Emrise CORP
Form 8-K/A
June 28, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 3 TO
FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) MARCH 18, 2005

EMRISE CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	001-10346	77-0226211
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

9485 HAVEN AVENUE, SUITE 100, RANCHO CUCAMONGA, CALIFORNIA 91730

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (909) 987-9220

NOT APPLICABLE

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (SEE General Instruction A.2. below):

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.01. COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS.

On March 1, 2005, Emrise Corporation ("Emrise") and XCEL Corporation Limited, a second-tier wholly-owned subsidiary of Emrise ("XCEL"), entered into an agreement ("Purchase Agreement") to acquire all of the issued and outstanding capital stock of Pascall Electronic (Holdings) Limited ("PEHL"). The closing of the purchase occurred on March 18, 2005. Emrise loaned to XCEL the funds that XCEL used to purchase PEHL. PEHL has one wholly-owned subsidiary, Pascall Electronics Limited ("Pascall"), which produces, designs, develops, manufactures and sells power supplies and radio frequency products for a broad range of applications, including in-flight entertainment systems and military programs.

Under the Purchase Agreement, XCEL purchased all of the outstanding capital stock of PEHL, using funds loaned to XCEL by Emrise. The purchase price for the acquisition totaled $9,669,000, subject to adjustments as described below, and included a $5,972,000 cash payment to PEHL's former parent, a $3,082,000 loan to PEHL and Pascall and approximately $615,000 in acquisition costs, as described below.

The initial portion of the purchase price was 3,100,000 British pounds sterling (approximately U.S. $5,972,000 based on the exchange rate in effect on March 18, 2005). The initial portion of the purchase price was paid in cash at the closing and is subject to upward or downward adjustment on a pound for pound basis to the extent that the value of the net assets of Pascall as of the closing date was greater or less than 2,520,000 British pounds sterling.

On May 6, 2005, Emrise submitted to Intelek Properties Limited (which is a subsidiary of Intelek plc, a London Stock Exchange public limited company, and is the former parent of PEHL), Emrise's calculation of the value of the net assets of Pascall as of the closing date, which Emrise believes slightly exceeded 2,520,000 British pounds sterling. Intelek Properties Limited has indicated that its own calculation exceeds Emrise's calculation by approximately 100,000 British pounds sterling (approximately U.S. $193,000 based on the exchange rate in effect on March 18, 2005). Emrise is working to resolve this discrepancy. Any payment relating to the increase or reduction of the purchase price based on the value of the net assets of Pascall will be due from XCEL or Intelek Properties Limited, as the case may be, within 14 days of the acceptance of the calculation. A default rate of interest equal to 3% above the base lending rate of Barclays Bank plc London will apply if the adjustment payment is not timely made. However, Emrise anticipates that any adjustment payment based on this calculation will not be material to Emrise's financial results and that it will be timely made. The purchase price is also subject to downward adjustments for any payments that may be made to XCEL under indemnity, tax or warranty provisions of the Purchase Agreement.

XCEL loaned to PEHL and Pascall at the closing 1,600,000 British pounds sterling (approximately U.S. $3,082,000 based on the exchange rate in effect on March 18, 2005) in accordance with the terms of a Loan Agreement entered into by those entities at the closing. The loaned funds were used to immediately repay outstanding intercompany debt owed by PEHL and Pascall to Intelek Properties Limited.

Emrise and Intelek plc have agreed to guarantee payment when due of all amounts payable by XCEL and Intelek Properties Limited, respectively, under the Purchase Agreement. Emrise and XCEL agreed to seek to replace the guaranty that Intelek Properties Limited has given to Pascall's landlord with a guaranty by Emrise, and XCEL has agreed to indemnify Intelek Properties Limited and its affiliates for damages they suffer as a result of any failure to obtain the release of the guarantee of the 17-year lease that commenced in May 1999. The leased property is a 30,000 square foot administration, engineering and manufacturing facility located off the south coast of England.

Intelek Properties Limited has agreed to various restrictive covenants that apply for various periods following the closing. The covenants include non-competition with Pascall's business, non-interference with Pascall's customers and suppliers, and non-solicitation of Pascall's employees. In conjunction with the closing, Intelek Properties Limited, Intelek plc, XCEL, and Emrise entered into a Supplemental Agreement dated March 18, 2005. The Supplemental Agreement provides, among other things, that an interest-free bridge loan of 200,000 British pounds sterling (approximately U.S. $385,000 based on the exchange rate in effect on March 17, 2005) that was made by Intelek Properties Limited to Pascall on March 17, 2005 would be repaid by Pascall by March 31, 2005. XCEL agreed to ensure that Pascall had sufficient funds to repay the bridge loan. The bridge loan was repaid in full by Pascall on the March 31, 2005 due date.

The following table summarizes the unaudited assets acquired and liabilities assumed in connection with this acquisition, including $615,000 in acquisition costs:

	Dollars in Thousands
Current assets..............................	$ 6,196
Property, plant and equipment...............	1,367
Intangibles, including goodwill.............	4,721
Total assets acquired.......................	12,284
Current liabilities.........................	2,535
Other liabilities...........................	80
Total liabilities assumed...................	2,615
Net assets acquired.........................	$ 9,669

The purchase price represented a significant premium over the recorded net worth of Pascall's assets. In determining to pay this premium, we considered various factors, including the opportunities that Pascall presented for us to add radiofrequency ("RF") components and RF subsystem assemblies to our product offerings, the marketing resources of Pascall in the United States power supplies market, and expected synergies between Pascall's business and our existing power supplies business.

In conjunction with the acquisition of Pascall, Emrise has selected a valuation firm to determine what portion of the purchase price should be allocated to identifiable intangible assets. The Company has considered whether the acquisition included various types of identifiable intangible assets, including trade names, trademarks, patents, covenants not to compete, customers, workforce, technology and software. Emrise has estimated that the Pascall trade name and trademark are valued at $50,000. Emrise has estimated that the covenants not to compete that were obtained from Pascall's former affiliates are valued at $100,000 in light of public statements made by those affiliates indicating that they were strategically exiting the power supply business, which Emrise believes result in a low probability that they would return to the power supply business absent the covenants not to compete. Emrise believes that no other identifiable intangible assets of significant value were acquired. The Company has not ascribed any value to Pascall's customer base because Emrise's

United Kingdom subsidiary, XCEL Power Systems, Ltd., already sells to Pascall's key customers. Pascall's workforce does not hold any special skills that are not readily available from other sources. Emrise did not identify any valuable completed technology that was acquired, because Pascall utilizes non-proprietary technology to produce custom power supplies pursuant to customer specifications. Pascall does not develop or design software and does not own software of any material value.

Accordingly, Emrise has estimated that the goodwill associated with the Pascall acquisition totaled $4,571,000. The Pascall trade name and trademark were determined to have indefinite lives and therefore are not being amortized but rather are being periodically tested for impairment. The covenants not to compete will be amortized over their three-year duration. The valuation of the identified intangible assets is expected to be completed during the quarter ending September 30, 2005 and could result in changes to the value of these identified intangible assets and corresponding changes to the value of goodwill. However, Emrise does not believe these changes will be material to its financial position or results of operations.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Businesses Acquired.

