

Latchways plc Annual Report & Accounts

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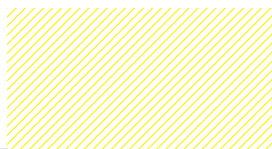
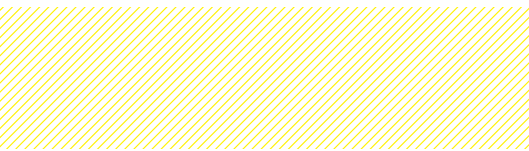
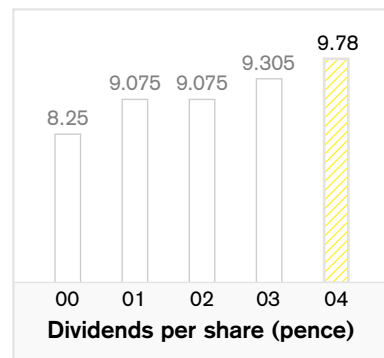
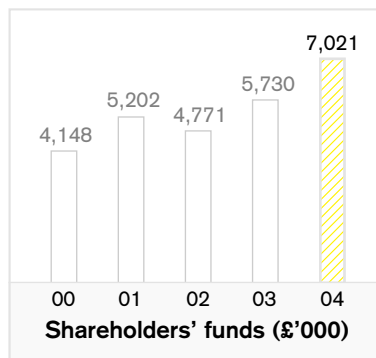
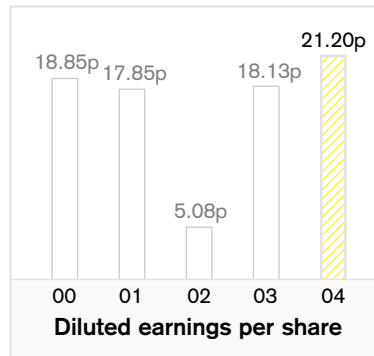
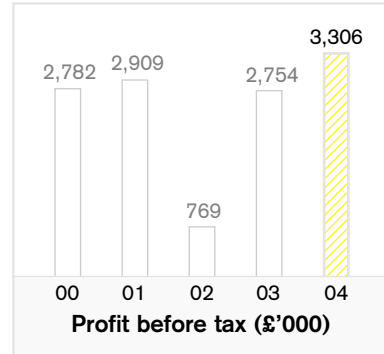
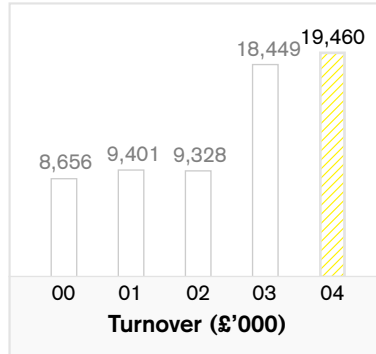


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Financial Overview and Five Year Record



Chairman's Statement

I am pleased to report that Latchways has continued to progress during the year, with solid growth in profits and turnover in both our traditional installer business and the utilities sector. Our efforts to develop the European market for our product have continued to be successful and this is reflected in the particularly strong growth of European sales.

Our subsidiary HCL has changed significantly during the year. We have reorganised the operation and closed those parts of the contracting business that were performing below expectation. In addition, we have restructured the safety installation arm and there is a new managing director in place. Both sides of the business are expected to make an enhanced contribution in the coming year.

Results

Group turnover for the year ended 31 March 2004 was £19.5 million (2003: £18.4 million), 6% ahead of last year. The turnover figure was impacted by the closures in HCL Contracts and if one excludes these, group turnover was up by 11%.

Group operating profit was 18% ahead of last year at £3.52 million (2003: £2.99 million). Profit before tax grew by 20% to £3.31 million (2003: £2.75 million), while diluted earnings per share were up 17% at 21.20 pence (2003: 18.13 pence).

Dividends

As a reflection of our ongoing confidence in the business, the board has proposed a final dividend of 6.60 pence per share. This results in a proposed total dividend for the year of 9.78 pence, 5% up on 2003. This is expected to be paid on 3 September 2004 to shareholders on the register as at 6 August 2004.

Opportunities

Our commitment to customer service and relevant product offerings remains the cornerstone of our strategy. The design service for system specifiers that we implemented last year has been a success and allows us to influence projects at an early stage and then track them through to completion.

Our efforts to develop our overseas markets continue. I am pleased to report that in 2004, Latchways' overseas product sales exceeded those in the UK for the first time. There remain major opportunities for future growth throughout Europe and the rest of the world as we expand our product range and identify local companies to help us sell the Latchways product.

We continue to make progress with our vertical systems. During the year a significant new European account was won and we expect to win further business during the coming year.

HCL Group

This has been a challenging year for the HCL Group, with significant restructuring of the Contracts division. The restructuring is complete and the Contracts division is trading profitably, with some notable contract wins during the year.

