

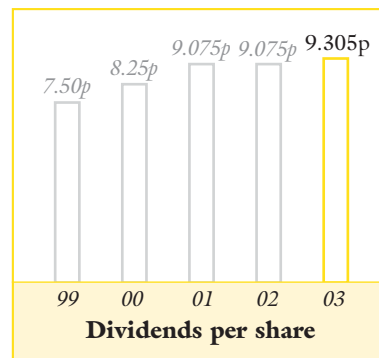
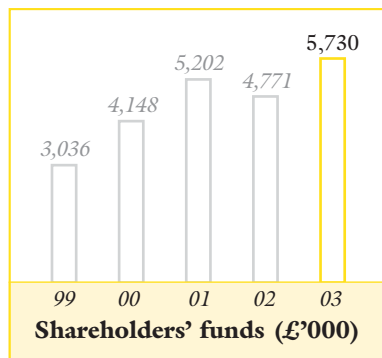
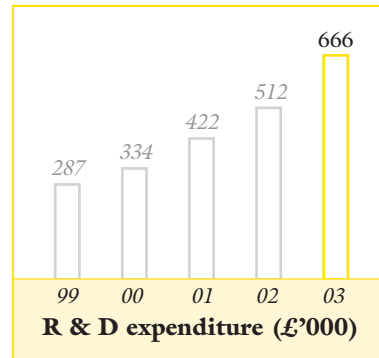
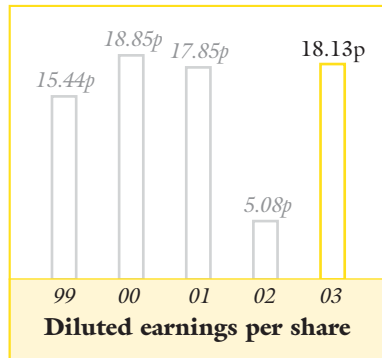
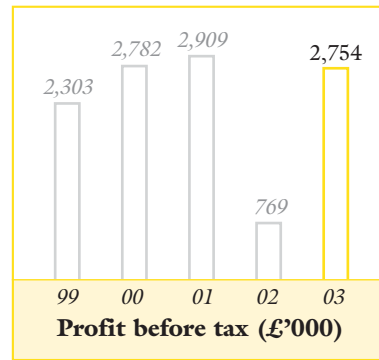
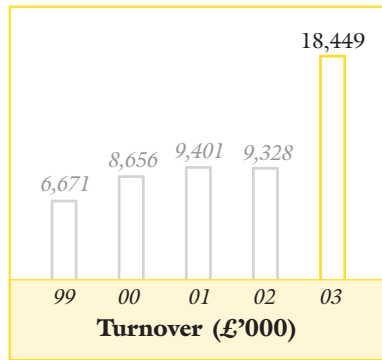


Latchways plc
Annual Report
& Accounts
2003

Contents

<i>Financial Overview and Five Year Record</i>	3
<i>Chairman's Statement</i>	4
<i>Operating and Financial Review</i>	6
<i>Directors and Advisers</i>	9
<i>Directors' Report</i>	10
<i>Corporate Governance</i>	13
<i>Directors' Remuneration Report</i>	16
<i>Statement of Directors' Responsibilities</i>	20
<i>Independent Auditors' Report to the Members of Latchways plc</i>	21
<i>Consolidated Profit and Loss Account</i>	23
<i>Consolidated Balance Sheet</i>	24
<i>Company Balance Sheet</i>	25
<i>Consolidated Cash Flow Statement</i>	26
<i>Notes to the Financial Statements</i>	27
<i>Notice of Annual General Meeting</i>	44
<i>Notes</i>	46
<i>Form of Proxy for use at Annual General Meeting</i>	47

Financial Overview and Five Year Record



Chairman's Statement

I am pleased to report a strong performance in all areas of our business. The recovery that I described in my interim statement has continued and, as a result, profits have recovered well after the poor trading experienced in the prior year. This performance, during a period of economic uncertainty and international instability, is particularly gratifying and a tribute to those involved.

I am encouraged by the contribution made by our subsidiary HCL in its first full year of being part of the group. It has achieved the objectives set for it at the time of acquisition and we have benefited greatly from being able to offer all our end users a considerably broader service.

Results

Group turnover for the year ended 31 March 2003 was £18.4 million (2002: £9.3 million), 98% ahead of last year. This includes a full year's contribution from HCL Group.

Group operating profit was £2.99 million, 240% ahead of the prior year. Profit before tax was £2.75 million (2002: £0.77 million), while diluted earnings per share were 18.13 pence (2002: 5.08 pence).

Dividends

In 2002, the Board maintained the annual dividend despite the poor trading results, reflecting our view that profitability would recover quickly. This confidence has proven to be well founded, enabling us to propose a final dividend for 2003 of 6.28 pence per share, a 3.8% increase. This makes the proposed total dividend for the year 9.305 pence, 2.5% up on 2002. This is expected to be paid on 5 September 2003 to shareholders on the register as at 8 August 2003.

Opportunities

We have continued our substantial investment in new product development and in strengthening our service offering. This investment will allow us to expand into new business areas and to continue as the leading innovator in the area of fall arrest systems both in our home market and overseas.

Business partnerships remain an area of focus and we have increased the number and scope of these during the year. These relationships embrace all areas of the sales process from the architect or specifier right down the contractual chain.

During the year we trained record numbers of our customers' employees in the fitting and use of our products. This training will be expanded in the coming year, complemented by a new course offering system designer training and a recently implemented design service for specifiers and installers.

Chairman's Statement

The area of our business which addresses vertical systems continues to make good progress, with strong sales to the Dutch, UK and other electricity and telecommunications markets. The early success of the rollout of systems to the Dutch electricity companies has demonstrated our ability to provide cost effective and reliable systems to a very demanding and technically competent market. It has already led to our involvement in a number of other significant projects.

HCL Group

As I explained in last year's statement, the acquisition of HCL Group in November 2001 was made for the specific purpose of enabling turnkey solutions to be offered to the telecommunications industry. We have also found that the interchange of technical and safety information between the group companies has greatly enhanced activities such as targeted marketing and product development. These benefits, whilst not unexpected, add to our view that this is proving a successful acquisition.

People

The Latchways group now employs over 180 people throughout the UK. Each has made an important contribution to the business this year and on behalf of the board I would like to thank them all.

Current Trading and Prospects

The current business environment is not without risk with a considerable degree of uncertainty still apparent. Trading has, however, remained healthy since the year-end, with installers reporting good activity across the business. Although early into the new year, we are confident of building on this year's solid foundation and resuming the steady growth required to maximise shareholder return.



Paul Hearson, Chairman

Operating and Financial Review

Financial Review

Consolidated Results

The consolidated results for the year include a full year's contribution from HCL Group, compared with four months in the prior year.

Turnover for the year was £18.4 million, compared with £9.3 million last year. This resulted in an operating profit of £2.99 million (2002: £0.88 million), generating a pre tax profit of £2.75 million (2002: £0.77 million).

It is gratifying that gross margins at 52% were largely unchanged, despite the inclusion of a full year's results from HCL Group, and an increased proportion of lower margin vertical business within Latchways.

The increase in operating expenses, after adjusting for HCL Group, was significantly lower than the increase in turnover. Planned uplifts in new product development and marketing expenditure, as well as both internal and external sales commissions and bonuses, accounted for the majority of the increase.

Earnings per share of 18.15 pence were 256% up on last year (2002: 5.09 pence) while diluted earnings per share were 18.13 pence (2002: 5.08 pence).

This was a satisfactory year for cash generation, with cash generated from operations in line with operating profit. Net debt was reduced by £0.6 million to £2.2 million. All financial covenants remain well covered and are expected to remain so for the foreseeable future.