The following financial statements of PEHL and its subsidiary are included in this report:

REPORT OF THE INDEPENDENT AUDITORS

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF PASCALL ELECTRONIC (HOLDINGS) LIMITED

We have audited the consolidated balance sheets and the company balance sheets of Pascall Electronic (Holdings) Limited as at 18 March 2005 and 31 March 2004 and the consolidated profit and loss accounts and consolidated cash flows for the period from 1 April 2004 to 18 March 2005 and for the year ended 31 March 2004. These financial statements are the responsibility of Pascall Electronic (Holdings) Limited's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pascall Electronic (Holdings) Limited as at 18 March 2005 and 31 March 2004 and the results of its operations and its cash flows for the period from 1 April 2004 to 18 March 2005 and for the year ended 31 March 2004 in conformity with generally accepted accounting principles in the United Kingdom.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 29 to the financial statements.

/s/ GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

Northampton, England
27 June 2005

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	NOTE	PERIOD ENDED 18 MARCH 2005 (POUNDS)	YEAR ENDED 31 MARCH 2004 (POUNDS)
TURNOVER	2	5,577,648	6,650,278

Cost of sales		(4,864,212)	(5,642,113)
GROSS PROFIT		713,436	1,008,165
Administrative expenses (including an exceptional charge of (pounds)241,976 - see Note 4)		(712,958)	(707,735)
Distribution costs		(591,262)	(454,760)
Other operating income	3	108,880	120,972
		(1,195,340)	(1,041,523)
OPERATING LOSS	4	(481,904)	(33,358)
Exceptional item-gain on disposal of dormant subsidiaries	5	315,686	--
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		(166,218)	(33,358)
Bank interest		(59,344)	(37,369)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(225,562)	(70,727)
Tax on loss on ordinary activities	7	191,623	44,944
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(33,939)	(25,783)
Equity dividends	9	--	(39,000)
RETAINED LOSS FOR THE PERIOD	19	(33,939)	(64,783)

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

There were no recognised gains or losses other than the loss for the financial period.

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

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

CONSOLIDATED BALANCE SHEET

	NOTE	18 MARCH 2005 (POUNDS)	31 MARCH 2004 (POUNDS)
FIXED ASSETS			
Tangible assets	10	709,719	810,007
CURRENT ASSETS			
Stocks	12	1,451,595	1,013,377

Debtors	13	1,871,930	1,782,160
Cash at bank and in hand		170,150	475,767
		3,493,675	3,271,304
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	(3,395,842)	(3,220,309)
NET CURRENT ASSETS		97,833	50,995
TOTAL ASSETS LESS CURRENT LIABILITIES		807,552	861,002
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15	(20,219)	(39,730)
NET ASSETS		787,333	821,272
CAPITAL AND RESERVES			
Called up share capital	17	364,711	364,711
Share premium account	18	68,856	68,856
Capital redemption reserve	18	312,714	312,714
Profit and loss account	18	41,052	74,991
SHAREHOLDERS' FUNDS	19	787,333	821,272
Equity		647,013	680,952
Non-equity		140,320	140,320
		787,333	821,272

The financial statements were approved by the Board of Directors on 27 June 2005.

Director: Carmine T. Oliva.

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

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PASCALL ELECTRONIC (HOLDINGS) LIMITED (PARENT COMPANY ONLY)

BALANCE SHEET

NOTE	18 MARCH 2005 (POUNDS)	31 MARCH 2004 (POUNDS)

FIXED ASSETS			
Investments	11	746,499	585,548
CURRENT ASSETS			
Debtors	13	--	759,703
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	--	(598,970)
NET CURRENT ASSETS		--	160,733
TOTAL ASSETS LESS CURRENT LIABILITIES		746,499	746,281
CAPITAL AND RESERVES			
Called up share capital	17	364,711	364,711
Share premium account	18	68,856	68,856
Capital redemption reserve	18	312,714	312,714
Profit and loss account	18	218	--
SHAREHOLDERS' FUNDS		746,499	746,281
Equity		606,179	605,961
Non-equity		140,320	140,320
		746,499	746,281

The financial statements were approved by the Board of Directors on 27 June 2005.

Director: Carmine T. Oliva.

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

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

CONSOLIDATED CASH FLOW STATEMENT

	NOTE	PERIOD ENDED 18 MARCH 2005 (POUNDS)	YEAR ENDED 31 MARCH 2004 (POUNDS)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	20	360,759	(233,832)

RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(61,868)	(35,613)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(61,868)	(35,613)
TAXATION		20	149,858
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of tangible fixed assets		(183,488)	(84,542)
Sale of tangible fixed assets		39,657	62,433
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(143,831)	(22,109)
ACQUISITIONS AND DISPOSALS			
Sale of subsidiary undertakings		76,000	--
NET CASH INFLOW FROM ACQUISITIONS AND DISPOSALS		76,000	--
EQUITY DIVIDENDS PAID		(39,000)	--
FINANCING			
Capital elements of finance lease rentals		(41,544)	(36,073)
NET CASH OUTFLOW FROM FINANCING		(41,544)	(36,073)
INCREASE/(DECREASE) IN CASH	21	150,536	(177,769)

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

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE
TWELVE MONTHS ENDED 31 MARCH 2004

1. PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements are prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention. During the latest period presented, the company changed its fiscal year end to 18 March from 31 March.

The principal accounting policies of the group are set out below. The policies have remained unchanged from the previous year.

BASIS OF CONSOLIDATION

The "group" financial statements consolidated those of the company, being Pascall Electronic (Holdings) Limited, and its subsidiary undertaking (see Note 11) drawn up to 18 March 2005. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting.

GOODWILL

Goodwill arising on consolidation representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life. Negative goodwill is written back to the profit and loss account to match the recovery of the non-monetary assets acquired.

As a matter of accounting policy, purchased goodwill first accounted for in accounting periods ending before 23 December 1998, the implementation date of Financial Reporting Standard No 10, was eliminated from the financial statements by immediate write-off on acquisition against reserves. Such goodwill will be charged or credited to the profit and loss account on the subsequent disposal of the business to which it relates.

TURNOVER

Turnover consists of the invoiced value (excluding VAT) for goods and services supplied in the period.

RESEARCH AND DEVELOPMENT

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

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets over their useful economic lives. Where there is evidence of impairment, fixed assets are written down to their recoverable amount. The principal annual rates used are as follows:

Short leasehold property	life of lease

Plant and machinery	10%-25%	Straight line
Motor vehicles	25%	Reducing balance

STOCKS AND WORK IN PROGRESS

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis. The cost of work in progress and finished goods comprises materials, direct labour and attributable production overheads. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

DEFERRED TAXATION

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes.