Despite the impact of significantly lower spending by the telecommunications industry during the year, HCL Safety has managed to maintain its Latchways product throughput.

Both HCL divisions have started the new year with a strong order book.

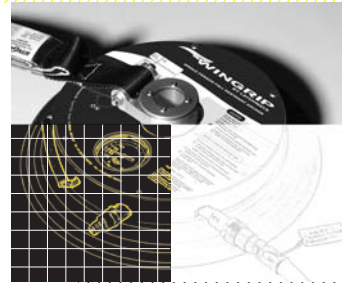
Chairman's Statement

Wingrip

In April 2004, Latchways acquired the rights to the Wingrip fall protection system for £1.15 million in cash. This was financed out of Latchways' own resources.

The Wingrip system utilises vacuum suction pad technology to provide fall protection anchors for aircraft maintenance workers. It is in use with many major airlines and aircraft manufacturers. We are in the process of identifying other potential markets into which the product may be sold. We are confident that this will prove to be a valuable addition to the Latchways product range.

We are delighted that the management team from Wingrip has joined Latchways.



People

In April, we welcomed Alastair Hogg to the board as Group Sales Director. Alastair has been with the group for five years and has been responsible for the growth of our core distributor business. His appointment reflects this success.

At the same time, Tony Workman, our Business Development Director of 11 years, left the board. Tony has decided to reduce his work commitment to part time and consequently he felt it inappropriate to remain an executive director. Tony remains an important member of the management team at Latchways and we are fortunate to retain him. On behalf of the board I would like to thank him for his contribution over the years.

As ever, the excellent results for the year reflect a great deal of commitment throughout the organisation, and I would like to express my thanks to all those involved.

Current Trading and Prospects

The new year has begun well, with order intake ahead of last year. Although only 2 months into the year, I am confident that Latchways will generate further growth for our shareholders. The newly acquired Wingrip business is performing ahead of expectations and is already proving an excellent fit.

Paul Hearson, Chairman

Operating and Financial Review

Financial Review

Group turnover for the year was £19.5 million, compared with £18.4 million last year. This resulted in an operating profit of £3.52 million (2003: £2.99 million), and a pre tax profit of £3.31 million (2003: £2.75 million).

Gross margins improved in the year from 51.6% to 53.7%, reflecting both a reduced proportion of lower margin contracting business, and also purchasing efficiencies.

The increase in operating expenses of 6% was broadly in line with turnover. The restructuring of the Contracts business, together with increased insurance costs, accounted for much of the increase.

Earnings per share of 21.21 pence were 17% ahead of last year (2003: 18.15 pence) while diluted earnings per share were 21.20 pence (2003: 18.13 pence).

Cash generation, already strong in 2003, improved further in the year, with cash generated from operations 121% of operating profit (2003: 100%). As a result, net debt reduced by £1.2 million to £1.0 million. Although the post-year end Wingrip acquisition has increased net debt, our balance sheet remains strong. All financial covenants remain well covered and are expected to remain so for the foreseeable future.

Operating Review

During the year we restructured HCL Contracts Limited, closing two of the three offices and streamlining the management structure. As a result, HCL group turnover in the UK was down by 11%. In addition, Latchways' UK product turnover was affected by reduced spending by telecoms customers. Despite this, UK product turnover increased by 3%, reflecting the underlying strength of our core distributor-based business.

Overall, UK turnover (including HCL) fell by 7% in the year to £12.4 million (2003: £13.3 million).

Continental Europe was our most successful growth market, with sales up 59% in the year to £4.7 million, following the 61% growth achieved in the previous year. Our traditional distributor base had a strong year, with the widening acceptance of our Constant Force rooftop systems playing a major role in driving growth. On the vertical business side, the rollout of systems to the Dutch Electricity industry continued to plan, whilst new business was generated in Belgium. We continue to seek further opportunities throughout the European electricity industry.

North American sales continued to progress, with sales up 9% in the year to over £2 million. Products such as the single span system and the recently introduced overhead system continue to sell well.

Our business in the rest of the world was in line with last year. Although only a small part of our business today, this could represent an opportunity for growth in future years.

Operations

The success of our European business over the past two years is a vindication of our partnership approach to growing our business. By forging relationships with key customers such as roofing contractors, manufacturers, and electricity transmission companies, we have been able to increase the level of awareness of fall protection issues, leading to increased business in geographies where previously such awareness was limited. This process will continue through the coming year.

With the Constant Force post now well accepted in the UK market and specified on an increasing number of roof types we have continued to put a great deal of effort into enhancing our customer service offering during

Operating and Financial Review

the year. Our free system design and specification service to architects, contractors and installers has been well received, allowing us to track projects through to completion from the earliest design stages. We have further strengthened our sales team during the year to maximise rates of conversion from lead to order.

World steel market prices have recently been under pressure due to high demand from the far East. Although this has led to some increases in product costs, to date these have been fully offset by cost saving initiatives.

