

Latchways plc

Annual Report
and Accounts

2005

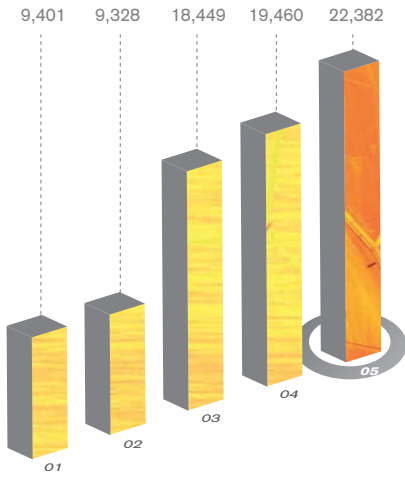


Annual Report and Accounts *2005*

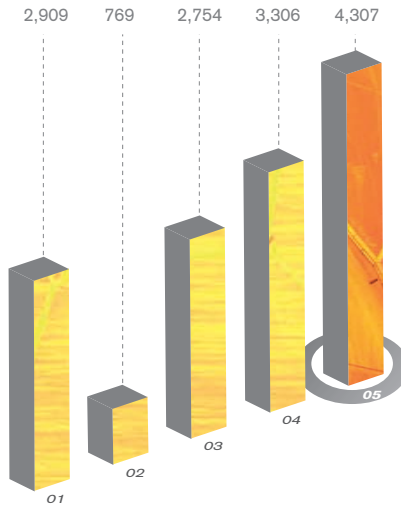
Five Year Record	3
Chairman's Statement	4
Operating and Financial Review	6
Directors and Advisers	8
Directors' Report	9
Corporate Governance	12
Directors' Remuneration Report	17
Statement of Directors' Responsibilities	21
Independent Auditors' Report to the Members of Latchways plc	22
Consolidated Profit and Loss Account	23
Consolidated Balance Sheet	24
Company Balance Sheet	25
Consolidated Cash Flow Statement	26
Notes to the Financial Statements	27
Notice of Annual General Meeting	47
Notes	49
Form of Proxy for use at Annual General Meeting	51

Five Year Record

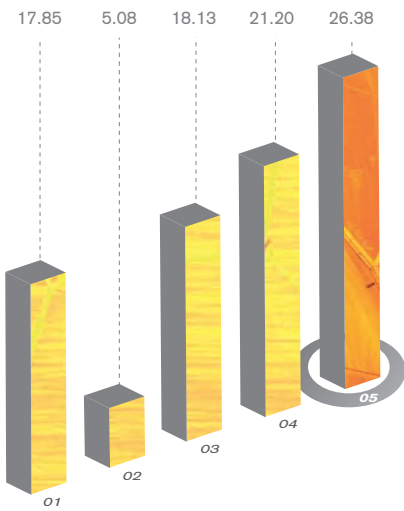
Turnover
(£'000)



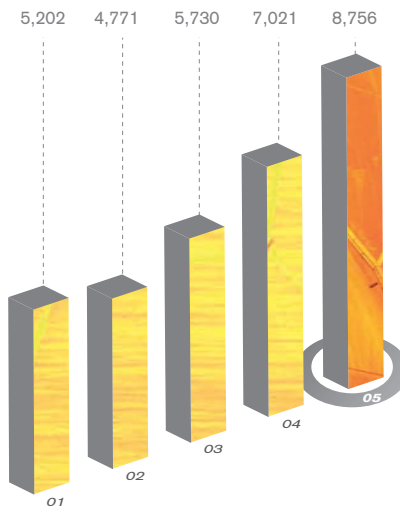
Profit before tax
(£'000)



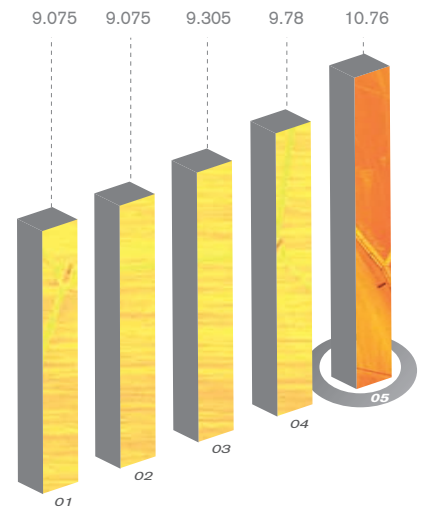
Diluted earnings per share
(pence)



Shareholders' funds
(£'000)



Dividends per share
(pence)



Chairman's Statement

This has been another excellent year for the Latchways group, with all parts of the business performing well.

The traditional product business has had another year of growth, with a particularly strong performance from the UK. HCL has been partly responsible for this, with an excellent contribution from both the Safety Installation and Contracts divisions after the reorganisations effected in the prior year.

As a result, I am pleased to report record profits for the group. This was achieved despite world steel market conditions that have seen stainless steel raw material prices double during the year. It reflects the success of our product re-sourcing activities and ongoing cost control as well as the growth in revenue.

Our latest addition, the Wingrip product, had an outstanding year.

Results

Group turnover for the year ended 31 March 2005 was £22.4 million (2004: £19.5 million), 15% ahead of last year. Turnover from continuing operations (excluding Wingrip) was £21.1 million (2004: £19.5 million), a 9% increase.

Group operating profit was 26% higher than last year at £4.4 million (2004: £3.5 million). Excluding the Wingrip acquisition, the increase was 18% to £4.2 million.