In accordance with FRS 19 deferred tax is not provided on timing differences arising from:

a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date; and

b) gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction, or if hedged at the forward contract rate. Monetary assets and liabilities denominated in foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date, or if hedged the forward contract rate. All exchange differences are recognised in the profit and loss account.

GOVERNMENT GRANTS

Grants in respect of fixed assets are credited to the profit and loss account in equal annual instalments over the useful lives of the assets concerned.

Other grants are credited to the profit and loss account in the same year as the expenditure to which they contribute.

LEASED ASSETS

Fixed assets subject to finance leases are capitalised and depreciated in accordance with the depreciation policy stated above. The corresponding liability for the capital element is included in creditors, and the interest, calculated on a straight line basis, is charged against profits over the period of the lease. The rental and operating lease costs of all other assets are charged against profit before interest, as incurred.

RETIREMENT BENEFITS

DEFINED CONTRIBUTION PENSION SCHEME

The pension costs charged against operating profits are the contributions payable to the scheme in respect of the accounting period.

DEFINED BENEFIT PENSION SCHEME

Pascall Electronics Limited, the trading subsidiary of Pascall Electronic (Holdings) Limited, participated in the Intelek plc Group Defined Benefit Pension Scheme.

Prior to the cessation of Pascall Electronics Limited's participation in the Intelek plc Group Defined Benefit Pension Scheme on 18 March 2005, in accordance with SSAP 24, contributions to the scheme were charged to profits on the recommendation of a qualified actuary using the defined accrued benefit method so as to spread the cost of pensions over the anticipated service lives of scheme members. Deferred tax is fully accounted for on any difference between accumulated pension costs charged against profits and accumulated contributions paid.

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2. TURNOVER BY GEOGRAPHICAL MARKET

Turnover is wholly attributable to the principal activity of the group.

An analysis of turnover by geographical market is given below:

	PERIOD ENDED 18 MARCH 2005 (POUNDS)	TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS)

European Community (excluding UK)	153,147	157,703
Rest of Europe	--	5,964
North America	3,405,990	4,797,849
South America	235	21,620
Asia	716,695	846,371
Africa	27,486	13,249
	----------	----------
Export sales	4,303,553	5,842,756
United Kingdom	1,274,095	807,522
	----------	----------
	5,577,648	6,650,278
	==========	==========

3. OTHER OPERATING INCOME

	PERIOD ENDED 18 MARCH 2005 (POUNDS)	TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS)
Rental income	87,662	99,972
DTI Grant	21,000	21,000
Other	218	--
	----------	----------
	108,880	120,972
	==========	==========

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
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4. OPERATING LOSS

The operating loss is arrived at after charging/(crediting):

	PERIOD ENDED 18 MARCH 2005 (POUNDS)	TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS)
Depreciation of tangible fixed assets	283,131	287,038
Auditors' remuneration - audit services	23,669	9,500
Research and development	645,125	641,000
Operating lease rentals		
- plant and machinery	9,231	9,662
- land and buildings	331,557	313,625
Loss on sale of fixed assets	2,628	20,044
Deferred income from Government Grants	(21,000)	(21,000)
Exceptional item - write-off of pension prepayment	241,976	--

========= =========

On 18 March 2005 the company ceased its participation in the Intelek plc group pension scheme. As a result the company no longer participates in a defined benefit pension scheme.

Accordingly, the SSAP 24 prepayment amounting to (pounds)241,976 recognised in the prior year accounts has been charged to the profit and loss account through administrative expenses as an exceptional item for the period ended 18 March 2005. The related deferred tax liability of (pounds)72,593 has been released to the profit and loss account.

5. EXCEPTIONAL ITEMS

On 22 February 2005 the subsidiary undertaking, Pascall Microwave Limited, was sold for consideration of (pounds)1 to the ultimate parent undertaking at that time, being Intelek plc. The gain arising on disposal amounted to (pounds)315,685.

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
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6. DIRECTORS AND EMPLOYEES

The average number of staff employed by the group during the period, including directors was:

	PERIOD ENDED 18 MARCH 2005	TWELVE MONTHS ENDED 31 MARCH 2004
Production and ancillary	92	93
Administration and sales	16	15
	108	108

Staff costs during the period were as follows:

	PERIOD ENDED 18 MARCH 2005 (POUNDS)	TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS)
Wages and salaries	2,277,533	2,264,745
Social security costs	212,066	212,786
Other pension costs	338,082	154,007
	2,827,681	2,631,538

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
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TWELVE MONTHS ENDED 31 MARCH 2004

6. DIRECTORS AND EMPLOYEES (CONTINUED)

Remuneration in respect of directors was as follows:

	PERIOD ENDED 18 MARCH 2005 (POUNDS)	TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS)
Emoluments	211,010	221,186
Pension contributions to money purchase schemes	12,667	11,795
	223,677	232,981

The emoluments of the highest paid director excluding pension contributions were (pounds)76,122 (2004: (pounds)96,502).

Pension contributions for the highest paid director were (pounds)4,106 (2004: (pounds)5,055).

There were two directors accruing benefits under a money purchase scheme (2004: 6).

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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7. TAXATION ON LOSS ON ORDINARY ACTIVITIES

(a) Analysis of charge in the period

	PERIOD ENDED 18 MARCH 2005 (POUNDS)	TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS)

CURRENT TAX:		
UK corporation tax based at 30% (2004: 30%)	--	--
Adjustment in respect of prior year	--	(66,808)
Group relief		
Adjustment in respect of prior year	--	32,055
	---------	--------
Total current tax	--	(34,753)
DEFERRED TAXATION:		
Origination and reversal of timing differences	(191,623)	(10,191)
	---------	--------
Taxation on loss on ordinary activities	(191,623)	(44,944)
	=========	========

Unrelieved tax losses of (pounds)240,000 remain available to offset against future taxable trading profits.

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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TWELVE MONTHS ENDED 31 MARCH 2004

7. TAXATION ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the period is higher than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained as follows:

	PERIOD ENDED 18 MARCH 2005 (POUNDS)	TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS)
Loss on ordinary activities before taxation	(225,562)	(70,727)
	=========	========
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	(67,669)	(21,218)
Effects of:		
Research and development tax credit	(33,856)	(22,780)
Expenses not deductible for tax purposes	76,525	5,081
Non taxable gains on disposal of dormant subsidiaries	(94,706)	--
Capital allowances in excess of depreciation	14,881	14,858

Creation of tax losses	72,167	--
Other timing differences	32,658	18,739
Group losses not paid for	--	5,320
Adjustments in respect of prior years	--	(34,753)
Total current tax (note 7(a))	--	(34,753)

8. PROFIT FOR THE FINANCIAL YEAR

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent company's profit for the year was (pounds)218 (2004: (pounds)Nil).