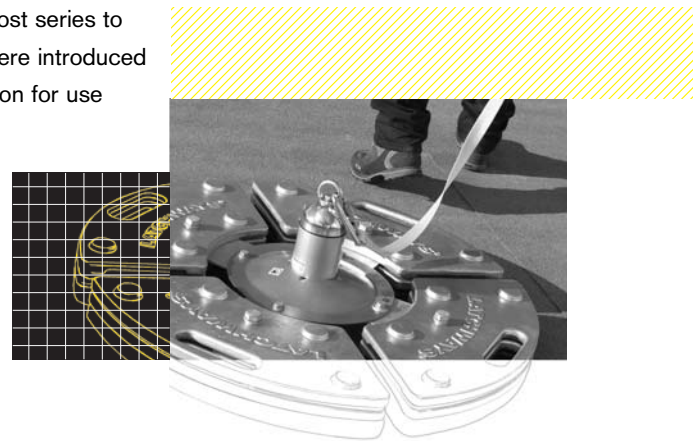
Our recent acquisition of the Wingrip business will increase our market coverage by giving us greater exposure to the airline industry. Although this industry has had a difficult period over the past two years, the quality and user-friendliness of the product is such that sales held up well during that time. We believe that by building on that success and adapting the product for use in other parts of our market, we can maximise the opportunities for this product whilst providing cross-selling opportunities with our existing offering.

Product Development

We have now completed the development of the Constant Force post series to encompass all major roofing types. During the year, new variants were introduced to fix to concrete and timber decks, as well as a free standing version for use where fixing to the deck is not possible. All have generated good revenues during the year.

Furthermore, we have developed variants to our vertical products to address specific customer requirements, enabling us to win a significant ongoing order in Belgium.

Development of niche new products continues to be a focus and further products are expected to be launched later in the summer.



Prospects

The opportunities in our overseas markets for the traditional Latchways products, together with our recent acquisition of Wingrip, make the current year an exciting prospect. We will continue to focus on what we do well, building relationships with our customers through a combination of the highest levels of product design, quality and customer service.

I am confident that the restructuring undertaken at HCL will produce improved returns going forward, and this confidence is currently backed by order levels.

We remain the number one supplier of vertical systems in both the UK and the rest of Europe and our success in securing new contracts during the past year bodes well for the future.

David Hearson, Managing Director

Directors and Advisers

Paul Hearson (Non Executive Chairman)*

Paul Hearson (age 53) 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.

David Hearson (Managing Director)

David Hearson (age 53) was appointed Managing Director in September 1995. He was formerly with IBM in both the UK and overseas.

Rex Orton (Financial Director and Company Secretary)

Rex Orton (age 38) joined Latchways in April 1999. He was previously with Sunrise Medical Inc, having trained as a Chartered Accountant with Coopers & Lybrand.

Alastair Hogg (Sales Director)

Alastair Hogg (age 28) joined Latchways in 1998 and was appointed to the board in April 2004. He has a marketing degree from the University of Strathclyde.

James Joll (Non Executive Director)*

James Joll (age 67) joined the board in September 1997. He is a non executive director of a number of companies, and was Finance Director of Pearson plc from 1985 to 1996. In February 2004, James was designated as Senior Independent Director.

Brian Finlayson (Non Executive Director)*

Brian Finlayson (age 57) joined the board in May 1994. He was formerly Managing Director of Dunedin Capital Partners Ltd.

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, T J Workman (Resigned 2 April 2004) and A J Hogg (Appointed 2 April 2004)

Secretary

R A Orton

Auditors

PricewaterhouseCoopers LLP,
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, The Causeway, Worthing, West Sussex BN99 6DA

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 2004.

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 £2,304,000 (2003: £1,967,000).

The directors declared an interim dividend of 3.18 pence (2003: 3.025 pence) per ordinary share which was paid on 5 March 2004.

The directors recommend a final dividend of 6.60 pence (2003: 6.28 pence) per ordinary share to be paid on 3 September 2004 to all those shareholders whose names appear on the register on 6 August 2004.

The retained profit for the year of £1,237,000 (2003: £959,000) 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.

A J Hogg was appointed to the board on 2 April 2004. T J Workman resigned as a director on 2 April 2004. All other directors served throughout the year ended 31 March 2004.

In accordance with the articles of association N P Hearson and B Finlayson 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 42 days' purchases outstanding at 31 March 2004 (2003: 38 days). The Company had 33 days' purchases outstanding (2003: 35 days)

Donations

Charitable donations paid during the year in respect of community affairs amounted to £6,599 (2003: £200). There were no political contributions (2003: 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.

Post Balance Sheet Event

See note 25.

