year ended 31 January 2003: loss 6.18p)*.

The Board cannot propose a dividend until the parent company, Elektron Plc, has positive revenue reserves. At 31 January 2004, the reserves stood at £568,000 negative. The goodwill releases referred to above together with expected current year profits will create positive reserves, which will allow the Board to consider a dividend payment in the current year.

Future strategy

Our strategy has three major elements:

- To continue to reduce costs to offset margin pressure by making use of low cost manufacturing facilities overseas
- To maximise the sales potential of the Bulgin and Arcolectric brands
- To acquire complementary businesses where suitable opportunities arise.

Outlook

Bulgin Components is trading well above the level of the previous year and Arcolectric is returning reasonable operating profits, especially when considered against the background of its receivership. It now operates with a significantly lower overhead base and its daily output is higher than under previous ownership with an increased contribution from the overseas manufacturing facilities.

We expect to report continued progress in the current financial year.

Adrian Girling
Executive Chairman

29 June 2004

Directors and Professional Advisers

Directors	**Adrian C. N. Girling,** M.A. Oxon *Executive Chairman* aged 52, is a Chartered Engineer and Fellow of the Institute of Electrical Engineers. He joined the Company in January 2003 having previously held a senior position at Spirent Plc. **Christopher M. Leigh,** B.A. (Hons)., F.C.A., *Group Finance Director* aged 44, is a Chartered Accountant with 20 years post qualification experience. He trained with a large city practice and spent time in industry carrying out projects in the UK and abroad before joining Elektron in 1990. **Keith A. Daley,** M.A. Cantab *Non-Executive Director* aged 49, trained as a Corporate banker. For the past 18 years he has been an active professional investor specialising in the shares of small quoted companies. He has owned a number of small businesses and also invests in the unquoted sector. He has been a shareholder in Elektron since 1996.	
Company Secretary	**Christopher M. Leigh,** B.A. (Hons)., F.C.A.	
Registered Office	Alfreds Way Barking Essex IG11 0AZ	
Registered in England	No. 448274	
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	
Nominated Adviser & Nominated Broker	Beaumont Cornish Limited 63 Coleman Street London EC2R 5BB	The Share Centre Limited PO Box 2000 Aylesbury Buckinghamshire HP21 8ZB
Auditors	Bright Grahame Murray Chartered Accountants and Registered Auditors 124/130 Seymour Place London W1H 1BG	
Bankers	Fortis Bank S.A./N.V. Camomile Court 23 Camomile Street London EC3A 7PP	
Solicitors	Wollastons Brierly Place New London Road Chelmsford Essex CM2 0AP	

Report of the Directors

The Directors present their Annual Report on the affairs of the Group together with the audited financial statements for the year ended 31 January 2004.

Activity

The principal activity of the Group is the design and manufacture of electronic and electromechanical components. The Group also operates a business which trades electronic components. The principal operating subsidiaries are listed in Note 15.

Business review and future developments

A review of the business for the year and comments on future developments are contained in the Chairman's Statement, on pages 2 to 4.

Results and dividends

The profit for the year after taxation was £1,306,000 *(2003: loss £3,252,000)* and the Directors are not recommending the payment of a final dividend *(2003: Nil)*. The profit of £1,306,000 is to be transferred to reserves *(2003: £3,218,000 met from reserves)*.

Research and development

The Board considers that research and development continues to play a vital role in maintaining and increasing the Group's competitive position in the market. Details are set out in Note 5 to the financial statements.

Directors and their interests

The Directors at 31 January 2004 together with their interests in the Company's Ordinary shares of 5p each were:

	At 31 January 2004	At 1 February 2003 or date of appointment
Beneficial interests		
A.C.N. Girling	**351,562**	351,562
C.M. Leigh	**44,000**	44,000
Non-beneficial interests		
C.M. Leigh and A.C.N. Girling	**364,500**	364,500

K. A. Daley was appointed a Director on 2 February 2004 at which time he had a beneficial interest in 2,260,000 Ordinary shares of 5p each and a non-beneficial interest of 181,818 Ordinary shares of 5p each.

R.A. Bulgin ceased to be a director on 11 December 2003 and B. Emerson resigned as a director on 31 May 2003.

Purchase of own shares

During the year the Group purchased 300,000 Elektron Plc ordinary shares of 5p each, representing 0.4% of the issued share capital, held in an employee benefit trust. The market value at 31 January 2004 was £27,000 and the cost £20,000.

Report of the Directors

Executive share option schemes

(i) At 31 January 2003 C.M. Leigh was the only Director who held options under the Bulgin Plc executive share option scheme approved by shareholders in 1992 to subscribe for Ordinary shares of 5p each pursuant to the rules of the scheme. At 31 January 2003 he had options to acquire 40,000 Ordinary shares of 5p each, exercisable at 9p per share. These options lapsed on 28 June 2003.

No options were granted or exercised during the year and the scheme has now lapsed.

(ii) On 17 January 2001 the shareholders, in General Meeting, approved the adoption of a new Executive Share Option Scheme.

On 26 February 2001, Mr C.M. Leigh was granted options to purchase 500,000 Ordinary shares of 5p each at an adjusted price of 15.35p per share.

These options are exercisable after three years but before ten years from the date of granting. On 1 April 2004, Mr A.C.N. Girling was granted options to purchase 1,000,000 Ordinary shares of 5p each at 15.35p per share.

The middle market price of the Ordinary shares at 31 January 2004 was 8.84p per share and the range during the year was 1.12p to 9.25p per share.

Share capital

Details of share capital are given in Note 22 to the financial statements.

Charitable and political donations

The Group made no charitable or political contributions during the year.

Supplier payment policy

The Group applies a policy of agreeing the terms of payment as part of the commercial arrangement negotiated with suppliers. It is Group policy that payments to suppliers are made in accordance with those terms, provided that suppliers also comply with all relevant terms and conditions. The average creditor days in the year for the Group were 42 and for the Company were nil.

Employees

All employees receive equal opportunities for training and career development. The sole criterion for selection and promotion is the individual's suitability for the position of employment offered. The Group supports the employment of disabled persons wherever appropriate. Each individual operating Company within the Group operates its own communication and consultative programmes relevant to its own particular workforce.

Corporate governance

Whilst there is currently no requirement for AIM companies to comply with current corporate governance guidelines, the Board believes that it is appropriate to comply with those provisions in-so-far as they are appropriate for a company of this size.

Directors

(i) *The Board*

The Board consists of an Executive Chairman, incorporating the role of Chief Executive, a Finance Director and one Non-Executive Director and their biographies appear on page 5. These indicate the level and range of business experience which, the Board believes, enables it to provide clear and effective leadership of the Company.

Report of the Directors

The Board meets at least 10 times each year and more frequently where business needs require. The Board has a schedule of matters reserved to it for decision and the requirement for Board approval on those matters is known to senior management within the Group. This includes subjects such as material capital and revenue commitments, business acquisitions and disposals and appointments to the Boards of subsidiary companies.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. In addition, each Director has access to the services of the Company Secretary. The Secretary is charged by the Board with ensuring that all relevant regulations are complied with.

(ii) *Chairman and Chief Executive*
The differing roles of Chairman and Chief Executive are acknowledged by the Board but in a company of this size it is felt inappropriate to incur the cost of employing a separate Chairman.

(iii) *Remuneration and Audit Committees*
Mr Keith A. Daley, as Non-Executive Director, forms the remuneration and audit committees. Board remuneration is recommended by him but is agreed by the Board excluding the Director whose pay is under review. Audit matters are reviewed by him.

(iv) *Supply of Information*
To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information.

The agenda for regular Board Meetings includes an Executive Chairman's report and a Finance Director's report together with documents regarding specific matters.