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE
TWELVE MONTHS ENDED 31 MARCH 2004

9. DIVIDENDS

	PERIOD ENDED 18 MARCH 2005 (POUNDS)	TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS)
Equity dividends:		
Ordinary shares - proposed final dividend of Nil per share (2004: 17.38p)	--	39,000

10. TANGIBLE FIXED ASSETS

THE GROUP	SHORT LEASEHOLD LAND AND BUILDINGS (POUNDS)	PLANT AND MACHINERY (POUNDS)	MOTOR VEHICLES (POUNDS)	TOTAL (POUNDS)
COST				
At 1 April 2004	251,477	3,278,730	85,949	3,616,156
Additions	--	196,170	28,958	225,128
Disposals	--	(9,457)	(55,913)	(65,370)
At 18 March 2005	251,477	3,465,443	58,994	3,775,914

DEPRECIATION				
At 1 April 2004	94,473	2,683,423	28,253	2,806,149
Charge for the period	12,296	254,902	15,933	283,131
Disposals	--	--	(23,085)	(23,085)
At 18 March 2005	106,769	2,938,325	21,101	3,066,195
NET BOOK VALUE				
At 18 March 2005	144,708	527,118	37,893	709,719
At 31 March 2004	157,004	595,307	57,696	810,007

10. TANGIBLE FIXED ASSETS (CONTINUED)

The figures stated above include assets held under finance leases and similar hire purchase contract as follows:

	(POUNDS)
Net book value at 18 March 2005	81,409
Net book value at 31 March 2004	84,666
Depreciation provided in the period	31,257

THE COMPANY

The company held no fixed assets at 18 March 2005 or 31 March 2004.

11. FIXED ASSET INVESTMENTS

	SHARES IN SUBSIDIARY UNDERTAKINGS (POUNDS)
THE COMPANY	
Cost	
At 1 April 2004	585,548
Additions	236,951
Disposals	(76,000)
At 18 March 2005	746,499
NET BOOK VALUE	
At 18 March 2005	746,499
At 31 March 2004	585,548

At 18 March 2005 the company held more than 20% of the allotted share capital of the following subsidiary undertaking:

SUBSIDIARY UNDERTAKING	CLASS OF SHARE CAPITAL HELD	PROPORTION HELD BY COMPANY	NATURE OF BUSINESS
Pascall Electronics Limited	Ordinary	100%	Design, development and manufacture of electronic instruments, components and sub systems

The subsidiary undertaking is consolidated within these financial statements under the acquisition method of accounting.

12. STOCKS

THE GROUP

	18 MARCH 2005 (POUNDS)	31 MARCH 2004 (POUNDS)
Raw materials and consumables	401,273	399,019
Work in progress	743,872	339,989
Finished goods and goods for resale	306,450	274,369

	1,451,595	1,013,377

THE COMPANY

The company had no stocks at 18 March 2005 or 31 March 2004.

13. DEBTORS

THE GROUP

	18 MARCH 2005 (POUNDS)	31 MARCH 2004 (POUNDS)
Trade debtors	1,525,256	1,391,867
Amounts owed by group undertakings	--	--
Other debtors	21,421	14,142
Prepayments and accrued income	102,886	345,387
Taxation recoverable	26,153	26,173
Deferred tax asset (Note 16)	196,214	4,591
	1,871,930	1,782,160

Included in prepayments is a SSAP 24 pension prepayment of (pounds)Nil (2004: (pounds)241,976).

THE COMPANY

	18 MARCH 2005 (POUNDS)	31 MARCH 2004 (POUNDS)
Amounts owed by group undertakings	--	759,703

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14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

THE GROUP

	18 MARCH 2005 (POUNDS)	31 MARCH 2004 (POUNDS)
Bank overdrafts	140,657	596,810
Obligations under finance leases	50,194	30,587
Trade creditors	846,251	789,836
Amounts owed to group undertakings	1,600,000	1,178,877
Other taxation and social security	129,809	128,054
Other creditors	7,848	2,983
Proposed dividend	--	39,000
Accruals and other deferred income	621,083	454,162
	3,395,842	3,220,309

	==========	==========

Amounts payable under finance leases and hire purchase contracts are secured upon the assets to which they relate.

THE COMPANY

	18 MARCH 2005 (POUNDS)	31 MARCH 2004 (POUNDS)
Amounts owed to group undertakings	--	598,970
	==========	==========

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

THE GROUP	18 MARCH 2005 (POUNDS)	31 MARCH 2004 (POUNDS)
Obligations under finance leases		
- one to two years	20,219	39,730
	==========	==========

THE COMPANY

The company had no liabilities due in greater than one year at 18 March 2005 or 31 March 2004.

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
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16. DEFERRED TAXATION

THE GROUP	DEFERRED TAX ASSET (POUNDS)
At 1 April 2004	4,591
Reversed during period	191,623

At 18 March 2005	196,214
	========

The deferred tax asset recognised in the financial statements is set out below:

	18 MARCH 2005 (POUNDS)	31 MARCH 2004 (POUNDS)
Accelerated capital allowances	42,805	28,824
Other timing differences	81,243	(26,263)
Losses	72,166	2,030
	--------	-------

	196,214	4,591
	========	=======

THE COMPANY

The company had no deferred tax assets or liabilities at 18 March 2005 or 31 March 2004.

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
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17. SHARE CAPITAL

	18 MARCH 2005	31 MARCH 200
	(POUNDS)	(POUNDS
AUTHORISED		
307,190 ordinary shares of (pounds)1 each	307,190	307,190
215,250 9 1/2% redeemable convertible cumulative preference shares of (pounds)1 each	215,250	215,250
300,640 10% non-cumulative preference shares of (pounds)1 each	300,640	300,640
	-------	-------
	823,080	823,080
	=======	=======
ALLOTTED, CALLED UP AND FULLY PAID		
224,391 ordinary shares of (pound)1 each	224,391	224,391
140,320 10% non-cumulative preference shares of (pound)1 each	140,320	140,320
	-------	-------
	364,711	364,711
	=======	=======

Rights of non-equity shareholders:

The holders of the 10% non-cumulative preference shares are entitled to be paid a fixed non-cumulative preferential dividend at the rate of 10% per annum out of the profits of the company resolved to be distributed in respect of that period.

On a winding up the holders of the 10% non-cumulative preference shares would have a right to receive out of the assets available for distribution, repayment in full of the nominal amount paid up on these preference shares in priority to all other shares of the company. There is no other right to participate in the profits or assets of the company under such circumstances.

The preference shares do not confer on the holders the right to receive notices of, or to attend or vote at, general meetings of the company unless a resolution for the winding up of the company shall be proposed and then only on such resolution.

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18. SHARE PREMIUM ACCOUNT AND RESERVES

THE GROUP	SHARE PREMIUM ACCOUNT (POUNDS)	CAPITAL REDEMPTION RESERVE (POUNDS)	PROFIT AND LOSS ACCOUNT (POUNDS)
At 1 April 2004	68,856	312,714	74,991
Loss for the period	--	--	(33,939)
At 18 March 2005	68,856	312,714	41,052

THE COMPANY	SHARE PREMIUM ACCOUNT (POUNDS)	CAPITAL REDEMPTION RESERVE (POUNDS)	PROFIT AND LOSS ACCOUNT (POUNDS)
At 1 April 2004	68,856	312,714	--
Profit for the period	--	--	218
At 18 March 2005	68,856	312,714	218

The cumulative amount of goodwill arising from acquisitions accounted for in years ending before 23 December 1998 which has been written off to group reserves, net of goodwill charged or credited to the profit and loss account on subsequent disposal of the business to which it related is (pounds)280,797 (2004: (pounds)280,797).