Directors' Report

Substantial Interests

At 21 June 2004 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	1,471,500	13.5
Schroder Investment Management Limited	1,166,265	10.7
Amvescap plc	1,057,036	9.7
Aegon UK plc	625,000	5.7
Invesco English & International Trust plc*	619,458	5.7
D N Hearson	531,166	4.9
Merrill Lynch Investment Managers Group Limited	509,598	4.7
Ivory & Sime UK Discovery Trust	444,418	4.1
Invesco GT UK Smaller Companies Fund*	406,978	3.7
Analyst Investment Management plc	364,178	3.3

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

Annual General Meeting

Accompanying this report is the Notice of Annual General Meeting, which sets out certain special business resolutions. These relate to the renewal of the authority of the directors to allot relevant securities, the renewal of the company's authority to purchase its own shares, and the purchase or cancellation of the company's deferred shares.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the group will be proposed at the 2004 annual general meeting.

R A Orton

Company Secretary

Corporate Governance

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 group 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 Revised Combined Code

The board notes the introduction of the Revised Combined Code for reporting periods commencing on or after 1st November 2003. The board has carried out a detailed review of the requirements of the new code and has implemented certain changes, including the creation of a nomination committee, the designation of James Joll as Senior Independent Director, and the appointment of Brian Finlayson as chairman of the audit committee.

Paul Hearson and Brian Finlayson have been non executive directors for over 9 years. As such they will be subject to annual re-election at the annual general meeting. The board is strongly of the view that their tenure does not affect their independence.

The Board of Directors

The board comprises the non executive Chairman, three executive directors and two 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 Brian Finlayson. It meets at least three times 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

A nomination committee was created in February 2004. It comprises the three non executive directors and the Managing Director, and is chaired by Paul Hearson. It is responsible for regular reviews of the size and composition of the board, and for making recommendations to the board with regard to any changes. It meets at least once a year, or as required during the year.

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 did not have a nomination committee to make representations on new board appointments for the full year. However, a nomination committee, chaired by Paul Hearson, was created in February 2004.
- Code provision A.2.1: The group did not designate a senior independent non executive director until February 2004.

Both of these provisions were considered by the board to be inappropriate given the small size of the board, but were implemented following a review of the requirements of the Revised Combined Code.

- 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 contracts 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' contracts 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, and are normally subject to performance criteria related to earnings per share.

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. In the event of termination, compensation payouts will not exceed one years' notice. 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 1999 = 100%

The graph shows the performance of Latchways shares over the five years since April 1999, including dividends. During this turbulent period, Latchways has underperformed the FTSE Small Cap Index, giving a total shareholder return of 7% compared to 24% provided by the FTSE Small Cap Index. In the twelve months to 31st March 2004, Latchways outperformed the same index, returning 68% against 64% for 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 2004	Total 2003
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
N P Hearson	12	—	—	—	—	12	12
B Finlayson	10	—	—	—	—	10	10
D N Hearson	—	135	101	12	13	261	210
J A B Joll	10	—	—	—	—	10	10
R A Orton	—	96	51	10	9	166	137
J A Thompson (Resigned 6 November 2002)	—	—	—	—	—	—	55
T J Workman	—	53	10	5	13	81	74
	32	284	162	27	35	540	508
2003	32	308	95	29	44	508	

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 who receives a car allowance of £13,000 (2003: £13,000)), fuel (excluding RA Orton), medical and life insurance for all executive directors.

No director waived emoluments in the year ended 31 March 2004 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 2004 Ordinary 5p	31 March 2003 Ordinary 5p
N P Hearson	51,980	51,980
B Finlayson	103,074	103,074
D N Hearson	531,166	531,166
J A B Joll	16,000	16,000
R A Orton	3,000	1,000
T J Workman	143,500	147,500

There have been no changes in the interests of directors between 31 March 2004 and 21 June 2004.

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 2003	Granted/ (lapsed) in the year	Exercised in the year	31 March 2004	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 were subject to performance criteria relating to earnings per share performance in the three years ended 31st March 2004. These criteria have now been met.

The market value of the company's ordinary shares as at 31 March 2004 was 340.0p, and the range of market prices during the year was 210.0p to 345.0p.

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.

The maintenance and integrity of the Latchways plc website are the responsibility of the directors. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

R A Orton

Company Secretary

23 June 2004

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 2004 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 2004

Consolidated Profit and Loss Account

for the year ended 31 March 2004

	Note	Results before amortisation of goodwill 2004 £'000	Amortisation of goodwill 2004 £'000	Results after amortisation of goodwill 2004 £'000	2003 £'000
Turnover	2	19,460	—	19,460	18,449
Cost of sales		(9,008)	—	(9,008)	(8,924)
Gross profit		10,452	—	10,452	9,525
Administrative expenses					
– excluding goodwill amortisation		(6,834)	—	(6,834)	(6,435)
– goodwill amortisation		—	(100)	(100)	(100)
		(6,834)	(100)	(6,934)	(6,535)
Group operating profit		3,618	(100)	3,518	2,990
Interest receivable and similar income				31	14
Interest payable and similar charges	4			(243)	(250)
Profit on ordinary activities before taxation	5			3,306	2,754
Tax on profit on ordinary activities	6			(1,002)	(787)
Profit on ordinary activities after taxation				2,304	1,967
Dividends	7			(1,067)	(1,008)
Retained profit for the year				1,237	959
Basic earnings per share (pence)	8			21.21	18.15
Diluted earnings per share (pence)	8			21.20	18.13