Operating Review

The combined UK turnover of the group increased to £13.3 million from £6.8 million in the previous year. This represents a strong turnaround. We have focused our efforts on broadening our offering to system specifiers such as architects and roofing contractors.

We now offer a complete design and specification service for all types of fall arrest system design. On the product side, the Constant Force Post range has been increased to cover all major manufacturers' roof types. These actions have helped to ensure that when Latchways' product is specified it is increasingly difficult for competitors to change that specification.

Sales to the telecommunications industry were badly hit in the prior year by the effects of the Foot and Mouth outbreak. This year, sales made a strong recovery and we remain the system of choice for all major mast operators.

Operating and Financial Review

European sales performed well in the year, with good contributions from both the Dutch Electricity industry and our traditional installer base, as well as some strong performances from new installers. As a result, European sales were up 61% to £2.9 million. We expect to make further progress this year as the new installers continue to grow. Although relatively small to date, the impact of these installers will justify the long-term effort that we have put into developing their businesses.

The Dutch electricity rollout has gone well during the year, with all of the major companies taking delivery of significant volumes of product. The feedback we have received has been positive and we have learned a great deal which will further improve our offering going forward. We remain the supplier of choice to the electricity industry.

After last year's poor trading in North America, sales have come back strongly with revenues of £1.8 million in the year, compared with £0.2 million in 2002. It is particularly encouraging that the recovery has taken place across all of our customers, with each making a significant contribution. Our faith in the long-term prospects for our North American business remains strong.

Operations

The specification sale is an important concept in our industry and one on which we have placed great emphasis in recent years. In any new build project, it is important to ensure that the fall arrest product is specified early in the design process, and then to ensure that this specification is maintained throughout the build phase. Latchways has used a number of means to ensure that our product is specified. This is achieved through a combination of targeted marketing, direct sales, technical support to architects, contractors and installers, and product quality. We also seek to build long-term relationships with key customers and decision makers. These customers have recognised and specified Latchways as their system of choice, after long and thorough technical appraisals.



Operating and Financial Review

Product Development

Although the Constant Force Post has been important to our business over the past 18 months, it is by no means the only new product that has been launched over the past year. Latchways is the only company that consistently designs industry specific solutions. For example, an overhead system was specifically developed for the North American rail car industry, and launched in the fourth quarter. This addresses the limitations of existing product offerings in the marketplace. Early indications from customers are of a high level of acceptance and, although not likely to generate significant business directly, it demonstrates once again our unique ability to respond to customer needs and to develop fall arrest solutions that are practical, reliable and cost effective.

Our intellectual property remains of central importance to our business. We have continued to invest considerable funds in both registering and defending our patents.

In recognition of the importance of new product development we have further increased our design resource during the year. This will ensure that we remain at the forefront of our industry.

Future Prospects

Our commitment to quality and future growth was undiminished despite the poor trading of the previous year. This year has seen the benefits of this approach and growth has been restored. There will be continued focus on quality and customer service. We have a solid foundation for growth in the UK and Europe, whilst further progress in North America will be achieved through close cooperation with our installer base.

We will continue to concentrate on the vertical market in order to maximise the potential opportunities we have in this area. Our impressive customer list and a track record of over 20,000 vertical systems installed over the past 10 years will help us ensure that we retain our number one position in this market.



David Hearson, Managing Director

Directors and Advisers

Non Executive Chairman	<p>Paul Hearson*</p> <p>Paul Hearson (age 52) was appointed to the board as non executive Chairman in June 1995. He was co-founder and Managing Director of Safetynet PLC, a company specialising in computer disaster recovery, until it was sold in February 1999.</p>
Managing Director	<p>David Hearson</p> <p>David Hearson (age 52) was appointed Managing Director in September 1995. He was formerly with IBM in both the UK and overseas.</p>
Financial Director and Company Secretary	<p>Rex Orton</p> <p>Rex Orton (age 37) joined Latchways in April 1999. He was previously with Sunrise Medical Inc, having trained as a Chartered Accountant with Coopers & Lybrand.</p>
Business Development Director	<p>Tony Workman</p> <p>Tony Workman (age 54) joined Latchways in 1992 and was appointed to the board in 1993. He was previously with the engineering company, Lister Petter Limited.</p>
Non Executive Directors	<p>James Joll*</p> <p>James Joll (age 66) is a non executive director of a number of companies. He was Finance Director of Pearson plc from 1985 to 1996.</p> <p>Brian Finlayson*</p> <p>Brian Finlayson (age 56) joined the board in May 1994. He is a non executive director of Dunedin Capital Partners Ltd.</p>
Registered Office	Hopton Park, Devizes, Wiltshire SN10 2JP
Registered Number	1189060
Directors	N P Hearson, D N Hearson, B Finlayson, J A B Joll, R A Orton, J A Thompson (Resigned 6 November 2002) and T J Workman
Secretary	R A Orton
Auditors	PricewaterhouseCoopers LLP Chartered Accountants, 1 Embankment Place, London WC2N 6RH
Solicitors	Olswang, 90 High Holborn, London WC1V 6XX
Stockbrokers	Bell Lawrie White & Co (A division of Brewin Dolphin Securities Limited) 48 St Vincent Street, Glasgow G2 5TS
Registrars	Lloyds TSB Registrars (Scotland), Finance House, Orchard Brae, Edinburgh EH4 1WQ
Bankers	Bank of Scotland, 38 Threadneedle Street, London EC2P 2EH

* Members of the audit and remuneration committees

Directors' Report

The directors present their annual report and financial statements for the year ended 31 March 2003.

Principal activity

The principal activity of the group in the year under review was the production, distribution and installation of industrial safety products.

Review of the business and future developments

A review of the business for the year is given in the Chairman's Statement, and the Operating and Financial Review.

Results and dividend

The profit for the year after providing for taxation amounted to £1,967,000 (2002: £552,000).

The directors declared an interim dividend of 3.025 pence (2002: 3.025 pence) per ordinary share which was paid on 7 March 2003.

The directors recommend a final dividend of 6.28 pence (2002: 6.05 pence) per ordinary share to be paid on 5 September 2003 to all those shareholders whose names appear on the register on 8 August 2003.

The retained profit for the year of £959,000 (2002 retained loss: £431,000) has been transferred to reserves.

Research and development

The group has an active programme of research and development. The total expensed for the year appears in note 5 to the financial statements.

Share capital

Information relating to the share capital of the company is given in note 17 to the financial statements.

Under the company's articles of association the company may at any time purchase all of the deferred shares at a price not exceeding one penny or may cancel the deferred shares by way of reduction of capital for no consideration.

Directors

The present directors of the group are set out in the summary of Directors and Advisers.

All directors served throughout the year ended 31 March 2003, except J A Thompson, who resigned as a director on 6 November 2002.

In accordance with the articles of association D N Hearson and J A B Joll retire by rotation at the annual general meeting and offer themselves for re-election.

The interests of the directors in the shares of the group are disclosed in the Directors' Remuneration Report.

Directors' Report

Directors' interests in contracts

There were no contracts in which directors notified any interest during the year.

Directors' and officers' liability insurance

During the year the group maintained an insurance policy which indemnifies the group and directors and officers of the company in respect of loss arising from claims made against them in connection with the performance of their duties.

Employees

Latchways recognises the benefits of keeping employees fully informed of its progress and of events which directly affect them and their working conditions. Information is provided on training and other matters of concern by means of regular briefings and meetings with management. The group actively encourages ownership of its shares by its employees, and operates a share option scheme for key employees.

Latchways has a policy of equal opportunities and non-discrimination in all forms of employment. Training is actively encouraged for all employees. Group policy is to give full and fair consideration to employment of disabled persons, having regard to their particular aptitudes and abilities and their training and career development. If employed persons become disabled, all possible assistance is given to them to continue in their existing job, or in an alternative position within the group.