(v) *Appointments to the Board*
The Board does not consider it appropriate to appoint a nomination committee given the Board is small in number. It is the Board's policy to encourage each member to meet individually and collectively with prospective Directors.

(vi) *Re-appointment*
Any Director appointed during the year is required, in accordance with the Company's articles of association, to retire and seek appointment by shareholders at the next annual general meeting. The articles also require that one third of the Directors (excluding the Executive Chairman) retire by rotation each year and seek re-appointment at the annual general meeting.
The Directors required to retire will be those who have been longest in office since their last appointment or re-appointment.

Directors' remuneration

(i) *Executive remuneration*
Details of Directors' remuneration are contained in Note 9 of the financial statements.

Communication with shareholders

(i) *Dialogue*
The Company places a great deal of importance on constructive communication with its shareholders.

(ii) *Use of the AGM*
All shareholders have the opportunity to put questions at the Company's Annual General Meeting. In view of the low number of attendees at general meetings the Board does not propose making formal business presentations but instead will allow time for informal discussion after the conclusion of formal proceedings.

Report of the Directors

Accountability and audit

(i) *Internal financial control*

The Board of Directors has overall responsibility for the Group's system of internal financial control, which is designed to provide reasonable, but not absolute, assurance against material mis-statement or loss.

The key procedures that are in place are:

- a comprehensive budgeting system including reviews at operating unit level and formal reviews and approvals of the annual budget by the Directors;
- monitoring of actual results and comparison to budget for each operating unit on a monthly basis;
- a clearly defined organisation structure within which individual responsibilities are identified and can be monitored;
- defined procedures for the appraisal, review and authorisation of capital and major revenue and development expenditure;

(ii) *Financial reporting*

It is the Board's responsibility to always present a balanced assessment of the Company's position and prospects. The respective responsibilities of the Directors and the auditors in connection with these financial statements are explained on pages 10 and 11. The Directors' report on the business as a going concern is given below.

Going concern

After making due enquiries, the Directors formed a judgement when approving the financial statements that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Post Balance Sheet Events

Details are given in Note 34 to the financial statements.

Auditors

Bright Grahame Murray have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The notice of the Annual General Meeting is on page 34 and includes four resolutions relating to special business that allow for the increase of the authorised share capital, the allotment of unissued share capital for acquisitions, the issue of up to 5% of the current issued share capital without pre-emption rights and the purchase of up to 14.99% of the Company's shares on-market.

These resolutions will assist the Board in pursuing its stated objectives of acquiring complementary businesses as well as enabling it to potentially increase earnings per share should the share price not reflect the underlying value of the business.

By order and on behalf of the Board

C. M. Leigh
Company Secretary

29 June 2004

Alfreds Way
Barking
Essex IG11 0AZ

Statement of Directors' Responsibilities

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

– select suitable accounting policies and then apply them consistently;

– make judgements and estimates that are reasonable and prudent;

– state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements;

– prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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

Independent Auditors' Report

To the Members of Elektron Plc

We have audited the financial statements of Elektron Plc for the year ended 31 January 2004 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the note of historical cost profits and losses and the related notes. These financial statements have been prepared on the basis of 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 Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Directors and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 January 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Bright Grahame Murray
Chartered Accountants and Registered Auditors

124/130 Seymour Place
London W1H 1BG

29 June 2004

Group Profit and Loss Account

Year ended 31 January 2004

	Notes	2004 £'000	As restated 2003 £'000
Turnover – continuing operations	3	**8,730**	9,079
– acquisitions	3	**1,403**	–
		10,133	9,079
– discontinued operations	3	**1,850**	5,558
		11,983	14,637
Cost of sales	4	**(7,371)**	(9,550)
Gross profit		**4,612**	5,087
Net operating expenses	4	**(2,866)**	(6,919)
Operating profit/(loss) – continuing operations		**636**	(409)
– acquisitions		**160**	–
– negative goodwill release		**1,135**	–
		1,931	(409)
– discontinued operations		**(185)**	(1,423)
Operating profit/(loss)	5	**1,746**	(1,832)
Profit on disposal of freehold property		**–**	61
Loss on disposal/closure of discontinued operations	32	**(47)**	(1,440)
Profit/(loss) on ordinary activities before interest		**1,699**	(3,211)
Net interest payable	6	**(94)**	(155)
Profit/(loss) on ordinary activities before taxation		**1,605**	(3,366)
Taxation on (profit)/loss on ordinary activities	10	**(299)**	114
Profit/(loss) on ordinary activities after taxation		**1,306**	(3,252)
Minority interests – equity		**–**	34
Profit/(loss) attributable to shareholders	24	**1,306**	(3,218)
Dividends	11	**–**	–
Transfer to/(from) reserves	23	**1,306**	(3,218)
Earnings/(loss) per ordinary share – basic	12	**2.42p**	(6.18p)
– diluted	12	**2.42p**	(6.18p)
Earnings/(loss) per ordinary share before goodwill release/amortisation – basic	12	**0.63p**	(5.45p)
– diluted	12	**0.63p**	(5.45p)

Statement of Total Recognised Gains and Losses

Year ended 31 January 2004

	2004	2003
	£'000	£'000
Profit/(loss) attributable to shareholders	**1,306**	(3,218)
Currency translation differences on foreign currency net investments	**(20)**	–
Total recognised gains and losses for the financial year	**1,286**	(3,218)

Note of Historical Cost Profits and Losses

Year ended 31 January 2004

	2004	2003
	£'000	£'000
Reported profit/(loss) on ordinary activities before taxation	**1,605**	(3,366)
Realisation of property revaluations of previous years	**–**	985
Historical cost profit/(loss) on ordinary activities before taxation	**1,605**	(2,381)
Taxation on (profit)/loss on ordinary activities	**(299)**	114
Minority interests	**–**	34
Historical cost profit/(loss) for the year after taxation and dividends	**1,306**	(2,233)

Balance Sheets

As at 31 January 2004

		Group		Company	
		2004	2003	**2004**	2003
	Notes	**£'000**	£'000	**£'000**	£'000
Fixed assets					
Goodwill	13	**–**	413	**–**	–
Negative goodwill	13	**(1,257)**	–	**(515)**	–
Tangible assets	14	**3,149**	1,809	**–**	29
Investment in subsidiary undertakings	15	**–**	–	**3,536**	3,586
Investment in own shares	15	**20**	–	**–**	–
		1,912	2,222	**3,021**	3,615
Current assets					
Stocks	16	**2,605**	1,318	**–**	–
Debtors	17	**4,384**	2,445	**2,065**	401
Cash at bank and in hand	30	**1,123**	129	**213**	53
		8,112	3,892	**2,278**	454
Creditors: Amounts falling due within one year	18	**(4,659)**	(4,086)	**(1,782)**	(2,023)
Net current assets/(liabilities)		**3,453**	(194)	**496**	(1,569)
Total assets less current liabilities		**5,365**	2,028	**3,517**	2,046
Creditors: Amounts falling due after more than one year	19	**(1,318)**	(619)	**–**	(5)
Provisions for liabilities and charges	21(b)	**(708)**	(449)	**(120)**	(430)
Net assets		**3,339**	960	**3,397**	1,611
Capital and reserves					
Called up share capital	22	**3,730**	2,602	**3,730**	2,602
Share premium	23	**235**	270	**235**	270
Profit and loss account	23	**(626)**	(1,912)	**(568)**	(1,261)
Shareholders' funds	24	**3,339**	960	**3,397**	1,611

Approved by the Board and signed on its behalf by:

A. Girling

C.M. Leigh

Directors

29 June 2004

Group Cash Flow Statement

Year ended 31 January 2004

	Notes	2004 £'000	2003 £'000
Cash flow from operating activities	7	**209**	430
Returns on investments and servicing of finance			
Interest received		**4**	76
Interest paid		**(62)**	(224)
Interest element of hire purchase and finance lease payments		**(38)**	(60)
		(96)	(208)
Taxation			
UK Corporation tax (paid)		**(6)**	(30)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(83)**	(137)
Purchase of own shares		**(20)**	–
Proceeds of sale of freehold property		**–**	2,650
Proceeds of sale of tangible fixed assets		**47**	24
		(56)	2,537
Acquisitions and disposals			
Purchase of subsidiary undertaking	32	**(352)**	(178)
Cash acquired on acquisition		**70**	–
Overdraft acquired on acquisition		**(169)**	–
Working capital loan		**975**	–
Costs of acquisition		**(38)**	–
Cash disposed of on sale of subsidiary		**(1)**	–
Costs of disposal of subsidiary		**(36)**	–
Sale of business	32	**–**	75
		449	(103)
Net cash inflow before financing		**500**	2,626
Financing			
Issue of shares	22	**1,221**	–
Costs of issue		**(128)**	–
Loan notes		**–**	(625)
Debt due beyond a year:			
Capital element of loan repayments		**–**	(1,979)
Capital element of hire purchase and finance lease payments		**(328)**	(395)
Net cash inflow/(outflow) from financing		**765**	(2,999)
Increase/(decrease) in cash in the year	29	**1,265**	(373)

Notes to the Financial Statements

1. Accounting policies

The particular accounting policies adopted by the Directors are described below:

(a) Accounting convention
The financial statements are prepared in accordance with the historical cost convention and are in accordance with applicable Accounting Standards, except that disclosures required in respect of FRS 17 'Retirement Benefits' have not been made as they are not relevant to schemes in winding up.

(b) Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and all subsidiary undertakings drawn up to 31 January each year. The results of businesses acquired during the year are included from the effective date of acquisition. The results of businesses discontinued during the year are included until the date of disposal or closure. Details are given in note 32.

(c) Goodwill
Negative goodwill arising on consolidation represents the difference between the consideration given, over the fair value of the identifiable net assets acquired. It is the Group's policy to release negative goodwill in line with asset utilisation. Positive goodwill arising on consolidation represents the excess of the consideration given over the fair value of the identifiable net assets acquired. Having due regard to factors affecting the useful economic life of positive goodwill, it is the Group's policy to amortise goodwill over a period of five years.

(d) Development costs
All costs incurred on research and development are written off to the profit and loss account as incurred, unless such expenditure relates to a clearly defined project where the outcome both technically and commercially can be assessed with reasonable certainty.

Deferred costs are written off to the profit and loss account over a period of up to three years commencing from the date of commercial production of the products concerned.

(e) Tangible fixed assets
The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated on the cost or valuation of each tangible fixed asset individually on a straight line basis and is designed to write off the costs of the assets less any residual value over their estimated useful lives. The estimated useful lives are:-

Plant, equipment and tools	3 – 15 years
Motor vehicles	4 years
Fixtures and fittings	8 – 16 years
Leasehold improvements	Term of the lease

The Group's policy is to write off the book value of each tangible fixed asset evenly over its estimated remaining life. Reviews are made periodically of the estimated remaining lives of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear.

(f) Stocks
Stocks are valued at the lower of cost and net realisable value. Cost comprises all direct expenditure and, where appropriate, production overheads based on the normal level of activity. Where necessary, provision is made for obsolete, slow moving and defective stocks.

(g) Leases
Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over their estimated useful lives. The finance charges are allocated in equal annual amounts over the lease term.

Operating lease rentals are written off as incurred.

(h) Deferred taxation
Full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date. Deferred tax assets are only recognised 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.

Notes to the Financial Statements

1. Accounting policies *(continued)*

(i) Foreign currency transactions
Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account. The results of overseas subsidiary undertakings are translated at the average rates of exchange ruling during the year. Exchange translation differences on consolidation in respect of foreign equity investments are taken to reserves.

(j) Pension costs
Full provision for any deficit on defined benefit schemes is made for schemes in winding up. Contributions to the defined contribution schemes are expensed as incurred.

2. Parent Company profit and loss account

As permitted by Section 230 of the Companies Act 1985 the profit and loss account of the Parent Company is not presented as part of these financial statements. The Parent Company's profit for the financial year amounted to £693,000 *(2003: loss £4,575,000)* before dividends to shareholders of £Nil *(2003: £Nil)*.

3. Turnover

The turnover, comprising amounts invoiced excluding value added tax, and the profit/loss on ordinary activities before taxation are attributable to the principal activity of the Group and originate in the United Kingdom, with the exception of turnover of £223,000 *(2003: £167,000)* and profits on ordinary activities before taxation of £61,000 *(loss: £146,000)* which originate from North America.

Group turnover by geographical destination is analysed below:

	2004			As restated 2003	
	Acquisitions	**Continuing**	**Discontinued**	Continuing	Discontinued
	£'000	**£'000**	**£'000**	£'000	£'000
United Kingdom	**468**	**5,052**	**496**	5,397	3,445
Rest of Europe	**442**	**2,175**	**683**	621	1,319
North America	**200**	**801**	**164**	2,525	539
Rest of World	**293**	**702**	**507**	536	255
	935	**3,678**	**1,354**	3,682	2,113
	1,403	**8,730**	**1,850**	9,079	5,558

4. Cost of sales and net operating expenses

	2004			As restated 2003		
	Continuing	**Discontinued**	**Total**	Continuing	Discontinued	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Cost of sales	**6,136**	**1,235**	**7,371**	5,515	4,035	9,550
Net operating expenses						
Distribution costs	**1,088**	**68**	**1,156**	968	367	1,335
Administrative expenses	**2,113**	**561**	**2,674**	3,005	2,198	5,203
Operating expenses	**3,201**	**629**	**3,830**	3,973	2,565	6,538
Goodwill	**(1,135)**	**171**	**(964)**	–	381	381
	2,066	**800**	**2,866**	3,973	2,946	6,919

The total figures for continuing operations include the following amounts relating to acquisitions; cost of sales £911,000, gross profit £492,000, distribution costs £72,000 and administrative expenses of £260,000.

Notes to the Financial Statements

5. Operating profit/(loss)

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

	2004 £'000	2003 £'000
Negative goodwill release	**(1,135)**	–
Amortisation of goodwill	**171**	381
Depreciation on owned tangible fixed assets	**372**	594
Depreciation on tangible fixed assets held under finance leases	**158**	156
Research and development expenditure		
– current year expenditure	**271**	375
Operating lease rentals		
– land and buildings	**311**	337
– plant and machinery	**3**	26
Auditors' remuneration – audit services	**57**	44
– non audit services	**27**	28
Profit on sale of fixed assets	**15**	–
Restructuring provisions	**(122)**	570
Pension scheme provisions	**–**	93
Provision for onerous lease	**–**	34

6. Net interest payable

	2004 £'000	2003 £'000
Bank overdrafts and loans wholly repayable within five years	**58**	171
Finance leases and hire purchase contracts	**37**	60
Other similar charges	**3**	–
	98	231
Interest receivable	**(4)**	(76)
	94	155

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

	2004 £'000	2003 £'000
Operating profit/(loss)	**1,746**	(1,832)
Amortisation of goodwill	**171**	381
Release of negative goodwill	**(1,135)**	–
Depreciation charges	**530**	750
Provision for exceptional administrative costs	**–**	248
Profit on disposal and write off of tangible fixed assets	**(15)**	(1)
Decrease in stocks	**324**	371
(Increase)/decrease in debtors	**(686)**	154
(Decrease)/increase in creditors	**(448)**	359
Exchange adjustments	**(20)**	–
Decrease in provisions	**(258)**	–
Cash flow from operating activities	**209**	430

Notes to the Financial Statements

8. Staff information (including Directors)

	2004 £'000	2003 £'000
Employee costs, including redundancy, were:		
Wages and salaries	**4,227**	5,944
Social security costs	**390**	482
Other pension costs excluding exceptional provisions (Note 28)	**215**	301
	4,832	6,727

The average monthly number of persons employed by the Group during the year was as follows:

	2004 No.	2003 No.
Administration and sales	**54**	74
Production	**237**	250
	291	324

9. Directors' remuneration

	2004 £'000	2003 £'000
Aggregate emoluments	**139**	404
Bonuses	**20**	–
Pension contributions	**15**	41
Sums paid to third parties for directors' services	**47**	27
Termination of executive employment contract	**–**	96
	221	568

Bonuses are payable by reference to individual Directors' contracts of employment and by reference to performance related targets. Pension contributions are to defined contribution schemes. Two Directors are accruing benefit under a defined contribution scheme *(2003: one director).*

The emoluments of the highest paid Director were £131,000 *(2003: £159,000)* and the Company made pension contributions of £14,000 *(2003: £14,000)* on his behalf.