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 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Intangible assets	9	2,161	2,291
Tangible assets	10	2,789	2,791
		4,950	5,082
Current assets			
Stocks	12	1,485	1,440
Debtors	13	5,769	6,277
Cash at bank and in hand		2,273	1,144
		9,527	8,861
Creditors: amounts falling due within one year	14	(5,305)	(5,368)
Net current assets		4,222	3,493
Total assets less current liabilities		9,172	8,575
Creditors: amounts falling due after more than one year	15	(2,070)	(2,748)
Provisions for liabilities and charges	16	(81)	(97)
Net assets		7,021	5,730
Capital and reserves			
Called up share capital	17	655	653
Share premium account	18	974	922
Profit and loss account	18	5,392	4,155
Equity shareholders' funds	18	7,021	5,730

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 11 June 2004 and signed on its behalf by:

N P Hearson Chairman
R A Orton Financial Director

Company Balance Sheet

as at 31 March 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Intangible assets	9	406	436
Tangible assets	10	2,654	2,618
Investments	11	2,662	2,662
		5,722	5,716
Current assets			
Stocks	12	1,084	972
Debtors	13	4,445	4,065
Cash at bank and in hand		2,075	1,134
		7,604	6,171
Creditors: amounts falling due within one year	14	(4,457)	(3,664)
Net current assets		3,147	2,507
Total assets less current liabilities		8,869	8,223
Creditors: amounts falling due after more than one year	15	(2,070)	(2,748)
Provisions for liabilities and charges	16	(109)	(119)
Net assets		6,690	5,356
Capital and reserves			
Called up share capital	17	655	653
Share premium account	18	974	922
Profit and loss account	18	5,061	3,781
Equity shareholders' funds	18	6,690	5,356

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 11 June 2004 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 2004

	Note	2004 £'000	2003 £'000
Net cash flow from operating activities	19	4,284	2,982
Returns on investment and servicing of finance			
Interest received		31	14
Interest paid		(237)	(250)
Net cash outflow from returns on investments and servicing of finance		(206)	(236)
Taxation			
UK Corporation tax paid		(963)	(514)
UK Corporation tax received		12	75
Net cash outflow on taxation		(951)	(439)
Capital expenditure			
Purchase of intangible fixed assets		(38)	(80)
Purchase of tangible fixed assets		(438)	(508)
Sale of tangible fixed assets		—	6
Net cash outflow on capital expenditure		(476)	(582)
Equity dividends paid		(1,029)	(983)
Net cash inflow before financing		1,622	742
Financing			
Bank loans received		—	1,150
Repayments of bank loans		(292)	(180)
Conversion of loan notes		(116)	(1,150)
Issue of ordinary shares		54	—
Net cash outflow from financing		(354)	(180)
Increase in cash in the year	19	1,268	562

Notes to the Financial Statements

for the year ended 31 March 2004

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 except as noted under "Turnover" below, 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. FRS5 (Application note G), which sets out the basic principles of revenue recognition, was effective for periods ending on or after 23rd December 2003. Adoption of this application note has not had a significant impact on the revenue recognition policies or the results of the group for the year ended 31st March 2004.

Investments

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

Notes to the Financial Statements

1. Principal accounting policies (continued)

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.

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.

Notes to the Financial Statements

1. Principal accounting policies (continued)

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.

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.

Notes to the Financial Statements

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:

	2004	2003
	£'000	£'000
United Kingdom	12,379	13,268
Europe	4,668	2,942
North America	2,013	1,848
Other	400	391
	19,460	18,449

3. Employee numbers and remuneration

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

	2004	2003
Administration and management	47	51
Operations and development	116	117
Sales and marketing	19	15
	182	183

Employee costs

	2004	2003
	£'000	£'000
Salaries	4,094	4,103
Social security costs	396	394
Pension costs	192	198
	4,682	4,695

Notes to the Financial Statements

3. Employee numbers and remuneration (continued)

Directors' emoluments

	2004 £'000	2003 £'000
Aggregate emoluments	513	479
Contributions to defined contribution pension schemes	27	29
	540	508

Contributions to defined contribution pension schemes were made in respect of 3 (2003: 4) directors.