Creditor payment policy

It is the group's policy to settle all debts with its creditors on a timely basis. It seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The group had 38 days' purchases outstanding at 31 March 2003 (2002: 52 days).

Donations

Charitable donations paid during the year amounted to £200 (2002: £4,657). There were no political contributions (2002: Nil).

Introduction of the Euro

The group does not currently expect significant project costs to be incurred as a result of the possible introduction of the Euro. The group currently has Euro bank account facilities.

Directors' Report

Substantial Interests

At 12 June 2003 the directors had been notified of the following interests, which represented 3% or more of the issued ordinary share capital of the group.

Shareholder	Number of ordinary shares of 5p each	% of the issued ordinary share capital of the group
Jupiter Asset Management Limited	1,521,500	14.0
Amvescap plc	1,057,036	9.8
Aegon UK plc	625,000	5.8
Invesco English & International Trust plc*	619,458	5.7
D N Hearson	531,166	4.9
Ivory & Sime UK Discovery Trust	444,418	4.1
LeggMason Investors Enterprise plc	441,025	4.1
Invesco GT UK Smaller Companies Fund*	406,978	3.8

* These holdings are included in the Amvescap plc holding shown above.

Auditors

Following the conversion of our auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 29 January 2003 and the directors appointed its' successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the group will be proposed at the 2003 annual general meeting.

R A Orton

Company Secretary

Corporate Governance

The board of directors

The Group is committed to high standards of Corporate Governance, in accordance with “The Combined Code—Principles of Good Governance and Code of Best Practice” (“the Combined Code”), with which the Listing Rules of the Financial Services Authority require the Company to comply. The board is accountable to the shareholders for good governance and the information laid out below identifies how the principles identified in the Combined Code are applied by the Group.

The board comprises the non executive Chairman, three executive directors and two independent non executive directors. The differing roles of the Chairman and Managing Director are recognised and separated by the board. All appointments to the board must be approved by the full board.

The board has been selected to provide the appropriate breadth of knowledge and experience to meet the group’s needs. Each new director is given appropriate training for his role, and the Company Secretary is responsible for ensuring that directors remain up to date with legislative and other requirements.

The board meets at least quarterly and is provided with timely information previously agreed with and requested from management. A schedule of matters central to the control and operation of the business is reserved for board approval. Between formal board meetings, all board members are provided with monthly financial information, and regular contact is maintained between executive and non executive directors.

The Group maintains communication with external shareholders through regular meetings at board level and the annual general meeting. In addition, the Group seeks to encourage private shareholder interest through Investors Club visits.

The audit committee comprises the three non executive directors and is chaired by Paul Hearson. It meets at least twice a year and is responsible for ensuring that the financial performance of the group is properly reported on and monitored, for meeting the auditors and for reviewing the accounting policies and the reports from management and the auditors relating to the accounts and internal control systems. It meets at least once a year with the auditors without executive board members present.

The remuneration committee comprises the three non executive directors and is chaired by James Joll. It reviews, inter alia, the performance of the executive directors and sets the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of shareholders. The Directors’ Remuneration Report includes details of the group’s remuneration policy and directors’ remuneration.

Corporate Governance

The remuneration of the three non executive directors is set by the full board.

The directors' responsibilities in respect of the preparation of the financial statements are set out in the Statement of Directors' Responsibilities.

Internal Controls

The Combined Code has extended the requirement that the board reviews and reports on the effectiveness of the groups' system of internal control to cover all controls, including financial, operational and compliance controls and risk management. The directors acknowledge their responsibilities in this regard, and confirm that the review has taken place.

The framework of internal control comprises:

Operational control environment – there is a clearly defined organisational structure within which lines of responsibility and delegation of activity are clearly defined.

Risk management – management has a clear responsibility for the identification of risks facing the business and for putting in place procedures to mitigate and monitor risks. Regular strategic review meetings are held by a sub committee of the board to identify key risks to the business, and the appropriate actions necessary to mitigate those risks. These reviews are wide ranging, encompassing not only internal procedures but also the fall arrest industry. The board is updated on these issues at least quarterly through a standing item on the board agenda.

Information and control procedures – the group has a comprehensive process of financial reporting. The board approves the annual budget of the company and monthly performance is reviewed against this budget.

Monitoring system – compliance with the overall system of internal control is monitored by the board. In addition to monthly key performance indicators, an annual review of internal procedures is carried out to ensure that control processes continue to improve. This takes the form of a detailed review of each operational area of the business. In the opinion of the board, an internal audit function is not appropriate given the size of the business.

Corporate Governance

Statement of compliance

In the opinion of the directors, the group complies fully with the provisions of the Combined Code, except for the following:

- Code provision A.5.1: The group does not have a nomination committee to make representations on new board appointments.
- Code provision A.2.1: The group chooses not to designate a senior independent non executive director.

Both of these provisions are considered by the board to be inappropriate given the small size of the board.

- Code provision B.2.2: As is normal, the remuneration committee includes the Chairman, N P Hearson, who is the twin brother of the Managing Director.

The board considers that this in no way interferes with the Chairman's independence.

Going Concern

After making enquiries, and reviewing the preliminary budget and cash flow for the forthcoming year, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Directors' Remuneration Report

Remuneration policy

This part of the remuneration report is unaudited.

The group's policy on remuneration is to attract, retain and incentivise employees, recognising that they are key to the ongoing success of the business.

Consistent with this policy, Latchways sets levels of salary and other benefits for the executive directors which are intended to be competitive and appropriate to the duties and responsibilities undertaken by each director. Individual packages comprise a mixture of fixed and performance-related remuneration designed to motivate directors of the quality required by the group.

The performance related elements of the executive directors' packages comprise a mix of share options and bonuses. Share option awards are reviewed annually by the remuneration committee, taking into account existing shareholdings and total compensation.

Bonus payments are based solely on the performance of the group. Levels of bonus and target performance are determined annually by the remuneration committee, and are related to profit before tax.

In making its judgments on these matters, the committee has taken account of external measures, including those relating to comparable companies and positions.

Directors' Service Contracts

This part of the remuneration report is unaudited.

Executive directors' service contracts are valid until the director reaches the company retirement age, currently 65, and have notice periods of not more than one year. Non-executive directors are appointed for an initial period of three years and, subject to shareholder approval, may be reappointed for similar periods.

Members of the Remuneration Committee

This part of the remuneration report is unaudited.