The balance on the share premium account and capital redemption reserve may not be distributed legally under the Companies Act 1985.

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19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	PERIOD ENDED 18 MARCH 2005 (POUNDS)	TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS)
Loss for the financial period	(33,939)	(25,783)
Dividends	-	(39,000)
Net decrease in shareholders' funds	(33,939)	(64,783)
Shareholders' funds at 1 April 2004	821,272	886,055
Shareholders' funds at 18 March 2005	787,333	821,272

20. NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	PERIOD ENDED 18 MARCH 2005 (POUNDS)	TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS)
Operating loss	(481,904)	(33,358)
Depreciation	283,131	287,038
Profit on sale of fixed assets	2,628	20,044
(Increase)/decrease in stock	(438,218)	126,596
Decrease/(increase) in debtors	341,519	(379,651)
Increase/(decrease) in creditors	653,603	(254,501)
Net cash inflow/(outflow) from operating activities	360,759	(233,832)

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21. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	PERIOD ENDED 18 MARCH 2005 (POUNDS)	TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS)
Increase/(decrease) in cash in year	150,536	(177,769)

Cash outflow from finance leases	41,544	36,073
Change in net debt resulting from cash flows	192,080	(141,696)
Inception of finance leases	(41,640)	(106,390)
Movement in net debt in the year	150,440	(248,086)
Net debt at 1 April 2005	(191,360)	56,726
Net debt at 18 March 2005	(40,920)	(191,360)

22. ANALYSIS OF CHANGES IN NET DEBT

	AT 1 APRIL 2004 (POUNDS)	CASH FLOW (POUNDS)	NON-CASH ITEMS (POUNDS)	AT 18 MARCH 2005 (POUNDS)
Cash at bank and in hand	475,767	(305,617)	--	170,150
Overdrafts	(596,810)	456,153	--	(140,657)
	(121,043)	150,536	--	29,493
Finance leases	(70,317)	41,544	(41,640)	(70,413)
	(191,360)	192,080	(41,640)	(40,920)

23. DISPOSALS

During the period the group disposed of its interest in Pascall Microwave Limited and Pascall Electronic Systems Limited. Group profits include (pounds)Nil earned by Pascall Microwave Limited and Pascall Electronic Systems Limited up to their date of disposal on 22 February 2005. The net assets/(liabilities) on the date of disposal were:

	PASCALL MICROWAVE LIMITED (POUNDS)	PASCALL ELECTRONIC SYSTEMS LIMITED (POUNDS)

Debtors	796,699	2,205
Creditors	(720,701)	(317,889)
	---------	---------
	75,998	(315,684)
Profit on disposal	1	315,685
	---------	---------
	75,999	1
	---------	---------
Satisfied by:		
Cash	75,999	1
	---------	---------

Pascall Microwave Limited and Pascall Electronic Systems Limited were dormant for the period ended 18 March 2005 and the year ended 31 March 2004 and therefore made no contribution to group cash flows.

Analysis of the net cash inflow of cash in respect of disposals during the period:

	2005 (POUNDS)	2004 (POUNDS)
Cash consideration	76,000	--
	=========	=========

24. RETIREMENT BENEFITS

DEFINED CONTRIBUTION PENSION SCHEME

The group operates a defined contribution pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from those of the group.

DEFINED BENEFIT PENSION SCHEME

On 18 March 2005, Intelek plc, the group's ultimate parent undertaking for the period to that date, undertook to meet Pascall Electronics Limited's proportion of the scheme deficit at that date. The potential liability has not yet been finalised by the scheme's actuaries, but it is not expected to exceed (pounds)800,000.

Since the period-end a sum in excess of this amount has been paid over to the Trustees of the scheme by Intelek plc to meet Pascall Electronics Limited's proportion of the deficit arising in the scheme. Furthermore the scheme trustees have given an undertaking discharging Pascall Electronics Limited from any further liability to the Scheme.

At 1 April 2004, the financial statements included a prepayment in respect of scheme contributions of (pounds)241,976 as required by SSAP 24. As at 18 March 2005 following agreement by Intelek plc to make up the shortfall for the elements of the scheme attributable to Pascall Electronics Limited, this prepayment was written off to the profit and loss account.

Full disclosures as required by SSAP 24 and FRS 17 transitional disclosures are given in the financial statements of Intelek plc.

25. FINANCIAL COMMITMENTS

CAPITAL COMMITMENTS

Capital expenditure commitments are as follows:

	18 MARCH 2005 (POUNDS)	31 MARCH 2004 (POUNDS)
Contracted for, but not provided in the accounts	712	1,188

OPERATING LEASE COMMITMENTS

The payments which the group is committed to make in the next year under operating leases are as follows:

	18 MARCH 2005 (POUNDS)	31 MARCH 2004 (POUNDS)
(i) Land and buildings, leases expiring beyond five years	276,530	298,500
(ii) Other assets, leases expiring		
within one year	5,334	--
one to five years	5,705	8,054
	11,039	8,054

26. CONTINGENT LIABILITIES

The group has entered into foreign exchange commitments totalling (pounds)2,178,000 (2004: (pounds)1,539,000).

27. RELATED PARTY DISCLOSURES

The group has taken advantage of the exemption offered by FRS 8 not to disclose transactions with other group companies on the grounds that it is a wholly owned subsidiary and group accounts are publicly available from the registered office of the ultimate parent undertaking.

28. ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is Xcel Corporation Limited.

The company's ultimate parent undertaking was Intelek plc for the year ended 31 March 2004 and for the period to 18 March 2005. Intelek plc is a company incorporated in the United Kingdom.

At 18 March 2005, the company's ultimate parent undertaking changed from Intelek plc to Emrise Corporation, a company incorporated in the United States of America. The largest group of undertakings for which group accounts are drawn up is that headed by Emrise Corporation.

Copies of the consolidated financial statements of Emrise Corporation and Intelek plc are available from the registered office of the relevant company.

29. SUMMARY OF CERTAIN DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED KINGDOM AND THE UNITED STATES OF AMERICA

The financial statements are prepared in conformity with accounting principles generally accepted in the United Kingdom ("U.K. GAAP") which differ in certain respects from accounting principles generally accepted in the United States of America ("U.S. GAAP").

The following is a summary of the significant adjustments to loss on ordinary activities and shareholders' funds when reconciling amounts recorded in the financial statements to the corresponding amounts in accordance with U.S. GAAP. There are no differences between turnover recorded in the financial statements and the corresponding amounts in accordance with U.S. GAAP.