Details of directors' remuneration, together with directors' interests in 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:

	2004 £'000	2003 £'000
Aggregate emoluments for qualifying services	249	199
Contributions to defined contribution pension schemes	12	11
	261	210

4. Interest payable and similar charges

	2004 £'000	2003 £'000
On bank loans and overdrafts	210	212
Amortisation of loan expenses	6	–
On loan notes	27	38
	243	250

Notes to the Financial Statements

5. Profit on ordinary activities before taxation

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

	2004	2003
	£'000	£'000
Directors' emoluments	540	508
Depreciation—owned assets	435	412
Amortisation of intangible fixed assets —patents	68	50
—goodwill	100	100
Loss/(Profit) on sale of fixed assets	5	(3)
Auditors' remuneration —for statutory audit services	44	42
—for non-audit services (tax compliance work)	10	10
Research and development	492	666
Operating lease charges—vehicles	250	238
—property	128	140
Gain on foreign exchange	(5)	(24)

The audit fee for the parent company was £22,000 (2003: £21,000).

6. Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2004	2003
	£'000	£'000
The charge for taxation is made up as follows:		
Current tax		
UK corporation tax on profits of the year	1,037	880
Adjustments in respect of previous periods	(19)	(89)
Total current tax (note 6(b))	1,018	791
Deferred tax		
Origination and reversal of timing differences	(16)	(4)
Total deferred tax (note 16)	(16)	(4)
Total tax on profit on ordinary activities	1,002	787

Notes to the Financial Statements

6. Taxation

(b) Factors affecting the tax charge in the year

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

	2004	2003
	£'000	£'000
Profit before tax	3,306	2,754
Profit multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	992	826
Effects of:		
Temporary differences between taxable and accounting profit:		
— movement in accelerated capital allowances	13	6
Over provision in earlier years	(19)	(89)
Permanent differences	32	48
Current tax charge for year (note 6(a))	1,018	791

(c) Factors that may affect future tax charges

Deferred tax is measured on a non-discounted basis at the tax rate that are expected to apply in the periods in which known timing differences reverse, based on tax rates and laws substantially enacted at the balance sheet date.

7. Dividends

Dividends on ordinary shares of 5 pence each:

	2004	2003
	£'000	£'000
2003 Final dividend on shares issued in July 2003	3	—
Interim dividend of 3.18 pence per share (2003: 3.025p)	346	328
Proposed final dividend of 6.60 pence per share (2003: 6.28p)	718	680
Total dividend for year	1,067	1,008

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 296.3p (2003: 244.0p).

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)

	2004 Earnings £'000	2004 Weighted average number of shares Thousand	Per share amount Pence	2003 Earnings £'000	2003 Weighted average number of shares Thousand	Per share amount Pence
Basic EPS						
Earnings attributed to ordinary shareholders	2,304	10,862	21.21	1,967	10,837	18.15
Effect of dilutive share options	—	5	(0.01)	—	12	(0.02)
Diluted EPS	2,304	10,867	21.20	1,967	10,849	18.13

9. Intangible fixed assets

Group

	Goodwill £'000	Patents, Trade Marks & Designs £'000	Total £'000
Cost			
At 1 April 2003	1,988	684	2,672
Additions in the year	—	38	38
At 31 March 2004	1,988	722	2,710
Amortisation			
At 1 April 2003	133	248	381
Charge for the year	100	68	168
At 31 March 2004	233	316	549
Net book value			
At 31 March 2004	1,755	406	2,161
At 31 March 2003	1,855	436	2,291

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 2003	2,071	929	33	1,157	4,190
Additions in the year	53	119	7	259	438
Disposals in the year	—	—	—	(273)	(273)
At 31 March 2004	2,124	1,048	40	1,143	4,355
Depreciation					
At 1 April 2003	121	478	17	783	1,399
Disposals in the year	—	—	—	(268)	(268)
Charge for the year	33	189	7	206	435
At 31 March 2004	154	667	24	721	1,566
Net book value					
At 31 March 2004	1,970	381	16	422	2,789
At 31 March 2003	1,950	451	16	374	2,791
Company					
Cost					
At 1 April 2003	2,071	844	33	985	3,933
Additions in the year	53	115	—	221	389
Disposals in the year	—	—	—	(268)	(268)
At 31 March 2004	2,124	959	33	938	4,054
Depreciation					
At 1 April 2003	121	444	17	733	1,315
Disposals in the year	—	—	—	(268)	(268)
Charge for the year	33	150	6	164	353
At 31 March 2004	154	594	23	629	1,400
Net book value					
At 31 March 2004	1,970	365	10	309	2,654
At 31 March 2003	1,950	400	16	252	2,618

Freehold land & buildings includes £462,000 (2003: £462,000) relating to land.

Notes to the Financial Statements

11. Investments

	Company	
	2004 £'000	2003 £'000
Investment in subsidiary undertakings:		
As at 1 April 2003 and 31 March 2004	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	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Raw materials and consumables	886	976	618	654
Work in progress	133	146	—	—
Finished goods and goods for resale	466	318	466	318
	1,485	1,440	1,084	972

13. Debtors

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Trade debtors	5,353	5,982	3,499	3,482
Amounts owed by subsidiary undertakings	—	—	774	443
Other debtors	46	13	46	13
Prepayments and accrued income	370	282	126	127
	5,769	6,277	4,445	4,065

All debtors fall due within one year.