The members of the remuneration committee during the year were

J A B Joll

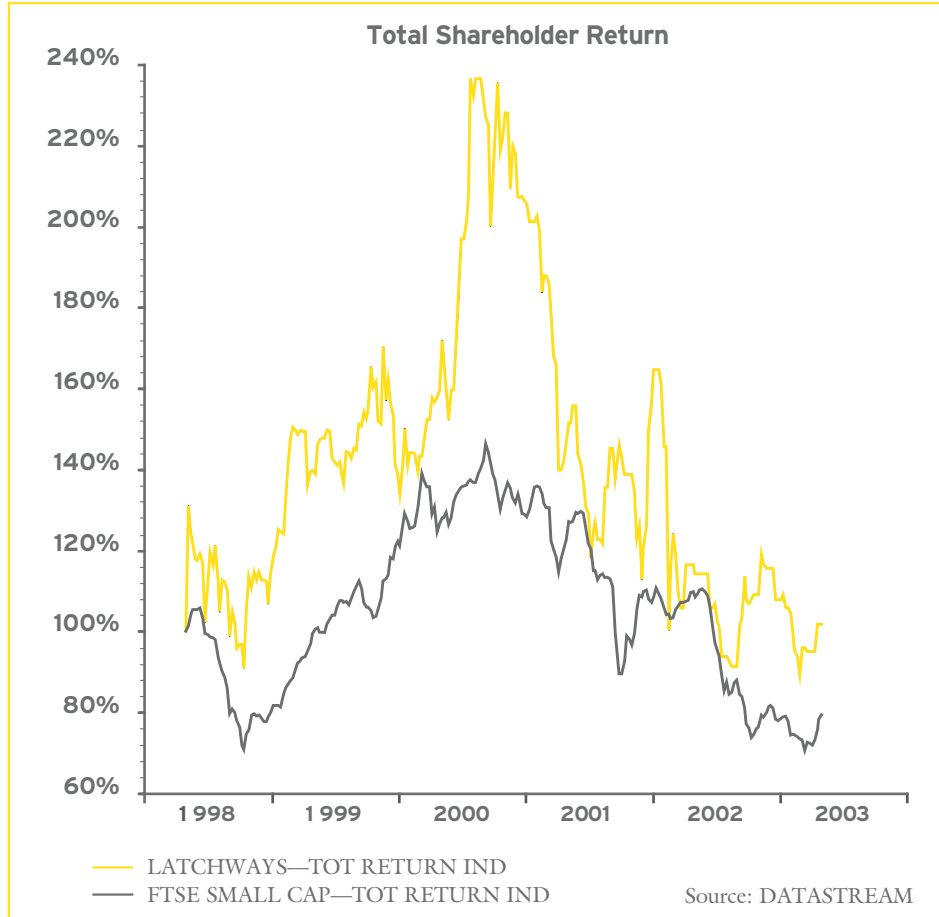
B Finlayson

N P Hearson

Directors' Remuneration Report

Performance graph

This part of the remuneration report is unaudited.



April 1998 = 100%

The graph shows the performance of Latchways shares over the five years since April 1998, including dividends. During this turbulent period, Latchways has outperformed the FTSE Small Cap Index, giving a total shareholder return of 2% compared to a negative return of -20% provided by the FTSE Small Cap Index.

In the opinion of the directors, the FTSE Small Cap Index is the most appropriate index against which the total shareholder return of Latchways should be measured because it is an index of similar-sized companies to Latchways.

Directors' Remuneration Report

Directors' detailed emoluments

This part of the remuneration report is auditable information.

	Fees	Salary	Bonus	Pension	Benefits	Total 2003	Total 2002
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
N P Hearson	12	-	-	-	-	12	12
B Finlayson	10	-	-	-	-	10	10
D N Hearson	-	128	60	11	11	210	146
J A B Joll	10	-	-	-	-	10	10
R A Orton	-	89	30	9	9	137	106
J A Thompson (Resigned 6 November 2002)	-	40	-	4	11	55	86
T J Workman	-	51	5	5	13	74	69
	32	308	95	29	44	508	439
2002	32	331	-	32	44	439	

Note:

Pension contributions are paid to a Group Personal Pension Plan, which is a defined contribution scheme. Benefits in kind include the provision of a company car (excluding DN Hearson), fuel (excluding RA Orton), medical and life insurance for all executive directors.

No director waived emoluments in the year ended 31 March 2003 or the prior year.

Interests in shares

This part of the remuneration report is unaudited.

The interests of the directors and their families in the share capital were as follows:

	31 March 2003 Ordinary 5p	31 March 2002 Ordinary 5p
N P Hearson	51,980	41,980
B Finlayson	103,074	103,074
D N Hearson	531,166	526,166
J A B Joll	16,000	16,000
R A Orton	1,000	1,000
T J Workman	147,500	147,500

There have been no changes in the interests of directors between 31 March 2003 and 12 June 2003.

Directors' Remuneration Report

Interests in share options

This part of the remuneration report is auditable information.

Share options are granted according to individual merit.

Details of options over the ordinary shares of the company held by directors are set out below:

Number of options

	1 April 2002	Granted/ (lapsed) in the year	Exercised in the year	31 March 2003	Exercise price p	Date from which exercisable	Expiry date
R A Orton	34,782	-	-	34,782	349.0	28.06.02	28.06.09
	34,090	-	-	34,090	352.5	04.02.03	04.02.10
	69,782	-	-	69,782*	287.5	31.07.04	31.07.11
D N Hearson	34,782	-	-	34,782*	287.5	31.07.04	31.07.11

*These options are subject to performance criteria relating to earnings per share performance. For the options to vest, the diluted earnings per share of the group must increase by 10% above the total increase in the UK Retail Price Index in the three year period to 31 March 2004.

The market value of the company's ordinary shares as at 31 March 2003 was 210.0p, and the range of market prices during the year was 197.5p to 337.5p.

No other directors have been granted share options in the shares in the company or other group entities. None of the terms and conditions of the share options was varied during the year. All options were granted in respect of qualifying services.

No options were granted or exercised during the year.

On behalf of the board.

J A B Joll

Chairman of the Remuneration Committee.

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 affairs of the company and the group as at the end of the financial period and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- a) Select suitable accounting policies and then apply them consistently;
- b) Make judgements and estimates that are reasonable and prudent;
- c) State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d) Prepare financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the consolidated 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.

R A Orton

Company Secretary

23 June 2003

Independent Auditors' Report to the Members of Latchways plc

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the chairman's statement, the operating and financial review, the directors' report, the corporate governance statement and the unaudited part of the directors' remuneration report.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

Independent Auditors' Report to the Members of Latchways plc

Basis of audit opinion

We conducted our audit in accordance with 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 and the auditable part of the directors' remuneration report. 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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 2003 and of the profit and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

23 June 2003

Consolidated Profit and Loss Account

for the year ended 31 March 2003

	Note	Results before amortisation of goodwill 2003 £'000	Amortisation of goodwill 2003 £'000	Results after amortisation of goodwill 2003 £'000	2002 £'000
Turnover	2	18,449	–	18,449	9,328
Cost of sales		(8,924)	–	(8,924)	(4,344)
Gross profit		9,525		9,525	4,984
Administrative expenses					
– excluding goodwill amortisation		(6,435)	–	(6,435)	(4,072)
– goodwill amortisation		–	(100)	(100)	(33)
		(6,435)	(100)	(6,535)	(4,105)
Group operating profit		3,090	(100)	2,990	879
Interest receivable and similar income				14	5
Interest payable and similar charges	4			(250)	(115)
Profit on ordinary activities before taxation	5			2,754	769
Tax on profit on ordinary activities	6			(787)	(217)
Profit on ordinary activities after taxation				1,967	552
Dividends	7			(1,008)	(983)
Retained profit/(loss) for the year				959	(431)
Basic earnings per share (pence)	8			18.15	5.09
Diluted earnings per share (pence)	8			18.13	5.08

There are no recognised gains or losses except for the profit as stated above and therefore no separate statement of total recognised gains and losses is shown.

There is no material difference between the profit on ordinary activities before taxation and the profit for the year as stated above, and their historical cost equivalents.

All activities relate to continuing operations.