	PERIOD ENDED 18 MARCH 2005 (POUNDS)	YEAR ENDED 31 MARCH 2004 (POUNDS)
Loss on ordinary activities under U.K. GAAP	(33,939)	(25,783)
U.S. GAAP adjustments:		
Adjustments under SFAS No. 133-Derivatives (a)	61,717	(2,471)
Provision for compensated absences (b)	2,781	1,338
Adjustment to pension charge (c)	169,383	(59,483)
Elimination of gain on disposal of dormant subsidiaries (d)	(315,686)	--
Loss on ordinary activities under U.S. GAAP	(115,744)	(86,399)

	18 MARCH 2005	31 MARCH 2004
Shareholders' funds under U.K. GAAP	787,333	821,272
U.S. GAAP adjustments:		
Adjustments under SFAS No. 133-Derivatives (a)	56,871	(4,846)
Provision for compensated absences (b)	(15,991)	(18,772)
Elimination of pension asset (c)	--	(169,383)
Elimination of dividend provision (e)	--	39,000
Adjustment to record goodwill previously written off to group reserves (f)	42,000	42,000
Shareholders' funds under U.S. GAAP	870,213	709,271

The following table reflects the effects on balance sheet line items as a result of the adjustments listed above. The effects on shareholders' funds are reflected in the table above.

	18 MARCH 2005 (POUNDS)	3
Debtors under U.K. GAAP	1,871,930	
U.S. GAAP adjustments:		
Adjustments under SFAS No. 133-Derivatives (a)	56,871	
Elimination of pension asset (c)	-	
Debtors under U.S. GAAP	1,928,801	
Creditors: Amounts falling due within one year under U.K. GAAP	3,395,842	
U.S. GAAP adjustments:		
Provision for compensated absences (b)	15,991	
Elimination of dividend provision (e)	-	
Creditors: Amounts falling due within one year under U.S. GAAP	3,411,833	
Goodwill under U.K. GAAP	-	
U.S. GAAP adjustments:		

Adjustment to record goodwill previously written off to group reserves (f)	42,000
Goodwill under U.S. GAAP	42,000

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29. SUMMARY OF CERTAIN DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED KINGDOM AND THE UNITED STATES OF AMERICA (CONTINUED)

The following table reflects the effects on the profit and loss line items as a result of the adjustments listed above. The effects on the net loss from ordinary activities are reflected in the table above.

	18 MARCH 2005 (POUNDS)	3
Cost of sales under U.K. GAAP	(4,864,212)	
U.S. GAAP adjustments:		
Adjustments under SFAS No. 133-Derivatives (a)	61,717	
Provision for compensated absences (b)	2,781	
Cost of sales under U.S. GAAP	(4,799,714)	
Administrative expense under U.K. GAAP	(712,598)	
U.S. GAAP adjustments:		
Elimination of pension asset (c)	169,383	
Administration expense under U.S. GAAP	(543,215)	
Exceptional item-gain on disposal of dormant subsidiaries under U.K. GAAP	315,686	
U.S. GAAP adjustments:		
Elimination of gain on disposal of dormant subsidiaries (d)	(315,686)	
Exceptional item-gain on disposal of dormant subsidiaries under U.S. GAAP	-	

(a) Adjustments under SFAS No. 133-Derivatives

Under U.K. GAAP, at each balance sheet date, monetary assets and liabilities denominated in a foreign currency may be translated at a forward rate where there are related or matching forward contracts in respect of trading transactions. Under U.K. GAAP the fair value of derivatives is not permitted to be recognised on the balance sheet. Under U.S. GAAP, Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments, requires the valuation of monetary assets and liabilities at their fair value. Changes in fair value are either reflected in current earnings or comprehensive income depending on the nature of the derivative.

(b) Provision for compensated absences

Under U.K. GAAP, no provision is made for employee compensated absences. Under U.S. GAAP provision is made for the cost of employee's rights to compensated absences from work.

(c) Adjustment to pension charge and elimination of pension asset

The Intelek plc Group Defined Benefit Pension Scheme provided the same defined benefits to the employees of all companies within the group, including the company. The assets contributed by Intelek plc were available to provide benefits to employees of all companies within the group and were not segregated into separate accounts for each company nor were assets restricted in any way to limit the benefits provided to any one company within the group.

Intelek plc performed an actuarial calculation of the entire group's pension cost in accordance with SSAP 24, "Accounting for Pension Costs." In addition, the supplemental disclosure requirement of FRS 17, "Retirement Benefits," was presented on a group level. Intelek plc recorded a prepaid pension asset in accordance with the U.K. GAAP requirements that permit the recognition of an asset if the net periodic pension cost is less than the amounts the employer has contributed to the scheme. Intelek plc allocated a portion of this asset to the company based on an internal formula developed by Intelek plc, which resulted in a prepaid pension asset on the books of the company through 31 March 2004. The

29. SUMMARY OF CERTAIN DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED KINGDOM AND THE UNITED STATES OF AMERICA (CONTINUED)

allocation of this asset was not based on actuarial data because separate actuarial computations were not performed for each company in the group. As described in Note 24, under U.K. GAAP, the company recorded a charge to write off the pension asset that was previously recorded under SSAP 24.

The characteristics of the scheme are similar to those of a multiemployer pension plan that provides defined benefits under U.S. GAAP. Under a multiemployer pension plan, the company would have been required under U.S. GAAP to recognize as net period pension cost the required contribution for the period, and any contributions due and unpaid would have been reflected as a liability of the company. U.S. GAAP would not have permitted the initial recording of the pension asset. Accordingly, the pension asset was eliminated at 31 March 2004 for U.S. GAAP presentation. Also, the charge to write off the pension asset recorded under U.K. GAAP in the period ended 18 March 2005 was reversed in the U.S. GAAP reconciliation. There are no other reconciliation adjustments because the amount recorded as expense under U.K. GAAP was based on the annual contributions required into the plan. This expense and liability would have been the same as that recorded under U.S. GAAP.

(d) Elimination of gain on disposal of dormant subsidiaries

During the period ended 18 March 2005, the company reported an "exceptional item-gain on disposal of dormant subsidiaries" of (POUNDS)315,686 in its Consolidated Profit and Loss Account. Under U.K. GAAP, gains arising upon the disposal of a subsidiary undertaking to a related party may be recognised in the profit and loss account for the period. Under U.S. GAAP, gains arising upon the disposal of a subsidiary undertaking to a related party must be recognized directly in shareholders' funds and not included in the calculation of net profit and loss..

(e) Elimination of dividend provision

Under U.K. GAAP, for accounting periods beginning before 1 January 2005, dividends not approved for payment prior to the year-end may be provided for at the balance sheet date. Under U.S. GAAP, a dividend must be approved prior to the year-end in order for it to be recorded as a liability at the balance sheet date.

(f) Adjustment to record goodwill previously written off to group reserves.

For acquisitions prior to 1998, U.K. GAAP permitted goodwill arising on acquisitions to be written off directly to group reserves. Under U.S. GAAP, the amount of goodwill required to be recognised would be (pounds)42,000 at 18 March 2005 and 31 March 2004.