10. Taxation on profit/(loss) on ordinary activities

(a) Analysis of charge/(credit) for the period

	2004 £'000	2003 £'000
Current taxation:		
UK Corporation Tax on profit/(loss) for the period	**256**	–
Adjustments in respect of previous periods	**–**	(31)
Foreign tax on income for the period	**11**	–
Total current taxation (Note 10(b))	**267**	(31)
Deferred taxation:		
Origination and reversal of timing differences	**32**	29
Adjustments in respect of previous periods	**–**	(112)
Total deferred taxation (Note 21)	**32**	(83)
Taxation on profit/(loss) on ordinary activities	**299**	(114)

10. Taxation on loss on ordinary activities *(continued)*

(b) **Factors affecting taxation charge/(credit) for the period**

The current taxation charge/(credit) differs from that resulting by applying the standard rate of corporation tax in the UK (30%) and is explained below:

	2004	2003
	£'000	£'000
Profit/(loss) on ordinary activities before taxation	**1,605**	(3,366)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% *(2003: 30%)*	**481**	(1,010)
Effects of:		
Expenses not deductible for tax purposes	**69**	161
Capital allowances	**10**	48
Other timing differences	**(26)**	(21)
Losses brought forward	**(374)**	(141)
Losses carried forward	**110**	374
Loss on disposal of subsidiary	**14**	–
Results of overseas subsidiaries	**(17)**	–
Inter company non trade debts written off	**–**	326
Unrelieved losses of business closures	**–**	81
Results of subsidiary in liquidation	**–**	(70)
Amounts written off investments	**–**	252
Adjustments to taxation charge in respect of previous periods	**–**	(31)
Current taxation (Note 10(a))	**267**	(31)

(c) **Factors that may affect future taxation charges**

Deferred taxation assets have not been recognised in respect of certain timing differences relating to capital losses and revenue losses as there is insufficient evidence that the assets will be recovered. The amount of assets not recognised in respect of capital losses is £55,000 *(2003: £55,000)* and in respect of revenue losses is £38,000 *(2003: £177,000)*. The assets would be utilised if the Company were to make a capital gain in future periods and the individual companies were to have future taxable income.

11. Dividends

	2004	2003
	£'000	£'000
Proposed dividend payable of Nil p *(2003: Nil p) per share*	**–**	–
Interim dividend paid of Nil p *(2003: Nil p)* per share	**–**	–
	–	–

12. Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the profit/(losses) attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The calculation of the diluted earnings/(loss) per share is based on the basic earnings/(losses) per share, adjusted to allow for the issue of shares on the assumed conversion of dilutive options. The options granted over ordinary shares are considered to be non-dilutive.

The adjusted earnings/(loss) per share has been provided in order that the effects of goodwill amortisation and negative goodwill releases on reported profit/(losses) can be fully appreciated.

The calculation of profit/(losses) is based on the profit/(loss) attributable to shareholders and is set out below:

	2004		2003	
	Profits £'000	**Per-share amount Pence**	Losses £'000	Per-share amount Pence
Profit/(loss) attributable to shareholders	**1,306**	**2.42**	(3,218)	(6.18)
Amortisation of goodwill	**171**	**0.32**	381	0.73
Release of negative goodwill	**(1,135)**	**(2.11)**	–	–
Adjusted profit/(loss) attributable to shareholders	**342**	**0.63**	(2,837)	(5.45)

The weighted average number of shares used in the calculations is set out below:

	2004		2003	
	Basic	**Diluted**	Basic	Diluted
Weighted average number of shares in issue				
– ordinary shares	**53,983,933**	**53,983,933**	52,034,443	52,034,443
– share options	**–**	**–**	–	–
	53,983,933	**53,983,933**	52,034,443	52,034,443
Earnings/(loss) per share – standard	**2.42p**	**2.42p**	(6.18p)	(6.18p)
– before goodwill amortisation/ negative goodwill release	**0.63p**	**0.63p**	(5.45p)	(5.45p)

13. Goodwill

	Group			*Company*
	Negative goodwill £'000	Goodwill £'000	Total £'000	Negative goodwill £'000
Cost				
At 1 February 2003	–	855	855	–
Negative goodwill additions	(2,392)	–	(2,392)	(975)
Disposals	–	(855)	(855)	–
At 31 January 2004	**(2,392)**	**–**	**(2,392)**	**(975)**
Amortisation				
At 1 February 2003	–	442	442	–
Charge for the year	–	171	171	–
Negative goodwill release for the year	(1,135)	–	(1,135)	(460)
Disposals	–	(613)	(613)	–
At 31 January 2004	**(1,135)**	**–**	**(1,135)**	**(460)**
Net book value				
At 31 January 2004	**(1,257)**	**–**	**(1,257)**	**(515)**
At 31 January 2003	–	413	413	–

Notes to the Financial Statements

14. Tangible fixed assets

Group	Leasehold Improvements	Plant and machinery	Equipment, fixtures, fittings and vehicles	Total
Cost or valuation	£'000	£'000	£'000	£'000
At 1 February 2003	35	4,229	1,830	6,094
Acquired with subsidiaries	3	2,072	71	2,146
Additions	–	65	18	83
Disposals	–	–	(94)	(94)
Disposed of with subsidiary	(32)	(354)	(267)	(653)
At 31 January 2004	**6**	**6,012**	**1,558**	**7,576**
Depreciation				
At 1 February 2003	16	2,876	1,393	4,285
Charge for the year	3	395	132	530
Disposals	–	–	(62)	(62)
Disposed of with subsidiary	(16)	(167)	(143)	(326)
At 31 January 2004	**3**	**3,104**	**1,320**	**4,427**
Net book value				
At 31 January 2004	**3**	**2,908**	**238**	**3,149**
At 31 January 2003	19	1,379	411	1,809
Assets held under finance leases and hire purchase contracts				
Net book value				
At 31 January 2004	**–**	**1,741**	**–**	**1,741**
At 31 January 2003	–	477	139	616

Company	Leasehold Improvements	Plant and machinery	Equipment, fixtures, fittings and vehicles	Total
Cost or valuation				
At 1 February 2003	2	–	118	120
Disposals	–	–	(52)	(52)
At 31 January 2004	**2**	**–**	**66**	**68**
Depreciation				
At 1 February 2003	2	–	89	91
Charge for the year	–	–	5	5
Disposals	–	–	(28)	(28)
At 31 January 2004	**2**	**–**	**66**	**68**
Net book value				
At 31 January 2004	**–**	**–**	**–**	**–**
At 31 January 2003	–	–	29	29
Assets held under finance leases and hire purchase contracts				
Net book value				
At 31 January 2004	**–**	**–**	**–**	**–**
At 31 January 2003	–	–	29	29

Notes to the Financial Statements

14. Tangible fixed assets *(continued)*

Assets acquired with subsidiaries represent the fair value of assets purchased from the Receivers of Arcolectric Holdings Plc and Arcolectric Switches Plc on 23 December 2003. The valuations, have been prepared by the Directors taking into account the wear and the estimated useful lives of those assets.