Consolidated Balance Sheet

as at 31 March 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Intangible assets	9	2,291	2,361
Tangible assets	10	2,791	2,698
		5,082	5,059
Current assets			
Stocks	12	1,440	1,606
Debtors	13	6,277	5,254
Cash at bank and in hand		1,144	586
		8,861	7,446
Creditors: amounts falling due within one year	14	(5,368)	(5,182)
Net current assets		3,493	2,264
Total assets less current liabilities		8,575	7,323
Creditors: amounts falling due after more than one year	15	(2,748)	(2,451)
Provisions for liabilities and charges	16	(97)	(101)
Net assets		5,730	4,771
Capital and reserves			
Called up share capital	17	653	653
Share premium account	18	922	922
Profit and loss account	18	4,155	3,196
Equity shareholders' funds	18	5,730	4,771

The financial statements, which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, and the related notes, were approved by the board of directors on 6 June 2003 and signed on its behalf by:

N P Hearson Chairman

R A Orton Financial Director

Company Balance Sheet

as at 31 March 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Intangible assets	9	436	406
Tangible assets	10	2,618	2,606
Investments	11	2,662	2,662
		5,716	5,674
Current assets			
Stocks	12	972	1,272
Debtors	13	4,065	3,257
Cash at bank and in hand		1,134	579
		6,171	5,108
Creditors: amounts falling due within one year	14	(3,664)	(3,580)
Net current assets		2,507	1,528
Total assets less current liabilities		8,223	7,202
Creditors: amounts falling due after more than one year	15	(2,748)	(2,451)
Provisions for liabilities and charges	16	(119)	(125)
Net assets		5,356	4,626
Capital and reserves			
Called up share capital	17	653	653
Share premium account	18	922	922
Profit and loss account	18	3,781	3,051
Equity shareholders' funds	18	5,356	4,626

The financial statements, which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, and the related notes, were approved by the board of directors on 6 June 2003 and signed on its behalf by:

N P Hearson Chairman

R A Orton Financial Director

Consolidated Cash Flow Statement

for the year ended 31 March 2003

	Note	2003 £'000	2002 £'000
Net cash flow from operating activities	19	2,982	2,194
Returns on investment and servicing of finance			
Interest received		14	5
Interest paid		(250)	(112)
Interest paid on finance leases		-	(3)
Net cash outflow from returns on investments and servicing of finance		(236)	(110)
Taxation			
UK Corporation tax paid		(514)	(822)
UK Corporation tax received		75	-
Net cash outflow on taxation		(439)	(822)
Capital expenditure and financial investments			
Purchase of intangible fixed assets		(80)	(86)
Purchase of tangible fixed assets		(508)	(419)
Sale of tangible fixed assets		6	15
Net cash outflow on capital expenditure		(582)	(490)
Acquisitions			
Payments to acquire subsidiary undertakings		-	(650)
Costs incurred on acquisition of subsidiary undertakings		-	(282)
Net overdraft acquired on acquisition of subsidiary undertakings		-	(242)
Net cash outflow from acquisitions		-	(1,174)
Equity dividends paid		(983)	(983)
Net cash inflow/(outflow) before financing		742	(1,385)
Financing			
Bank loans received		1,150	2,164
Repayments of bank loans		(180)	(500)
Conversion of loan notes		(1,150)	-
Principal payment under finance leases		-	(18)
Net cash (outflow)/inflow from financing		(180)	1,646
Increase in cash in the year	19	562	261

Notes to the Financial Statements

for the year ended 31 March 2003

1. Principal accounting policies

The directors have reviewed the group's accounting policies and consider that the financial statements are prepared in accordance with FRS18. The principal accounting policies, which have been applied consistently, are set out below.

Basis of preparation

The accounts have been prepared under the historical cost convention in accordance with applicable accounting standards.

Basis of consolidation

The group accounts consolidate the accounts of the company and its subsidiary undertakings, all of which prepare their financial statements to 31 March each year. The results and net assets of subsidiary undertakings acquired are included in the group profit and loss account and balance sheet using the acquisition method of accounting from the effective date of acquisition.

Turnover

Turnover, which excludes VAT, represents the net invoiced sales of goods and services supplied.

Investments

Investments in subsidiary undertakings are stated at cost plus incidental costs of acquisition, less any provision for diminution in value.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned.

The principal annual rates used for this purpose are:

Freehold buildings	2%
Installations in leasehold properties	10%
Plant and machinery	20%-50%
Motor vehicles	20%-25%
Fixtures and fittings	15%-33%
Computer equipment	33%

Freehold land is not depreciated. Assets in the course of construction are not depreciated until they are brought into use. In the opinion of the board the market value of land and buildings is not significantly different to historic cost.

Notes to the Financial Statements

1. Principal accounting policies (continued)

Intangible fixed assets

Goodwill is stated at cost less accumulated amortisation and any impairment in value. Cost is the difference between the fair value of the consideration paid on the acquisition of a business and the fair value of the separable net assets acquired. Amortisation is calculated to write off the cost of goodwill on a straight-line basis over its estimated useful life of 20 years.

Patents, trademarks and registered designs include all costs relating to the necessary procedures prior to their registration. The costs are written off in equal instalments over their estimated useful lives, which are of up to 20 years duration. All other patent costs are written off as incurred.

Stocks

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

Deferred taxation

Full provision is made for deferred tax arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations, where future payment or receipt is more likely than not to occur. The group does not discount deferred tax assets and liabilities.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Financial instruments

From time to time, the group uses foreign currency forward contracts and foreign currency borrowings to reduce exposure to foreign exchange rates. Any gain or loss is taken to the profit and loss account upon maturity of the contracts.

The group also uses interest rate swaps to reduce exposure to fluctuations in interest rates. The costs of the swaps are taken to the profit and loss account as they arise.

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised at their estimated fair value at the date of inception of each lease or contract. The assets are depreciated over their expected useful lives based on equivalent tangible fixed asset rates of depreciation. The finance charges are allocated over the primary period of the lease in proportion to the capital element outstanding. Rentals payable under operating leases are charged to the profit and loss account as incurred.

Notes to the Financial Statements

1. Principal accounting policies (continued)

Pensions

The company operates two Group Personal Pension Plans, which are defined contribution schemes. These are available to all employees after an initial qualifying employment period, and both group and employee make defined contributions to the schemes. The costs to the group of such contributions are charged to the profit and loss account in the period to which they relate.

2. Turnover

The turnover, profit before taxation for the year, and net assets are attributable to the principal activity of the group carried out in the United Kingdom. In the opinion of the directors there is only one business segment and therefore no segmental analysis of the profit and loss account is appropriate.

An analysis of turnover by geographical market destination is given below:

	2003	2002
	£'000	£'000
United Kingdom	13,268	6,781
Europe	2,942	1,835
North America	1,848	185
Other	391	527
	18,449	9,328

3. Employee numbers and remuneration

The average number of employees (including executive directors) employed by the group was:

	2003	2002
Administration and management	51	23
Operations and development	117	55
Sales and marketing	15	11
	183	89

Employee costs

	2003	2002
	£'000	£'000
Salaries	4,103	1,945
Social security costs	394	206
Pension costs	198	125
	4,695	2,276

Notes to the Financial Statements

3. Employee numbers and remuneration (continued)

Directors' emoluments

	2003	2002
	£'000	£'000
Aggregate emoluments for qualifying services	479	408
Contributions to defined contribution pension schemes	29	31
	508	439

Contributions to defined contribution pension schemes were made in respect of 4 (2002: 4) directors.

Details of directors' remuneration, together with directors' interests in shares and share options, are set out in the Directors' remuneration report, and form part of these financial statements.

Emoluments payable to the highest paid director were:

	2003	2002
	£'000	£'000
Aggregate emoluments for qualifying services	199	135
Contributions to defined contribution pension schemes	11	11
	210	146

4. Interest payable

	2003	2002
	£'000	£'000
On finance leases and hire purchase contracts	–	3
On bank loans and overdrafts	212	94
On loan notes	38	18
	250	115

Notes to the Financial Statements

5. Profit on ordinary activities before taxation

The profit on ordinary activities is stated after charging/(crediting):

	2003	2002
	£'000	£'000
Directors' emoluments	508	439
Depreciation—owned assets	412	311
Depreciation—assets on hire purchase and finance leases	–	35
Amortisation of intangible fixed assets—patents	50	28
—goodwill	100	33
Profit on sale of fixed assets	(3)	(5)
Auditors' remuneration—for audit services	42	34
—for non-audit services	10	9
Research and development	666	512
Operating lease charges—vehicles	238	106
—property	140	45
(Gain)/Loss on foreign exchange	(24)	15

In 2002, in addition to the above, the auditors, PricewaterhouseCoopers, received fees totalling £99,000 in respect of their work on the acquisition of HCL Group Plc. These costs have been charged to the cost of the investment.