PRESENTATIONAL DIFFERENCES

BALANCE SHEET PRESENTATION

Under U.K. GAAP, assets in the balance sheet are presented in ascending order of liquidity.

Under U.S. GAAP, assets are presented in descending order of liquidity.

NET LOSS PER SHARE

U.S. GAAP requires the disclosure of net loss per share. The following tables compare net loss per share calculated under U.K. GAAP to net loss per share calculated under U.S. GAAP:

	U.K. GAAP PERIOD ENDED 18 MARCH 2005 (POUNDS)	U.S. GAAP PERIOD ENDED 18 MARCH 2005 (POUNDS)
Net loss	(33,939)	(115,744)
Outstanding shares - basic and diluted	224,391	224,391
Net loss per share	(0.15)	(0.52)

	U.K. GAAP PERIOD ENDED 31 MARCH 2004 (POUNDS)	U.S. GAAP YEAR ENDED 31 MARCH 2004 (POUNDS)
Net loss	(25,783)	(86,399)
Outstanding shares - basic and diluted	224,391	224,391
Net loss per share	(0.11)	(0.39)

There were no potentially dilutive options or warrants outstanding during the periods presented.

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29. SUMMARY OF CERTAIN DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED KINGDOM AND THE UNITED STATES OF AMERICA (CONTINUED)

COMPREHENSIVE INCOME (LOSS)

The comprehensive loss under U.S. GAAP is the same as net loss under U.S. GAAP for all periods presented.

CASH FLOW STATEMENT

As permitted by Item 17 of Form 20-F, the following statements of cash flows were prepared in conformity with U.S. GAAP.

	PERIOD ENDED 18 MARCH 2005 (POUNDS)	YEAR ENDED 31 MARCH 2004 (POUNDS)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	(115,744)	(86,399)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation and amortization	283,131	287,038
Gain on sale of property, plant and equipment	2,628	20,044
Deferred income taxes	(108,907)	(87,307)
Changes in operating assets and liabilities:		
Accounts receivable	(173,994)	(330,145)
Inventories	(438,218)	126,596

Accounts payable and accrued expenses	811,015	(100,551)
Other liabilities	--	51,137
Cash provided by (used in) operating activities	259,911	(119,587)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net purchases of property, plant and equipment	(183,488)	(84,542)
Proceeds from sale of property, plant and equipment	39,657	62,433
Proceeds from sale of investments in subsidiary	76,000	--
Cash used in investing activities	(67,831)	(22,109)
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Repayments) borrowings on bank overdraft	(456,153)	469,284
Repayments of capital lease obligations	(41,544)	(36,073)
Cash provided by (used in) financing activities	(497,697)	433,211
Net increase (decrease) in cash and cash equivalents	(305,617)	291,515
Cash and cash equivalents at beginning of period	475,767	184,252
Cash and cash equivalents at end of period	170,150	475,767
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	61,868	35,613
Income taxes	--	--
Noncash transactions:		
Purchase of equipment under capital lease	41,640	106,390
Conversion of payable to Intelek plc into equity	315,684	--

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29. SUMMARY OF CERTAIN DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED KINGDOM AND THE UNITED STATES OF AMERICA (CONTINUED)

RELATED PARTY DISCLOSURES

U.S. GAAP requires the disclosure of related party transactions. The following summarizes the related party balances and transactions for each period with Intelek plc, the ultimate parent undertaking for the period to 18 March 2005 and the year ended 31 March 2004:

	AT 18 MARCH 2005 (POUNDS)	AT 31 MARCH 2004 (POUNDS)
Non-interest bearing payable to Intelek plc	1,800,000	1,178,877

Of the (pounds)1,800,000 payable to Intelek plc at 18 March 2005, (pounds)200,000 is included in trade creditors in Note 14. The remaining (pounds)1,600,000 was replaced by debt payable to Xcel Corporation Limited, the company's immediate parent undertaking at 18 March 2005.

During the period ended 18 March 2005 Intelek plc charged the group (pounds)Nil(2004: (pounds)252,370) in respect of management charges.

On 22 February 2005 the group sold its interest in Pascall Microwave Limited and Pascall Electronic Systems Limited for cash consideration amounting to (pounds)76,000.

During the period ended 18 March 2005 Intelek plc converted payables amounting to (pounds)315,684 into equity.

(b) Pro Forma Financial Information.

As described in Item 2.01 of this report, effective as of March 18, 2005, XCEL acquired all of the issued and outstanding capital stock of PEHL. The accompanying unaudited condensed consolidated statements of operations for the periods ended March 31, 2005 and December 31, 2004 are set forth herein to give effect to the acquisition of PEHL and Pascall as if the acquisition had been consummated at the beginning of the earliest period presented (January 1, 2004). A pro forma condensed consolidated balance sheet is not presented because the balance sheets of PEHL and Pascall and related purchase accounting adjustments were included in the financial statements included in Emrise's quarterly report on Form 10-Q for the three months ended March 31, 2005, as amended.

Emrise previously acquired, effective as of July 13, 2004, all of the issued and outstanding common stock of Larus Corporation. The accompanying unaudited condensed consolidated statements of operations for the year ended December 31, 2004 also give effect to the acquisition of Larus Corporation and Larus Corporation's subsidiary as if that acquisition had been consummated at January 1, 2004.

The acquisitions were accounted for under the purchase method of accounting in accordance with accounting principles generally accepted in the United States. Under this method, tangible and identifiable intangible assets acquired and liabilities assumed are recorded at their estimated fair values. The excess of the purchase price, plus estimated fees and expenses related to the acquisitions, over the fair value of net assets acquired are recorded as goodwill.

The unaudited pro forma condensed consolidated statements of operations do not reflect any potential cost savings that were or may be realized following the acquisitions. The pro forma adjustments and assumptions are based on estimates, evaluations and other data currently available and, in Emrise's opinion, provide a reasonable basis for the fair presentation of the estimated effects directly attributable to the acquisition and related transactions. The unaudited pro forma condensed consolidated statements of operations are provided for illustrative purposes only and are not necessarily indicative of what the consolidated results of operations or financial position would actually have been had the acquisitions occurred on January 1, 2004, nor do they represent a forecast of the consolidated results of operations or financial position for any future period or date.