15. Investment in subsidiary undertakings and own shares

	Company	
	2004	2003
	£'000	£'000
At 1 February	**3,586**	5,885
Additions	**1,261**	359
Provisions on disposal/closure	**–**	(2,495)
Impairment	**–**	(163)
Disposals	**(1,311)**	–
At 31 January	**3,536**	3,586

The following principal subsidiary undertakings are all wholly owned and operated primarily during the year in the country of incorporation except for Arcolectric Switches (Hong Kong) Limited which operated in China.

Company	*Principal activity*	*Country of Incorporation*
Bulgin Components Plc	Design and manufacture of electromechanical components	England
Arcolectric Limited	Design and manufacture of electromechanical components	England
Arcolectric Corporation	Sale of electromechanical components	U.S.A.
Arcolectric Tunisie Sarl	Manufacture of electromechanical components	Tunisia
Arcolectric Switches (Hong Kong) Ltd	Manufacture of electromechanical components	Hong Kong
BP Purchasing (Electronics) Limited	Sourcing and supply of electronic and electromechanical components	England
Milmega Ltd (sold 3 February 2004)	Design and manufacture of solid state microwave amplifiers	England

The Group held 300,000 of its own ordinary shares of 5p each at 31 January 2004 *(2003: £ Nil)* which were purchased during the year for an employee benefit trust.

16. Stocks

	Group	
	2004	2003
	£'000	£'000
Raw materials	**1,535**	921
Work in progress	**422**	207
Finished goods and goods for resale	**648**	190
	2,605	1,318

17. Debtors

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Trade debtors	**2,809**	2,093	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**1,010**	384
Other debtors	**1,267**	55	**972**	11
Prepayments	**148**	134	**6**	6
Deferred taxation (Note 21(a))	**160**	163	**77**	–
	4,384	2,445	**2,065**	401

The recoverability of the deferred taxation asset is dependent on future taxable profits in excess of those arising from the reversal of deferred taxation liabilities. Deferred taxation assets have only been recognised for companies with a past history of profitable trends where there is persuasive and reliable evidence in the form of management accounts and financial projections that trading profits are anticipated to arise in the year to 31 January 2005.

Included within other debtors is an amount of £200,000 due after more than one year.

18. Creditors: Amounts falling due within one year

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Bank overdrafts and invoice discounting facilities (Note 20(a))	**824**	1,095	**–**	51
Obligations under finance leases and hire purchase contracts	**721**	275	**–**	17
Trade creditors	**1,308**	982	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**1,526**	1,459
Corporation tax	**267**	6	**–**	–
Other taxes and social security costs	**320**	765	**15**	114
Other creditors	**471**	251	**36**	55
Accruals & deferred income	**748**	712	**205**	327
	4,659	4,086	**1,782**	2,023

19. Creditors: Amounts falling due after more than one year

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Obligations under finance leases and hire purchase contracts	**1,229**	310	**–**	5
Other creditors	**89**	309	**–**	–
	1,318	619	**–**	5

20. (a) Borrowings

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Bank overdrafts and invoice discounting facilities	**824**	1,095	**–**	51
Obligations under finance leases and hire purchase contracts	**1,950**	585	**–**	22
	2,774	1,680	**–**	73
Due within one year	**1,545**	1,370	**–**	68
Due after more than one year	**1,229**	310	**–**	5
	2,774	1,680	**–**	73
Analysis of repayments:				
Bank overdrafts and invoice discounting facilities:				
Within one year	**824**	1,095	**–**	51
Finance leases and hire purchase contracts:				
Within one year	**721**	275	**–**	17
In two to five years	**1,229**	310	**–**	5
	1,950	585	**–**	22
	2,774	1,680	**–**	73

Invoice discounting facilities of £824,000 are secured by debentures over the assets of the Group.

(b) Financial assets and liabilities

As permitted by FRS13 the Company has chosen to exclude short term debtors and creditors when disclosing details of financial instruments.

(i) Financial instruments

The Group's financial instruments comprise borrowings, cash at bank and in hand and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of these instruments is to raise finance for operations. The Group has not entered into derivatives transactions nor does it trade in financial instruments as a matter of policy. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board's policy on each is described below and has not changed since 2003. Operations are financed through working capital management and short term flexibility is achieved by invoice discounting facilities.

Treasury matters are dealt with on a Group basis and are approved by the Main Board. At 31 January 2004 gross gearing on tangible net assets was 60% *(2003: 307%)*.

Export turnover for the year accounted for 50% *(2003: 40%)* of sales. Un-hedged exposure in respect of sales and purchases has not led to material exchange gains or losses.

(ii) Financial assets: excluding debtors due within one year

The only financial asset held is cash at bank and in hand. The balances as at 31 January are detailed below:

	2004 £'000	2003 £'000
Sterling accounts	**849**	71
US Dollar accounts	**145**	58
Tunisian Dinar accounts	**98**	–
Euro accounts	**9**	–
Hong Kong Dollar accounts	**22**	–
	1,123	129

20. (b) Financial assets and liabilities *(continued)*

(iii) Financial liabilities: excluding non-debt current liabilities
The only financial liabilities of the Group which are subject to interest charges are invoice discounting facilities, overdrafts and obligations under finance leases and hire purchase contracts. All borrowings attracted interest at variable rates.

At 31 January the interest rate profile of the Group's financial liabilities was as follows:

	2004	2003
	£'000	£'000
Floating rate financial liabilities	**2,774**	1,680

(iv) Maturity
The maturity profile is shown in Note 20 (a) above.

(v) Fair value of financial assets and liabilities
The fair value of financial assets and liabilities is not significantly different from their book value.

(vi) Committed undrawn borrowing facilities
At the year end the Group had committed undrawn facilities of £1,216,000 *(2003: £596,000)* which related to invoice discounting facilities repayable on demand in the event of any breaches in the covenants given by the Group.

(c) Currency risk

The Group has transactional currency exposure arising from normal trading activity. Such exposure arises from sales and purchases in currencies other than sterling. The Group does not trade in derivatives or make speculative hedges.

At 31 January 2004 the Group had no commitment under non-cancellable forward contracts *(2003: £Nil)*.

The Group's currency exposure being those transactional exposures that give rise to net currency gains and losses recognised in the profit and loss account, after taking account of forward contracts where appropriate, was as follows:

	2004			2003		
	Cash at bank and in hand £'000	**Other net monetary assets/ (liabilities) £'000**	**Total £'000**	Cash at bank and in hand £'000	Other net monetary assets/ (liabilities) £'000	Total £'000
US dollar	145	–	145	58	–	58
Euro	9	–	9	–	–	–
Tunisian Dinar	98	–	98	–	–	–
Hong Kong Dollar	22	–	22	–	–	–
	274	–	274	58	–	58

21. Provisions for liabilities and charges

(a) Deferred taxation:

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
At 1 February	**(163)**	(80)	**–**	106
Transfer from/(to) profit and loss account (Note 10)	**32**	(83)	**(77)**	(106)
Released on disposal of subsidiary	**(29)**	–	**–**	–
Asset at 31 January	**(160)**	(163)	**(77)**	–

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Accelerated capital allowances	**32**	78	**(5)**	–
Short term timing differences	**(121)**	(140)	**(1)**	–
Taxation losses carried forward	**(71)**	(101)	**(71)**	–
Undiscounted asset for deferred taxation	**(160)**	(163)	**(77)**	–

The deferred taxation asset is disclosed within debtors (Note 17).