The audit fee for the parent company was £21,000 (2002: £19,000).

6. Taxation on profit on ordinary activities

(a) Analysis of charge in the year

	2003	2002
	£'000	£'000
The charge for taxation is made up as follows:		
Current tax		
UK corporation tax on profits of the year	880	238
Adjustments in respect of previous periods	(89)	(6)
Total current tax (note 6(b))	791	232
Deferred tax		
Origination and reversal of timing differences	(4)	(15)
Total deferred tax (note 16)	(4)	(15)
Total tax on profit on ordinary activities	787	217

Notes to the Financial Statements

6. Taxation

(b) Factors affecting the tax charge in the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	2003	2002
	£'000	£'000
Profit before tax	2,754	769
Profit multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	826	230
Effects of:		
Temporary differences between taxable and accounting profit:		
— movement in accelerated capital allowances	6	10
— other timing differences	-	5
Over provision in earlier years	(89)	(6)
Permanent differences	48	(7)
Current tax charge for year (note 6(a))	791	232

7. Dividends

Dividends on ordinary shares of 5 pence each:

	2003	2002
	£'000	£'000
Interim dividend of 3.025 pence per share (2002: 3.025p)	328	328
Proposed final dividend of 6.28 pence per share (2002: 6.05p)	680	655
Total dividend for year	1,008	983

8. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The company has only one category of dilutive potential ordinary shares: those share options granted to employees, including directors, where the exercise price was less than the average market price of the company's ordinary shares during the year. The average market price for the year was 244.0p (2002: 320.8p).

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

Notes to the Financial Statements

8. Earnings per share (continued)

	2003		2002	
	Weighted average number of shares Thousand	Per share amount Pence	Weighted average number of shares Thousand	Per share amount Restated Pence
Earnings	£'000		Earnings Restated £'000	
Basic EPS				
Earnings attributed to ordinary shareholders	1,967	10,837	552	10,837
Effect of dilutive share options	-	12	-	31
Diluted EPS	1,967	10,849	552	10,868
		18.15		5.09
		(0.02)		(0.01)
		18.13		5.08

9. Intangible fixed assets

Group

	Goodwill £'000	Patents, Trade Marks & Designs £'000	Total £'000
Cost			
At 1 April 2002	1,988	604	2,592
Additions in the year	-	80	80
At 31 March 2003	1,988	684	2,672
Amortisation			
At 1 April 2002	33	198	231
Charge for the year	100	50	150
At 31 March 2003	133	248	381
Net book value			
At 31 March 2003	1,855	436	2,291
At 31 March 2002	1,955	406	2,361

Goodwill arose on the acquisition of HCL Group plc.

The Patents, Trade Marks and Registered Designs analysed above are all attributable to the company, and as such represent the total amount of intangible assets in the balance sheet of the company.

Notes to the Financial Statements

10. Tangible fixed assets

Group

	Freehold land & buildings £'000	Plant & machinery £'000	Motor vehicles £'000	Fixtures, fittings & equipment £'000	Total £'000
Cost					
At 1 April 2002	2,067	747	30	855	3,699
Additions in the year	4	182	20	302	508
Disposals in the year	–	–	(17)	–	(17)
At 31 March 2003	2,071	929	33	1,157	4,190
Depreciation					
At 1 April 2002	90	315	22	574	1,001
Disposals in the year	–	–	(14)	–	(14)
Charge for the year	31	163	9	209	412
At 31 March 2003	121	478	17	783	1,399
Net book value					
At 31 March 2003	1,950	451	16	374	2,791
At 31 March 2002	1,977	432	8	281	2,698
Company					
Cost					
At 1 April 2002	2,067	706	30	786	3,589
Additions in the year	4	138	20	199	361
Disposals in the year	–	–	(17)	–	(17)
At 31 March 2003	2,071	844	33	985	3,933
Depreciation					
At 1 April 2002	90	308	22	563	983
Disposals in the year	–	–	(14)	–	(14)
Charge for the year	31	136	9	170	346
At 31 March 2003	121	444	17	733	1,315
Net book value					
At 31 March 2003	1,950	400	16	252	2,618
At 31 March 2001	1,977	398	8	223	2,606

The net book value, for both group and company, of fixtures, fittings & equipment includes an amount of £nil (2002: £nil) in respect of assets held under hire purchase and finance leases.

Freehold land & buildings includes £462,000 (2002: £462,000) relating to land.

Notes to the Financial Statements

11. Investments

	Company	
	2003 £'000	2002 £'000
Investment in subsidiary undertakings:		
As at 1 April 2002	2,662	–
Additions at cost	–	2,662
As at 31 March 2003	2,662	2,662

The subsidiary undertakings, all of which are wholly owned and registered in England and Wales are as follows:

Name	Principal Activity	Category	% held
HCL Group Plc	Holding Company	Ordinary £1	100%
HCL Safety Limited*	Safety system installation and services	Ordinary £1	100%
HCL Contracts Limited*	Structural repair of buildings	Ordinary £1	100%
HCL Management Limited*	Management services	Ordinary £1	100%

*denotes a subsidiary of HCL Group plc

12. Stock

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Raw materials and consumables	976	849	654	580
Work in progress	146	145	–	80
Finished goods and goods for resale	318	612	318	612
	1,440	1,606	972	1,272

13. Debtors

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade debtors	5,982	4,833	3,482	2,814
Amounts owed by subsidiary undertakings	–	–	443	225
Other debtors	13	17	13	17
Prepayments and accrued income	282	404	127	201
	6,277	5,254	4,065	3,257

All debtors fall due within one year.

Notes to the Financial Statements

14. Creditors: amounts falling due within one year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Overdrafts	139	143	–	–
Bank loans	387	177	387	177
Loan notes	116	1,150	116	1,150
Trade creditors	1,469	1,419	876	925
Corporation tax	536	184	395	13
Social security and other taxes	177	134	98	56
Other creditors	565	449	130	105
Accruals	835	755	518	383
Deferred consideration	464	116	464	116
Dividends payable	680	655	680	655
	5,368	5,182	3,664	3,580

The overdraft represents HCL Group Plc's facility, which is secured by a mortgage debenture over the assets of the Group and a legal charge over the Hopton Park premises. The bank loan represents the current element of two 7 year term loans. For details of these loans see note 15.

The loan notes are payable to the vendors of HCL Group Plc and are convertible to cash from 24 July 2003. They are guaranteed by the Bank of Scotland and are subject to a fixed interest rate of 4.63%.

Deferred Consideration

The deferred consideration, which is all due within one year, relates to the acquisition of HCL Group Plc. The total maximum further consideration payable is £464,000, payable in tranches based on the results of various periods ending 30 September 2003.

Notes to the Financial Statements

15. Creditors: amounts falling due after more one year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank loans	2,748	1,987	2,748	1,987
Deferred consideration	-	464	-	464
	2,748	2,451	2,748	2,451
Bank loans				
Due within 1 to 2 years	594	269	594	269
Due within 2 to 5 years	1,782	1,086	1,782	1,086
Due after more than 5 years	372	632	372	632
	2,748	1,987	2,748	1,987

In 2003, the Group had two 7 year loans outstanding. The first of these, which was used to fund the HCL Group acquisition, is secured against Latchways' premises at Hopton Park, Devizes, Wiltshire, by a fixed and floating charge over the net assets of the company, and by a fixed and floating charge over the share capital of HCL Group Plc. This loan is subject to a two year payment holiday, with payments due to commence in November 2003. The second loan is secured against Latchways' premises, and by a fixed and floating charge over the net assets of the company. Both loans are subject to an interest rate that varies by reference to LIBOR.