Notes to the Financial Statements

14. Creditors: amounts falling due within one year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Overdrafts	—	139	—	—
Bank loans	772	387	772	387
Loan notes	464	116	464	116
Trade creditors	1,338	1,469	1,066	876
Corporation tax	603	536	600	395
Social security and other taxes	136	177	76	98
Other creditors	284	565	14	130
Accruals	990	835	747	518
Deferred consideration	—	464	—	464
Dividends payable	718	680	718	680
	5,305	5,368	4,457	3,664

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 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 7 April 2004. They are guaranteed by the Bank of Scotland and are subject to a fixed interest rate of 4.63%.

Notes to the Financial Statements

15. Creditors: amounts falling due after more one year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank loans	2,070	2,748	2,070	2,748
Bank loans				
Due within 1 to 2 years	652	594	652	594
Due within 2 to 5 years	1,418	1,782	1,418	1,782
Due after more than 5 years	—	372	—	372
	2,070	2,748	2,070	2,748

In 2004, the Group had two 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 was subject to a two year payment holiday, with payments commencing 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 £31,000 (2003: £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	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
At start of year	97	101	119	125
Profit and loss account	(16)	(4)	(10)	(6)
At end of year	81	97	109	119
The deferred tax provided is made up as follows:				
Accelerated capital allowances	85	101	109	119
Other timing differences	(4)	(4)	—	—
	81	97	109	119

17. Share capital

Authorised

	Ordinary 5p shares No.	Deferred 65p shares No.	Total £'000
Share capital as at 1 April 2003	12,821,603	191,429	766
As at 31 March 2004	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 2003	10,836,590	171,429	653
Ordinary shares issued on exercise of options at 155p per share	34,516	—	2
As at 31 March 2004	10,871,106	171,429	655

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 2004, options had been granted over 287,269 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
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	2004 Total £'000	2003 £'000
Opening equity shareholders' funds	653	922	4,155	5,730	4,771
Profit after taxation	—	—	2,304	2,304	1,967
Dividends payable	—	—	(1,067)	(1,067)	(1,008)
New issue of shares	2	52	—	54	—
Closing equity shareholders' funds	655	974	5,392	7,021	5,730
Company					
Opening equity shareholders' funds	653	922	3,781	5,356	4,626
Profit after taxation	—	—	2,347	2,347	1,738
Dividends payable	—	—	(1,067)	(1,067)	(1,008)
New issue of shares	2	52	—	54	—
Closing equity shareholders' funds	655	974	5,061	6,690	5,356

Notes to the Financial Statements

19. Notes to the cash flow statement

		2004	2003
		£'000	£'000
Net cash flow from operating activities			
Operating profit		3,518	2,990
Amortisation of intangible fixed assets		68	50
Amortisation of goodwill		100	100
Depreciation of tangible fixed assets		435	412
Loss/(profit) on sale of tangible fixed assets		5	(3)
Movement in stocks		(45)	166
Movement in debtors		499	(1,023)
Movement in creditors		(296)	290
Net cash inflow from operating activities		4,284	2,982
Reconciliation of net cash flow to movement in net debt			
		2004	2003
		£'000	£'000
Movement in cash in the year		1,268	562
Net cash outflows/(inflows) from bank loans		286	(970)
Net cash outflows from loan notes		116	1,150
Change in net debt resulting from cash flows		1,670	742
Other non cash movements		(458)	(116)
Movement in net debt		1,212	626
Net debt at 1 April 2003		(2,245)	(2,871)
Net debt at 31 March 2004		(1,033)	(2,245)
Analysis of net debt			
	At		At
	1 April		31 March
	2003	Cash flow	2004
	£'000	£'000	£'000
Cash at bank in hand	1,144	1,129	2,273
Overdraft	(139)	139	—
	1,005	1,268	2,273
Bank loans	(3,134)	286	(2,842)
Loan notes	(116)	116	(464)
	(2,245)	1,670	(1,033)

The non-cash movement relates to the issue of loan notes of £464,000 during the year, and to the amortisation of £6,000 bank charges against bank loans 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 £2,347,000 (2003: £1,738,000) before dividends has been dealt with in Latchways plc's own books.

21. Financial commitments

At 31 March 2004 capital expenditure authorised by the board and contracted for but not provided in these financial statements was £Nil (2003: £Nil).

As at 31 March 2004 the group had annual operating lease commitments as follows;

	Land and Buildings	Other	Total	
	£'000	£'000	£'000	2003
				£'000
Expiry				
Within 1 year	58	8	66	139
1 to 2 years	—	53	53	43
2 to 5 years	78	199	277	48
Over 5 years	—	—	—	55
Total	136	260	396	285

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 actual underlying exposures and cannot therefore 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 and US Dollar currency exposure is managed using forward exchange contracts. There are no other significant currency exposures.