All information contained herein should be read in conjunction with Emrise's annual report on Form 10-K for the year ended December 31, 2004, its quarterly report on Form 10-Q for the three months ended March 31, 2005, as amended, the consolidated financial statements and notes thereto of PEHL and subsidiary included in Item 9.01(a) of this Form 8-K and the notes to unaudited pro forma financial information included herein. The following pro forma financial information is included in this report:

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EMRISE CORPORATION AND PASCALL ELECTRONIC (HOLDINGS) LIMITED AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
THREE MONTHS ENDED MARCH 31, 2005
(Dollars and Shares In Thousands, Except Per Share Data)

	EMRISE	PEHL	PRO FORMA ADJUSTMENT	TOTAL
Net sales	$ 7,299	$ 3,241	$ --	$ 10,54
Cost of sales	4,187	1,648	--	5,83
Gross profit	3,112	1,593	--	4,70
Selling, general and administrative expenses	2,831	1,070	3 (a)	3,90
Engineering and product development expenses	532	359	--	89
Income (loss) from operations	(251)	164	(3)	(9
Total interest and other expense	(33)	--	--	(3
Income (loss) before income taxes	(284)	164	(3)	(12
Income tax expense	66	--	--	6
Net income (loss)	$ (350)	$ 164	$ (3)	$ (18
Loss per share - basic (b)	$ (0.01)	--	--	$ (0.0
Loss per share - diluted (b)	$ (0.01)	--	--	$ (0.0
Shares outstanding - basic	36,788	--	556	37,34
Shares outstanding - diluted	36,788	--	556	37,34

(a) Amortization of intangible assets (technology and customer relationships) totaled $3 for the quarter based on the following estimated values and service lives: trademarks - $50 and 5 years.

EMRISE CORPORATION AND PASCALL ELECTRONIC (HOLDINGS) LIMITED AND SUBSIDIARIES

PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)
THREE MONTHS ENDED MARCH 31, 2005
(Dollars and Shares In Thousands, Except Per Share Data)

(b) The following table summarizes the combined pro forma basic and diluted loss per share as if Emrise had acquired PEHL as of January 1, 2005:

	EMRISE	PEHL	PRO FORMA ADJUSTMENT	TOTALS
Earnings (loss) per share				
Numerator:				
Net income (loss) attributable to common stockholders	$ (350)	$ 164	$ (3)	$ (189)
Denominator:				
Weighted average number of common shares outstanding during the period - basic	36,788	--	--	36,788
Additional weighted average common shares if private placement occurred at January 1, 2005 (considered necessary to acquire PEHL)	--	--	556	556
Adjusted weighted average shares	36,788	--	556	37,344
Incremental shares from assumed conversions of warrants, options and preferred stock	--	--	--	--
Adjusted weighted average shares	36,788	--	556	37,344
Loss per share - basic	$ (0.01)	--	--	$ (0.01)
Loss per share - diluted	$ (0.01)	--	--	$ (0.01)

EMRISE CORPORATION AND PASCALL ELECTRONIC (HOLDINGS) LIMITED AND LARUS CORPORATION AND SUBSIDIAR

PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
YEAR ENDED DECEMBER 31, 2004
(Dollars and Shares In Thousands, Except Per Share Data)

	EMRISE	LARUS CORPORATION	PEHL	PRO FORMA ADJUSTMENT		T
Net sales	$ 29,861	$ 2,625	$ 13,574	--		$
Cost of sales	16,146	1,260	10,659	(60)	(a)	
Gross profit	13,715	1,365	2,915	60		
Selling, general and administrative expenses	10,226	682	3,285	(15)	(a)	
	--	--	--	40	(b)	
	--	--	--	10	(c)	
Engineering and product development ...	--	--	--	--		
expenses	1,521	220	359	--		
Income (loss) from operations	1,968	463	(729)	25		
Interest expense	(433)	--	(110)	(76)	(d)	
	--	--	--	(18)	(e)	
	--	--	--	110	(f)	
Other expense, net	(6)	2	--	--		
Income (loss) before income taxes	1,529	465	(839)	41		
Income tax (benefit) expense	49	181	(355)	(7)	(g)	
Net income (loss)	$ 1,480	$ 284	$ (484)	48		$
Earnings per share - basic (h)	$ 0.06	--	--	$ (0.02)		$
Earnings per share - diluted (h)	$ 0.06	--	--	$ (0.03)		$
Shares outstanding - basic (h)	24,063	--	--	13,718		
Shares outstanding - diluted (h)	24,839	--	--	13,718		

(a) Reduction of $60 rent allocated to manufacturing overhead and $15 allocated to selling and administration due to a recording of a liability in purchase accounting for an unfavorable lease in the Larus Corporation acquisition.

(b) Amortization of Larus Corporation intangible assets (technology and customer relationships) totaled $40 for the year based on the following estimated values and service lives: technology - $500 and 10 years; customer relationships - $300 and 10 years.

(c) Amortization of Pascall intangible assets (trademarks) totaled $10 for the year based on the following estimated values and service lives: trademarks -$50 and 5 years.

(d) Increase in interest cost of $76 for long-term notes. The long-term notes for $3,000 carry an interest rate of 30-day LIBOR plus 1.0% (average interest rate of 5.0% would have resulted in interest expense of $76 for the additional six month period).

(e) Increase of $18 in working capital interest. Working capital interest is expected to be 5.0% of expected additional capital needs of approximately $700 on an annual basis.

(f) Decrease in interest cost of $110 related to Pascall debt repaid as a result of acquisition.

EMRISE CORPORATION AND PASCALL ELECTRONIC (HOLDINGS) LIMITED AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2004
(Dollars and Shares In Thousands, Except Per Share Data)

(g) Income tax effect of additional income from the pro forma adjustments

(h) The following table summarizes the combined pro forma basic and diluted earnings per share as if Emrise had acquired Larus Corporation and PEHL as of January 1, 2004:

	EMRISE	LARUS CORPORATION	PEHL	PRO FORMA ADJUSTMENT	TOT
Earnings per share					
Numerator:					
Net income (loss) attributable to common stockholders	$ 1,480	$ 284	$ (484)	$ 48	$ 1,
Denominator:					
Weighted average number of common shares outstanding during the period - basic	24,063	--	--	--	24,
Common shares issued to acquire Larus Corporation	--	--	--	1,214	1,
Additional weighted average common shares if private placement occurred at January 1, 2004 (considered necessary to acquire PEHL)	--	--	--	12,504	12,
Adjusted weighted average shares -basic	24,063	--	--	13,718	37,
Incremental shares from assumed conversions of warrants, options and preferred stock	776	--	--	--	

Adjusted weighted average shares	24,839	--	--	13,718	38,
Earnings per share - basic	$ 0.06	--	--	$ (0.02)	$ 0
Earnings per share - diluted	$ 0.06	--	--	$ (0.03)	$ 0

(c) Exhibits.

Number	Description
2.1	Agreement dated March 1, 2005 among Intelek Properties Limited, XCEL Corporation Limited, Intelek PLC and Emrise Corporation relating to the sale and purchase of the outstanding capital shares of Pascall Electronic (Holdings) Limited (1)
2.2	Supplemental Agreement dated March 18, 2005 among Intelek Properties Limited, XCEL Corporation Limited, Intelek PLC and Emrise Corporation (1)
2.3	Loan Agreement dated March 18, 2005 among XCEL Corporation Limited, Pascall Electronics Limited and Pascall Electronic (Holdings) Limited (1)

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(1) Filed as an exhibit to the initial filing of this Form 8-K.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: June 27, 2005

EMRISE CORPORATION

By: /S/ CARMINE T. OLIVA

Carmine T. Oliva, Acting Chief Financial Officer