In accordance with FRS4, these loans are stated net of £37,000 in respect of bank charges which are being amortised over the period of the loans.

Notes to the Financial Statements

16. Provisions for liabilities and charges

Deferred tax

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
At start of year	101	138	125	138
Acquisition	-	(22)	-	-
Profit and loss account	(4)	(15)	(6)	(13)
At end of year	97	101	119	125
The deferred tax provided is made up as follows:				
Accelerated capital allowances	101	109	119	129
Other timing differences	(4)	(8)	-	(4)
	97	101	119	125

17. Share capital

Authorised

	Ordinary 5p shares No.	Deferred 65p shares No.	Total £'000
Share capital as at 1 April 2002	12,821,603	191,429	766
As at 31 March 2003	12,821,603	191,429	766
Issued and fully paid			
	Ordinary 5p shares No.	Deferred 65p shares No.	Total £'000
Share capital as at 1 April 2002	10,836,590	171,429	653
As at 31 March 2003	10,836,590	171,429	653

The deferred shares carry no rights to a dividend or other distribution nor to receive notice of, attend at or vote at any general meeting of the company. On a return of capital, each holder of a deferred share shall be entitled to receive a sum equal to the nominal capital paid up thereon, but only after the sum of £10,000,000 per ordinary share has been distributed and the holders of the deferred shares shall not be entitled to any further participation. The company may at any time cancel all or any of the deferred shares as a reduction of capital for no consideration.

Notes to the Financial Statements

17.Share capital (continued)

Since the deferred shares have no effective rights to dividends, voting, or repayment of capital, non-equity shareholders' funds have been treated as being of nil value.

As at 31 March 2003, options had been granted over 321,785 ordinary shares. Shares in respect of these options have not been issued. The option prices and exercise dates are as follows:

Exercise dates	Number of options	Exercise price
23.09.00 – 23.09.07	34,516	155.0p
28.06.02 – 28.06.09	34,782	349.0p
06.07.02 – 06.07.09	21,246	353.0p
04.02.03 – 04.02.10	38,062	352.5p
01.07.03 – 01.07.10	10,580	472.5p
31.07.02 – 31.07.11	69,561	287.5p
31.07.04 – 31.07.11	104,564	287.5p
26.11.02 – 26.11.11	8,474	295.0p

18.Reconciliation of movements in equity shareholders' funds

Group

	Share Capital £'000	Share Premium £'000	Profit & Loss £'000	2003 Total £'000	2002 £'000
Opening equity shareholders' funds	653	922	3,196	4,771	5,202
Profit after taxation	–	–	1,967	1,967	552
Dividends payable	–	–	(1,008)	(1,008)	(983)
Closing equity shareholders' funds	653	922	4,155	5,730	4,771

Company

Opening equity shareholders' funds	653	922	3,051	4,626	5,202
Profit after taxation	–	–	1,738	1,738	407
Dividends payable	–	–	(1,008)	(1,008)	(983)
Closing equity shareholders' funds	653	922	3,781	5,356	4,626

Notes to the Financial Statements

19. Notes to the cash flow statement

Net cash flow from operating activities	2003	2002		
	£'000	£'000		
Operating profit	2,990	879		
Amortisation of intangible fixed assets	50	28		
Amortisation of goodwill	100	33		
Depreciation of tangible fixed assets	412	346		
Profit on sale of tangible fixed assets	(3)	(5)		
Movement in stocks	166	(113)		
Movement in debtors	(1,023)	1,443		
Movement in creditors	290	(417)		
Net cash inflow from operating activities	2,982	2,194		
Reconciliation of net cash flow to movement in net debt	2003	2002		
	£'000	£'000		
Movement in cash in the year	562	261		
Cash outflow relating to finance lease	-	18		
Net cash outflows/(inflows) from financing	180	(1,664)		
Change in net debt resulting from cash flows	742	(1,385)		
Other non cash movements	(116)	(1,150)		
Movement in net debt	626	(2,535)		
Net debt at 1 April 2002	(2,871)	(336)		
Net debt at 31 March 2003	(2,245)	(2,871)		
Analysis of net debt	At	At		
	1 April	31 March		
	2002	2003		
	£'000	£'000		
Cash at bank in hand	586	558	-	1,144
Overdraft	(143)	4	-	(139)
	443	562	-	1,005
Bank loans	(2,164)	(970)	-	(3,134)
Loan notes	(1,150)	1,150	(116)	(116)
	(2,871)	742	(116)	(2,245)

The non-cash movement relates to the issue of loan notes of £116,000 during the year.

Notes to the Financial Statements

20. Company profit and loss account

The company has taken advantage of the exemption in S 230 of the Companies Act from publishing a separate profit and loss account. A profit of £1,738,000 (2002: £407,000) before dividends has been dealt with in Latchways plc's own books.

21. Financial commitments

At 31 March 2003 capital expenditure authorised by the board and contracted for but not provided in these financial statements was £Nil (2002: £Nil).

As at 31 March 2003 the group had annual operating lease commitments as follows;

	Land and Buildings £'000	Other £'000	Total 2003 £'000	2002 £'000
Expiry				
Within 1 year	67	72	139	106
1 to 2 years	-	43	43	82
2 to 5 years	9	39	48	78
Over 5 years	55	-	55	55
Total	131	154	285	321

Notes to the Financial Statements

22. Financial instruments

Objective and strategy

Financial instruments are used to provide the company with flexibility regarding its working capital requirements and to ensure that significant working capital expenditure is funded in a way that is appropriate to the group's circumstances. Transactions are only undertaken if they relate to underlying exposures and cannot be viewed as speculative.

Currency risk management

Since 1st April 2000, the group has invoiced export customers within the Euro Zone in Euros. In addition, certain other overseas customers are invoiced in local currency.

The group monitors its exposure to currency fluctuations on an ongoing basis. Euro currency exposure is managed using a combination of forward exchange contracts and the maintaining of a Euro overdraft balance. Significant exposure in other currencies is managed using forward exchange contracts.

Financing and interest rate management

During the year, the group used five other types of financial instrument; term bank loans, guaranteed loan notes, bank overdraft facilities, short term bank deposits and interest rate swaps.

Interest rate risk of financial liabilities

The group maintains two term bank loans. The first, taken out in November 2001, is a £2,400,000 facility specific to the HCL Group acquisition. As at 31 March 2003, £2,076,000 had been drawn down, with a further £116,000 utilised to guarantee loan notes payable to the vendors of HCL Group. The remaining £208,000 will be utilised to pay the remaining deferred consideration which cannot exceed £464,000 in total. This facility is repayable quarterly over 5 years from November 2003 and is subject to an interest rate of LIBOR plus 1.25%. Further, an interest rate swap is in place which fixes the net rate payable to 5.13% for the duration of the facility. The loan notes to the vendors of HCL Group are subject to a fixed interest rate of 4.63%.

A second term loan of £1,250,000 was taken out in March 2002. This is repayable quarterly over seven years, and is subject to an interest rate of LIBOR plus 1.25%.

The group has a £750,000 overdraft facility which next falls due for review in May 2004, of which £139,000 was utilised at 31st March 2003. Interest on this overdraft is charged at LIBOR plus 1.25%.

Details of the maturity profile of financial liabilities are set out in Notes 14 and 15.

Interest rate risk of financial assets

Any bank balances in excess of immediate cash requirements are placed on short term deposit.

As at 31st March 2003, the group had cash balances denominated in Australian Dollars of £14,000, and in US Dollars of £6,000.

As permitted by FRS13, short term debtors and creditors have been excluded from disclosure of financial liabilities and financial assets.

In the opinion of the directors, there is no significant difference between the fair values and the book values of financial assets and liabilities.