(b) Other:

	Liabilities on acquisition £'000	Warranty costs £'000	Vacant properties £'000	Restructuring costs £'000	Total £'000
Group:					
At 1 February 2003	–	19	313	117	449
Utilised in the year	–		(107)	(82)	(189)
Released on disposal of subsidiary	–	(19)	–	–	(19)
Charged/(released) to profit and loss account	52	–	(122)	1	(69)
Charged to goodwill on acquisition	536	–	–	–	536
At 31 January 2004	**588**	**–**	**84**	**36**	**708**
Company:					
At 1 February 2003	–	–	313	117	430
Utilised in the year	–	–	(107)	(82)	(189)
(Released)/charged to profit and loss account	–	–	(122)	1	(121)
At 31 January 2004	**–**	**–**	**84**	**36**	**120**

The warranty provision related to sale of product from Milmega and cost of any remedial work required under its normal terms and conditions of sale. Following disposal of Milmega the provision is no longer required.

The provision for vacant properties comprises the head-office leasehold premises and the leasehold premises from which Bulgin Power Source operated. Provision has been made for costs up to and including disposal of the properties in 2004.

The restructuring costs relate to a parental guarantee given by Elektron to a customer of Bulgin Power Source for the performance and technical support of certain power supplies. This remains in force until 2010 and full provision has been made.

The liabilities on acquisition provision relates to the fair valuing of assets and liabilities following the purchase of the business of Arcolectric Switches Plc and the purchase of the share capital of Arcolectric Holdings Incorporated, Arcolectric Switches (Hong Kong) Limited and Arcolectric Tunisie Sarl on 23 December 2003. Detailed information has not been disclosed as to do so may prejudice the position of the Group.

Notes to the Financial Statements

22. Called-up share capital

	2004	2003
	£'000	£'000
Authorised		
100,000,000 *(2003: 100,000,000)* Ordinary shares of 5p each	**5,000**	5,000
Allotted, called up and fully paid		
74,608,078 *(2003: 52,034,443)* Ordinary shares of 5p each	**3,730**	2,602

Options on 123,334 Ordinary shares of 5p each under the Bulgin Plc Executive Share Option Scheme lapsed on 28 June 2003. No options were exercised during the year.

At 31 January 2004 under the Elektron Plc Executive Share Option Scheme, there were unexercised options on 1,750,000 *(2003: 3,725,000)* Ordinary shares of 5p each. These options are exercisable after three years but before ten years from the date of granting in whole or in part at a price of 15.35p per share.

At 31 January 2004 Mr J. Kinder held an option to sell Riveroak Limited to Elektron for a consideration of 4 million ordinary shares of 5p each, to be issued at par. Riveroak Limited is a company with an issued share capital of £200,000. The acquisition is contingent upon Mr. Kinder exercising an option to complete the transaction prior to 11 July 2005 and upon Riveroak Limited having cash, at the time of the acquisition, of £200,000 and having not traded since incorporation.

During the year 4,000,000 ordinary shares of 5p each were issued for the acquisition of Eastchart Limited; 9,090,909 ordinary shares of 5p each were issued for the acquisition of Aridmark Limited and 9,482,726 ordinary shares of 5p were issued for the acquisition of Inhoco 3013 Limited. Details are given in note 32.

23. Reserves

Group	*Share premium* £'000	*Profit and loss account* £'000
At 1 February 2003	270	(1,912)
Transfer from profit and loss account	–	1,306
Premium on issue of shares	93	–
Costs of issue	(128)	–
Exchange differences	–	(20)
At 31 January 2004	**235**	**(626)**

Company		
At 1 February 2003	270	(1,261)
Transfer from profit and loss account	–	693
Premium on issue of shares	93	–
Costs of issue	(128)	–
At 31 January 2004	**235**	**(568)**

24. Reconciliation of movement in shareholders' funds

	2004	2003
	£'000	£'000
Profit/(loss) attributable to shareholders	**1,306**	(3,218)
Issue of shares, net of costs	**1,093**	–
Exchange differences	**(20)**	1
Net increase/(decrease) in shareholders' funds	**2,379**	(3,217)
Opening shareholders' funds	**960**	4,177
Closing shareholders' funds – equity	**3,339**	960

25. Capital commitments

Expenditure contracted but not provided for in the financial statements amounted to £68,000 *(2003: £Nil)*.

26. Lease commitments

At 31 January 2004 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		*Other*	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Expiring between two and five years	**930**	96	**19**	19
Expiring after five years	**50**	273	**–**	–
	980	369	**19**	19

The Company has annual commitments under non-cancellable operating leases of £120,000 *(2003: £120,000)* in respect of land and buildings and £nil *(2003: £nil)* in respect of other. Since the year end the Company's commitments in respect of land and buildings have been reduced to nil.

27. Contingent liabilities

The Company has composite banking arrangements with subsidiary undertakings which are limited to the amount standing to the credit of its own bank account.

28. Pension schemes

(i) Defined contribution schemes

The Group operates a group personal pension plan for all qualifying employees.

Contributions to the Group Personal Pension Plan and to other Personal Pension Plans are charged to the profit and loss account as they become payable. The pension cost charge for the year was £214,000 *(2003: £301,000)* and outstanding contributions at the year-end amounted to £16,000 *(2003: £16,000).*

(ii) Defined benefit schemes

The Group operated two defined benefit schemes for qualifying employees. Contributions were assessed in accordance with the advice of independent qualified actuaries.

The Bulgin Components scheme was put into winding up as of 21 September 01. Form GN19 was issued on 26 March 2003. The market value of the assets was £1,405,000, the present value of the scheme liabilities £2,055,000 and the consequent Minimum Funding Requirement ("MFR") deficit £650,000.

The Cirkit Holdings scheme was put into winding up on 15 April 02 at which time the Actuary calculated the market value of the assets to be £674,000, the present value of the scheme liabilities to be £739,000 and the consequent MFR deficit to be £65,000.

As stated in the accounting policies note, full provision is made for any MFR deficit. Following contributions since 21 September 2001 the MFR deficit of the Bulgin Components scheme has been reduced to £301,000. Provisions of £301,000 and £65,000 are included in creditors as at 31 January 2004 for the deficit in the Bulgin Components and Cirkit Holdings schemes respectively. The deficits are expected to be met by payments within two years.

The pension cost charge for the year was £nil *(2003: £93,000)*. The outstanding contributions at the year-end amounted to £nil *(2003: £Nil).*

The profit and loss account charge for pension costs and the disclosures above are given on the basis of SSAP 24, which has been replaced by FRS 17.

FRS 17 require disclosure of assets and liabilities as at 31 January 2004 calculated in accordance with the requirements of FRS 17. However, these disclosures have not been made as they are not relevant to schemes in winding up.

Notes to the Financial Statements

29. Reconciliation of net cash flow to movement in net debt

	2004 £'000	2003 £'000
Increase/(decrease) in cash in the year	**1,265**	(373)
Cash outflow from (increase)/decrease in net debt and lease financing	**328**	2,999
Change in net debt resulting from cash flows	**1,593**	2,626
Finance lease and hire purchase agreements surrendered	**–**	57
Acquisitions	**(1,693)**	–
Movement in net debt in the year	**(100)**	2,683
Net debt at 1 February (Note 30)	**(1,551)**	(4,234)
Net debt at 31 January (Note 30)	**(1,651)**	(1,551)

30. Analysis of net debt

	As at 1 February 2003 £'000	*Cash flow £'000*	*Acquisitions £'000*	**As at 31 January 2004 £'000**
Cash at bank and in hand	129	994	–	**1,123**
Bank overdrafts	(1,095)	271	–	**(824)**
	(966)	1,265	–	**299**
Finance leases and hire purchase contracts	(585)	328	(1,693)	**(1,950)**
Net debt	(1,551)	1,593	(1,693)	**(1,651)**

31. Major non-cash transactions

During the year the Group entered into finance lease and hire purchase arrangements in respect of fixed assets with a total capital value at the inception of these agreements of £1,441,000 exclusive of VAT *(2003: £Nil)*.