At the year end, the group had trade debtors denominated in Euros of £990,000 (2003: £1,255,000) and in US Dollars of £475,000 (2003: £420,000).

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 2004, £2,076,000 had been drawn down, with the remainder utilised to guarantee loan notes payable to the vendors of HCL Group. 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 2005, which was not utilised at 31st March 2004. 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. The weighted average interest yield on Sterling and Euro balances was 2.3% (2003: 3.0%). Interest yields on other currency balances were not material.

As at 31st March 2004, the group had cash balances denominated in Euros of £325,000.

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. There were no other related party transactions.

24. Ultimate controlling party

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

25. Post balance sheet event

On 2 April 2004, the group acquired the trade and assets of the Wingrip business from Rota Limited, for a cash consideration of £1,150,000.

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 27 August 2004 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 2004.
2. To declare a final dividend on the ordinary share capital of the Company.
3. To re-elect B Finlayson as a director.
4. To re-elect N P Hearson, Chairman, as a director.
5. To receive and adopt the Directors' Remuneration Report for the year ended 31 March 2004.
6. To reappoint PricewaterhouseCoopers LLP as auditors of the Company, 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, 10 and 11 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 £97,524 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 within the meaning of section 94 of the Act) to allot equity securities wholly for cash, either pursuant to the authority conferred upon them by resolution 8 above or by an allotment of equity securities such as is referred to in section 94(3A) of the Act 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 £27,177;

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 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 on the earlier of the conclusion of the next annual general meeting of the Company and the date following eighteen months from the date of the passing of this resolution (unless revoked, varied or extended 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.

11. The Company be and is hereby generally and unconditionally authorised, in accordance with section 164 of the Act, to make off-market purchases (within the meaning of section 163 of the Act) of all the issued Deferred Shares of 65 pence each in the capital of the Company on such terms as is authorised by the Company's Articles of Association and as those terms are more particularly set out in a memorandum available for inspection at the Company's registered office provided that the authority hereby conferred shall expire on the earlier of the conclusion of the next annual general meeting of the Company and the date following eighteen months from the date of the passing of this resolution (unless revoked, varied or extended by the Company in general meeting by special resolution).

By order of the board
Rex Orton
Company Secretary

Registered office:
Hopton Park
Devizes
Wiltshire
SN10 2JP

23 June 2004

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, The Causeway, Worthing, West Sussex BN99 6ZR, 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;
 - 3.2 copies of the directors' contracts of service; and
 - 3.3 the written memorandum relating to the proposed purchase of all the Deferred Shares referred to in resolution 11 and note 5.3 below.
- 4 Short biographies of each of the directors offering themselves for re-election are on page 8 of the annual report and accounts.
- 5 The following is an explanation of the resolutions relating to special business:
 - 5.1 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 £97,524 out of the Company's unissued ordinary share capital representing approximately 17.9 per cent of the Company's current issued ordinary share capital. This authority shall expire 5 years from the date of the passing of the resolution.
 - 5.2 New regulations which came into force in December 2003 now permit the Company to purchase its own shares and, rather than cancel those shares, to hold them as treasury shares, in which case they would carry no voting rights and no entitlement to any dividend for as long as they are held as treasury shares. The Company does not currently hold any of its own shares as treasury shares. The authority provided by resolution 9 would permit the directors to allot for cash equity securities or sell any shares held as treasury shares with an aggregate nominal value of £27,177 equal to approximately 5 per cent of the Company's issued ordinary share capital for cash without first offering them pro rata 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 or the sale of any shares held as treasury shares 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. The authority will expire immediately following the annual general meeting next following the resolution or, if earlier, 15 months following the resolution being passed.

In exercising the authority to purchase ordinary shares, the directors may treat the shares that have been bought back as either cancelled or held in treasury (or a combination of both) and to the extent that any such shares are held in treasury, earnings per shares will only be increased on a temporary basis, until such time as the shares are re-sold out of treasury.
 - 5.3 Resolution 11 will give the directors authority to purchase all of the Deferred Shares in the Company in accordance with Article 3.2.2 of the Company's Articles of Association. A memorandum setting out the terms of purchase is available for inspection at the Company's registered office and will also be available on the date of the Annual General Meeting.

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 27 August 2004 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 B Finlayson		
4. To re-elect N P Hearson		
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		
11. To authorise the Company under section 164		

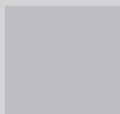
Dated this _____ day of _____ 2004

(Signature) _____

Notes

- 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.
- To be valid this proxy must be lodged with the Company's registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZR, not later than 48 hours before the time for which the meeting has been convened.
- Any alterations made in the form of proxy should be initialled.
- 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.
- 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.
- 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.





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