Notes to the Financial Statements

23.Related party transactions

The company has taken advantage of the exemption available under FRS8 not to disclose transactions with other group companies.

24.Ultimate controlling party

In the opinion of the directors the group has no controlling party.

Notice of Annual General Meeting

Latchways plc (Registered Number 1189060)

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at Hopton Park, Devizes, Wiltshire SN10 2JP on 29 August 2003 at 12 noon for the following purposes:

Ordinary business

1. To receive and adopt the directors' report and accounts for the year ended 31 March 2003.
2. To declare a final dividend on the ordinary share capital of the Company.
3. To re-elect D N Hearson as a director.
4. To re-elect J A B Joll as a director.
5. To receive and adopt the Directors' Remuneration Report for the year ended 31 March 2003.
6. To reappoint PricewaterhouseCoopers LLP as auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of PricewaterhouseCoopers), to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
7. To authorise the directors to fix the remuneration of the auditors.

Special Business

To consider and, if thought fit, to pass the following resolutions of which number 8 will be proposed as an ordinary resolution and numbers 9 and 10 as special resolutions:

8. For the purposes of Section 80 of the Companies Act 1985 (the "Act"), the directors be and they are hereby generally and unconditionally authorised, in substitution for any existing authority to allot relevant securities (within the meaning of section 80 of the Act), to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £99,251 provided that this authority shall expire five years from the date of the passing of this resolution (unless previously revoked, varied or extended by the Company in general meeting), except that the Company may before the expiry of such period make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such period and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority hereby conferred had not expired.
9. The directors be and are hereby empowered (pursuant to section 95 of the Act) to allot equity securities wholly for cash pursuant to the authority conferred upon them by resolution 8 above as if section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities:
 - 9.1. in connection with a rights issue; and
 - 9.2. the allotment (otherwise than pursuant to sub-paragraph 9.1 above) of equity securities up to an aggregate nominal amount of £27,091;

and shall expire on the earlier of the conclusion of the next annual general meeting of the Company and the date falling fifteen months after the date of the passing of this resolution (unless previously revoked, varied or extended by the Company in general meeting) except that the Company may before the expiry of any power contained in this resolution make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

Notice of Annual General Meeting

In this resolution 9:

- (a) “rights issue” means an offer of equity securities open for acceptance for a period fixed by the directors to holders of ordinary shares on the register on a fixed record date in proportion to their respective holdings of such shares or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in, any territory);
 - (b) the nominal amount of any securities should be taken to be, in the case of a right to subscribe for or convert any securities into shares of the Company, the nominal amount of the shares which may be allotted pursuant to such right; and
 - (c) words or expressions defined in or for the purposes of sections 89-96 inclusive of the Act shall bear the same meanings.
10. The Company be and is hereby generally and unconditionally authorised, in accordance with section 166 of the Act, to make market purchases (within the meaning of section 163 of the Act) of ordinary shares of 5 pence each in the capital of the Company (“ordinary share”) on such terms and in such manner as the directors may from time to time determine, provided that:
- (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 15% of the Company’s issued share capital;
 - (b) the minimum price which may be paid for an ordinary share is 5 pence per share;
 - (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;
 - (d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;
 - (e) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2004 or, if earlier on the expiry of 18 months from the date of the passing of this resolution, unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and
 - (f) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

By order of the board
Rex Orton
Company Secretary

Registered office:
Hopton Park
Devizes
Wiltshire
SN10 2JP

23 June 2003

Notes

- 1 Any member of the Company entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and, on a poll, vote on his or her behalf. A proxy need not be a member of the Company. To be valid, a form of proxy, and any power of attorney under which it is signed, must be lodged with the Company's registrars, Lloyds TSB Registrars Scotland, Finance House, Orchard Brae, Edinburgh EH4 1WQ, no later than 48 hours before the time of the annual general meeting. A form of proxy is enclosed.
- 2 The completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person.
- 3 The following documents are available for inspection by members at the registered office of the Company on weekdays (except bank holidays) during normal business hours, and at the place of the meeting for not less than fifteen minutes before the meeting draws to its conclusion:
 - 3.1 the register of directors' interests required to be kept under section 325 of the Act; and
 - 3.2 copies of the directors' contracts of service.
- 4 The following is an explanation of the resolutions relating to special business:
 - 4.1 The right of the directors to allot relevant securities in the capital of the Company requires in most cases the prior authorisation of the shareholders in general meeting under Section 80 of the Act. Resolution 8 will be put to members as special business to authorise the directors to allot ordinary shares with a nominal value of £99,251 out of the Company's unissued ordinary share capital representing approximately 18.3 per cent of the Company's current issued share capital. This authority shall expire 5 years from the date of the passing of this resolution.
 - 4.2 Resolution 9 will seek to obtain power under section 95 of the Act for the directors to allot for cash equity securities with an aggregate nominal value of £27,091 equal to approximately 5 per cent of the Company's issued ordinary share capital without being required first to offer such securities to existing shareholders. The Company will thereby be given greater flexibility when considering future opportunities but the interests of existing shareholders will be protected as, except in the case of a rights issue or the allotment of shares under the Company's employees' share option scheme, the proportionate interests of shareholders cannot, without their consent, be reduced by the issue for cash of new equity securities representing more than 5 per cent of the current issued share capital. Save for the issue of shares pursuant to options granted under the Company's employees' share option scheme, the directors have no present intention to allot any part of the unissued share capital of the Company or, without the prior approval of the Company in general meeting, to make any issue which would effectively alter the control of the Company or the nature of its business. This authority will expire immediately following the annual general meeting next following the resolution or, if earlier, 15 months following the resolution being passed.

Short biographies of each of the directors offering themselves for re-election are on page 16 of the annual report and accounts.

Form of Proxy for use at Annual General Meeting

Latchways plc (Registered number 1189060)

I/We

(BLOCK LETTERS)

of

(a) member(s) of Latchways plc entitled to attend and vote at the above meeting, hereby appoint the chairman of the meeting or*

as my/our proxy to vote for me/us and to act on my/our behalf at the annual general meeting of the Company convened for 29 August 2003 at 12 noon, and every adjournment thereof.

*If you wish to appoint a proxy other than the chairman, please delete the reference to the chairman of the meeting (initialling the deletion) and insert the name of your proxy in the space provided. A proxy must attend the meeting in person to represent you.

I/We direct the proxy to vote on the resolutions set out in the notice convening the meeting as follows:

Resolutions	For	Against
1. To receive the accounts and adopt them		
2. To declare a final dividend		
3. To re-elect D N Hearson		
4. To re-elect J A B Joll		
5. To receive the remuneration report and adopt it		
6. To re-appoint the auditors		
7. To authorise the directors to fix the auditors' remuneration		
8. To authorise the directors under section 80		
9. To authorise the directors under section 95		
10. To authorise the Company under section 166		

Dated this _____ day of _____ 2003

(Signature)

Notes

1. Please indicate with an x in the spaces provided above how you wish your vote to be cast. Your proxy will vote or abstain from voting as he/she thinks fit if no clear indication is given.
2. To be valid this proxy must be lodged with the Company's registrar, Lloyds TSB Registrars Scotland, Finance House, Orchard Brae, Edinburgh EH4 1WQ, not later than 48 hours before the time for which the meeting has been convened.
3. Any alterations made in the form of proxy should be initialled.
4. In the case of a corporation the proxy should be completed under its common seal or signed by its attorney or by an officer on its behalf.
5. 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. 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.
6. The completion and return of the form of proxy will not preclude ordinary shareholders attending and voting at the meeting should they subsequently decide to do so.



Latchways plc, Hopton Park, Devizes, Wiltshire SN10 2JP
Tel: +44 (0)1380 732700 Fax: +44 (0)1380 732701
Email: info@latchways.com Web site: www.latchways.com