32. Disposals and acquisitions

(a) Disposals

	2004 £'000	2003 £'000
Consideration (net of expenses)	**911**	100
Warranty costs	**–**	(25)
Net consideration	**911**	75
Net assets disposed of	**(716)**	(685)
Goodwill written off	**(242)**	(830)
Loss on disposal	**(47)**	(1,440)
Satisfied by:		
Cash	**661**	100
Loan notes	**250**	–
	911	100

Cash in respect of the sale of Milmega Limited was received on 3 February 2004.

32. Disposals and acquisitions *(continued)*

(a) Disposals *(continued)*

Milmega Limited was sold to Frameflair Limited as a management buyout on 3 February 2004. The disposal has been treated as an adjusting post balance sheet event.

The Loan Notes are repayable in tranches. £50,000 is repayable on 31 January 2005, £100,000 is repayable on 31 January 2006 and the balance of £100,000 is repayable on 31 January 2007. The Loan Notes bear interest at base lending rate plus 2 per cent per annum payable quarterly in arrears.

At the option of Frameflair, repayment of the Loan Notes may be deferred providing certain net asset conditions are met but not beyond 31 January 2009. In the event of deferral, interest is payable at base lending rate plus 10% per annum payable quarterly in arrears. The Loan Notes are secured by a second charge over the assets of Milmega and Frameflair.

(b) Acquisitions

(i) On 23 December 2003, Elektron acquired from the Receiver of Arcolectric Switches Plc ("Switches") and the Receiver of Arcolectric Holdings Plc:

- the plant, machinery, fixtures, fittings, tooling and stocks sufficient to continue the business of Switches. Switches reported an operating profit of £19,000 on turnover of £13.9 million in its last audited accounts to 31 December 2001. Unaudited accounts for the year ended 31 December 2002 showed an operating loss of £242,000 on sales of £14.2 million. In the ten months to 31 October 2003, Switches management accounts showed an operating loss of £1.4 million on sales of £12.3 million. The Receiver reduced Switches' annual salary costs by £2.0 million.
- the entire issued share capital of Arcolectric Holdings (US) Inc, which distributes switches in the USA. In the year ended 31 December 2002 it recorded operating profits of US$391,000 on sales of US$4.4 million. In the period to 23 December 2003 unaudited accounts showed a profit after tax of US$328,000 on sales of US$4.6 million after the release of US$200,000 due to Arcolectric Holdings Plc and payment of a legal settlement of US$205,000.
- 99 per cent. of the share capital of Arcolectric Tunisie Sarl which manufactures switches in Tunisia. In the year ended 31 December 2002 audited accounts showed a loss after taxation of TND31,000. Unaudited accounts to 23 December 2003 show a loss after tax of TND263,000 including the release of TND212,000 due to Arcolectric Switches Plc.
- an option to purchase 100 per cent. of Arcolectric Switches (Hong Kong) Limited which manufactures switches in China. The option was exercised on 19 January 2004. For the 21 months to 31 December 2002 audited accounts showed a loss after taxation of HK$3.2 million. Audited accounts to 31 December 2003 showed a loss after taxation of HK$1,633,000 and for the period to 19 January 2004 a profit after tax of HK$3,879,000 including release of indebtedness due to Arcolectric Switches Plc of HK$3,996,000.

The following table summarises the adjustments made to book value of the major category of assets and liabilities acquired to arrive at the fair values included in the consolidated financial statements at the date of acquisition.

	Book amount £000	Revaluation £000	Fair value £000
Tangible fixed assets	6,044	(3,898)	2,146
Stocks	2,349	(287)	2,062
Debtors	376	245	621
Cash at bank and in hand	70	–	70
Bank overdraft	(169)	–	(169)
Creditors	(649)	(45)	(694)
Lease finance debt	(1,441)	(252)	(1,693)
Provisions	–	(536)	(536)
Working capital loan	975	–	975
	7,555	**(4,773)**	**2,782**
Cash consideration			(352)
Negative goodwill			**2,430**

Notes to the Financial Statements

(ii) On 28 November 2003 Elektron acquired Eastchart Limited from Mr. J. Kinder for a consideration of 4,000,000 Elektron ordinary shares of 5p each of the Company, pursuant to the five year authority granted by shareholders on 12 July 2000, issued at a price of 5p each. Eastchart Limited is a company with an issued share capital of £200,000 and cash of £200,000 and had not traded since incorporation.

(iii) On 23 December 2003 Elektron acquired Aridmark Limited from Panther Securities Plc for a consideration of 9,090,909 new Elektron ordinary shares of 5p each of the Company, pursuant to the five year authority granted by shareholders on 12 July 2000, issued at a price of 5.5p each. Aridmark Limited is a company with an issued share capital of £500,000 and cash of £500,000 and had not traded since incorporation.

(iv) On 29 December 2003 Elektron acquired Inhoco 3013 Limited for a consideration of 9,482,726 Elektron ordinary shares of 5p each of the Company, pursuant to the five year authority granted by shareholders on 12 July 2000, issued at a price of 5.5p each. Inhoco 3013 Limited is a company with an issued share capital of £521,550 and cash of £521,550 and had not traded since incorporation.

(v) Acquisition expenses totalling £38,000 in respect of the acquisitions of Eastchart Limited, Aridmark Limited and Inhoco 3013 Limited have been set-off against negative goodwill.

33. Related party transactions

(a) Details of investments in principal subsidiary undertakings are included in Note 15. In accordance with FRS 8, disclosure is not required of transactions and balances between Group companies where such transactions are eliminated on consolidation.

(b) Zybell Limited, a company of which Mr. A. Girling is a director and shareholder, charged fees of £47,000 *(2003: £4,000)* during the year in respect of services provided by him as Executive Chairman.

34. Post balance sheet events

(a) As described in note 32(a), Milmega Limited was sold on 3 February 2004.

(b) On 6 February 2004 Elektron acquired Lacepoint Limited from Mr A. S. Perloff for a consideration of 1,818,182 Elektron ordinary shares of 5p each of the Company, pursuant to the five-year authority granted by shareholders on 12 July 2000, to be issued at a price of 5.5p each. Lacepoint Limited is a company with an issued share capital of £100,000 and cash of £100,000 and had not traded since incorporation.

Group Five Year Record

	£'000				
	2004	As restated 2003	2002	2001	2000
Turnover – continuing operations	**10,133**	9,079	12,550	17,536	13,373
– discontinued operations	**1,850**	5,558	4,361	–	1,039
	11,983	14,637	16,911	17,536	14,412
Profit/(loss) before taxation	**1,605**	(3,366)	(2,652)	905	665
Shareholders' net assets	**3,339**	960	4,177	5,694	4,518
Earnings/(loss) per share – basic	**2.42p**	(6.18p)	(4.49p)	1.35p	1.06p*
– basic before goodwill release/amortisation	**0.63p**	(5.45p)	(3.87p)	1.57p	1.06p*
Dividends per share	**Nil**	Nil	Nil	0.50p	0.41p*

* Including adjustment for the compensatory scrip issue at enfranchisement.

Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of the Company will be held in the premises of Arcolectric Limited, 61 Central Avenue, West Molesey, Surrey, KT8 2RF on Thursday, 30 September 2004 at 3 p.m. for the following purposes:

Ordinary business

1. To receive, consider and adopt the Directors' Report and financial statements for the year ended 31 January 2004 and the Auditors' Report thereon.

2. To re-appoint Mr K.A. Daley a Director of the Company.

3. To re-appoint Bright Grahame Murray as Auditors of the Company with effect from the conclusion of the meeting until the conclusion of the next general meeting at which financial statements are laid before the Company, and to authorise the Directors to fix their remuneration in respect of such period.

Special business

To consider and, if thought fit, to pass the following Resolutions of which those numbered 4 and 5 will be proposed as Ordinary Resolutions and those numbered 6 and 7 will be proposed as Special Resolutions:

4. THAT
the authorised share capital of the Company be increased from the sum of £5,000,000 to the sum of £10,000,000 divided into 200,000,000 Shares of 5p each by the creation of 100,000,000 Ordinary Shares of 5p each in the capital of the Company each ranking *pari passu* in all respects with the existing Ordinary Shares of 5p each in the capital of the Company.

5. THAT
(a) the Directors be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities (as defined in the said Section) up to an aggregate nominal amount of £6,178,500 such authority to expire five years from the date of this Resolution but to be capable of previous revocation or variation from time to time by the Company in general meeting and of renewal from time to time by the Company in general meeting for a further period not exceeding five years; and

(b) the Company may make any offer or agreement before the expiry of this authority that would or might require relevant securities to be allotted after this authority has expired and the Directors may allot relevant securities in pursuance of any such offer or agreement as if this authority had not expired; and

(c) all previous authorities to allot relevant securities conferred by resolution of the Company pursuant to Section 80 of the Companies Act 1985 or otherwise be and they are hereby revoked, but without prejudice to any allotment, offer or agreement made or entered into prior to the passing of this Resolution.

6. THAT
(a) subject to and conditional upon the passing of the foregoing Ordinary Resolution No. 5, the Directors be and they are hereby empowered pursuant to Section 95(1) of the Companies Act 1985 to allot equity securities (as defined in Section 94(2) to Section 94 (3A) of the Companies Act 1985) pursuant to the authority conferred by the foregoing Ordinary Resolution No. 5 above as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment provided that this power shall be limited:

(i) to the allotment of equity securities in connection with a rights issue in favour of the holders of Ordinary shares in the capital of the Company in proportion (as nearly as may be practicable) to their respective holdings of such shares but subject to such exclusions as the Directors may deem fit to deal with fractional entitlements or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange in any territory;

(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £186,520; and

(iii) to the sale of shares which is an allotment of equity securities by virtue of Section 94 (3A) of the Companies Act 1985.

(b) the power hereby conferred shall expire on the conclusion of the next Annual General Meeting following the date of this Resolution or such later date as the Company may by Special Resolution prescribe but may be previously revoked or varied by Special Resolution;

(c) the power hereby conferred shall enable the Company to make any offer or agreement that would or might require equity securities to be allotted after such power expires and the Directors may offer equity securities in pursuance of any such offer or agreement up to the maximum amount prescribed by paragraph (a) of this Resolution as if the power hereby conferred had not expired; and

(d) all previous powers to allot equity securities conferred by Resolution of the Company pursuant to Section 95 of the Companies Act 1985 be and are hereby revoked, but without prejudice to any allotment offer or agreement made or entered into prior to the passing of this Resolution.

7. THAT
the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of Ordinary Shares of 5p each in the capital of the Company (ordinary shares) and to hold any such ordinary shares so purchased as treasury shares (as defined in Section 162A of the Companies Act 1985) provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 11,183,750 representing 14.99 per cent of the Company's issued ordinary share capital at 31 January 2004;

(b) the minimum price, exclusive of any expenses, which may be paid for an ordinary share is 5p;

(c) the maximum price, exclusive of any expenses, which may be paid for any such ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which such share is contracted to be purchased;

(d) the authority hereby conferred shall expire on the earlier of 31 March 2006 or the close of the next annual general meeting of the Company.

(e) the Company may make a contract for the purchase of ordinary shares under this authority before the expiry of this authority which would or might be executed wholly or partly after the expiry of such authority, and may make purchases of ordinary shares in pursuance of such a contract as if such authority had not expired.

By order of the Board

C.M. Leigh 29 June 2004
Company Secretary

Alfreds Way
Barking
Essex IG11 0AZ

Notes

1. A holder of Ordinary shares is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him at the Meeting convened by the above Notice. A proxy need not be a member of the Company.
2. A form of proxy is attached. Completion of the form of proxy does not preclude a holder of Ordinary Shares from subsequently attending in person and voting at the Meeting convened by the above Notice.
3. In order to be valid and effective the form of proxy must be completed and signed and, together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power or authority, be deposited at the offices of Capita Registrars, Proxy Department, PO Box 25, Beckenham, Kent BR3 4BR as soon as possible and, in any event, so as to arrive not less than forty-eight hours before the time appointed for holding the Meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of the meeting or adjourned meeting, not less than twenty-four hours before the time appointed for the taking of the poll.
4. In the case of an individual, the form of proxy must be executed under the hand of the individual or his attorney authorised in writing. In the case of a corporation, the form of proxy must be executed under its common seal or under the hand of an officer, attorney or other person authorised to sign the same.

Shareholder Notes

Form of Proxy

ELEKTRON PLC
ANNUAL GENERAL MEETING

Please complete in BLOCK CAPITALS

I/We ....

of ....

being (an) Ordinary Shareholder(s) of Elektron Plc, hereby appoint the Chairman of the Meeting*

....

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at Arcolectric Limited, 61 Central Avenue, West Molesey, Surrey, KT8 2RF on Thursday, 30 September 2004 at 3 p.m. and at any adjournment thereof.

*If any other proxy is preferred please complete this line and strike out the words "the Chairman of the Meeting". Any alteration should be initialled by every signatory of this proxy.

I/We direct that my/our votes be cast on the Resolutions to be proposed as set out in the Notice convening the Meeting, as indicated by an "X" in the appropriate spaces below:

ORDINARY RESOLUTIONS:	FOR	AGAINST
1. To receive, consider and adopt the Directors' Report and Financial Statements.		
2. To re-appoint Mr K.A. Daley a Director.		
3. To re-appoint the auditors and authorise the Directors to fix their remuneration.		
4. To increase the authorised share capital to £10,000,000.		
5. To authorise the Directors to allot relevant securities up to a specified aggregate nominal amount.		
SPECIAL RESOLUTIONS:		
6. To authorise the Directors to allot equity securities up to an aggregate nominal amount of £186,520 for cash without offering the shares first to existing shareholders.		
7. To authorise the Company to purchase up to 14.99% of the issued share capital.		

If no indication is given your proxy will be deemed to have the authority to vote or abstain at his/her discretion on one or more of the Resolutions or any other business at the Meeting.

Date ....2004 Signature ....
(Please see note 2)

Notes:

1. To be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof must be completed and deposited at the address shown overleaf not less than 48 hours before the time appointed for holding the Meeting.
2. In the case of a corporation this form of proxy must be executed under its common seal or under the hand of an officer, attorney or other person authorised to sign it. Please also indicate the capacity in which it is signed.
3. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members in respect of the joint holding.
4. A proxy need not also be a member of the Company but must attend the Meeting in person to represent you.
5. Every alteration to this form must be initialled by every signatory.
6. Completion and return of a form of proxy does not prevent a holder of Ordinary shares from attending the Meeting and voting in person, in which case any votes cast by the proxy will be excluded.

SECOND FOLD

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FIRST FOLD

THIRD FOLD AND TUCK IN

Investor Information

Share price listings
Financial Times
The Times
Sunday Business

Current shareholdings over 3%

Mr. J. Kinder	13.53%
Panther Securities Plc	11.90%
Rathbone Nominees Limited	6.54%
Trustees of the AF Bulgin Settlements	8.25%
Mr. R.A.R. Bulgin	3.36%

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Printed by Folium www.folium.co.uk

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