Diluted earnings per share increased by 24% to 26.38 pence (2004: 21.20 pence).

Dividends

The continued strength of the group's operational cash flow has enabled us to propose a final dividend of 7.26 pence per share. This results in a proposed total dividend for the year of 10.76 pence, 10% up on 2004. The final dividend is expected to be paid on 9th September 2005 to shareholders on the register as at 12th August 2005.

Opportunities

With an increased emphasis on the enforcement of safety legislation both in the UK and Europe, together with Latchways' continued commitment to quality and customer service, we are seeing many new opportunities opening to us across the business, both in Latchways and HCL.

The new UK Working at Height Regulations provide an excellent base for our existing business, whilst Latchways' free design and advisory services assist system specifiers in meeting their greater obligations. On an ongoing basis, the new requirements for building owners to take greater responsibility for the safety of those working on such buildings is creating opportunities for HCL to exploit, both on system installation and ongoing maintenance.

Overseas, our products continue to achieve greater acceptance, with Europe once again leading our growth. We have increased our overseas sales resource during the year, in order to ensure that this growth is further developed.

The success of the Wingrip product this year, together with our further development thereof, has once again provided evidence of the importance of generating new offerings to our customers. During the coming year we will continue to both develop and seek out new products which will provide further enhancements to the Latchways offering.

HCL Group

I am delighted to report that both HCL Safety and HCL Contracts have responded very well to the restructuring undertaken in the prior year and have both posted record profits this year.

The Safety division, which installs safety systems and carries out maintenance and certification thereof, has performed well during the year. Most notable, however, has been its throughput of Latchways product, which is now more than double the level that it was when acquired three years ago. Significant investment is being made in the inspection and certification services arm of the business, which should ensure good growth for our service revenues.

The Contracts division, which carries out structural repairs to both domestic and commercial property, was refocused during 2003/04, and has proven very successful. The business is steadily building a portfolio of housing association clients which should provide a growing revenue stream for some years to come, whilst maintaining a low cost base.

Wingrip

As I mentioned in my interim statement, the Wingrip product has proven an excellent investment and is exceeding our expectations. Wingrip is the safety system of choice for many major airlines and aircraft manufacturers. Since acquisition in April last year, we have further enhanced the product by combining it with our lifeline system to provide total protection for those working on aircraft wings. The combined system has been well received and initial orders have been encouraging.

Environmental Policy

We take our responsibilities towards the environment seriously. For this reason, we have upgraded our environmental policy during the year and are working towards ISO 14001 accreditation.

People

The group now employs over 200 people in eleven locations throughout the UK, together with a growing number of overseas sales staff. Each has played their part in the success of the group over the past year and on behalf of the board, I would like to express our appreciation for their efforts.

Current Trading and Prospects

The new year has opened with a healthy order book and business ahead of last year. Whilst uncertainties over raw material costs and the economy do exist, we are confident that our existing and developing product range, combined with the increasing influence of safety legislation, will ensure that Latchways continues to deliver profitable growth for our shareholders.

Paul Hearson, Chairman



Operating and Financial Review

Financial Review

Group turnover for the year was £22.4 million, compared with £19.5 million last year. £1.3 million of the increase related to the Wingrip acquisition. This resulted in an operating profit of £4.4 million (2004: £3.5 million) and a pre-tax profit of £4.3 million (2004: £3.3 million).

Gross margin was 0.4% lower at 53.3% (2004: 53.7%), reflecting the higher proportion of turnover that was generated by the HCL operations. Latchways' underlying product gross margins were broadly unchanged at 57%, as the cost increases resulting from increased steel market prices were offset by product re-sourcing activities.

Group operating margin improved by 1.8% to 19.8%. This reflects continued control of operating expenses, which were up 8% compared with the 15% increase in turnover.

The effective rate of taxation for the year was 33.1% (2004: 30.3%). The increase was primarily due to increased goodwill amortisation and intra-group consolidation adjustments, which were not allowable for corporation tax purposes.

Inventory levels were higher at the year end at £2.0 million (2004: £1.5 million). The increase resulted from the strong order book for April deliveries and was significantly reduced by the end of April. Debtor balances were £1.0 million higher than last year at £6.8 million (2004: £5.8 million), primarily driven by the increase in turnover, most particularly in the fourth quarter at HCL Contracts.

Cash generation was once again strong in the year, with net cash generated from operations 102% of operating profit (2004: 121%). Despite the £1.2 million cash acquisition of Wingrip early in the year, net debt was still reduced by £0.4 million to £0.6 million.

Operating Review

This year we have reaped the benefits of the hard work put into reshaping the HCL businesses in the previous year. Both HCL Safety and HCL Contracts underwent significant rationalisation and refocusing last year, and we are delighted with the results. Both companies have generated increased turnover and profitability, such that they are now significant contributors to group profit. With the continued investment in people and systems for HCL Safety, the outlook for both businesses is promising. Overall, HCL turnover was up 22% in the year.

Latchways' product turnover was up 13% in the year, although 10% of this was due to Wingrip. The traditional installer business in the UK, Europe and the Rest of the World continued to grow well, but timing of Dutch and Belgian electricity network maintenance programmes resulted in a fall in revenue from this market.

UK turnover was up 16%, reflecting the strength of the underlying installer business. The recovery of HCL Safety resulted in a significant increase in product throughput, while two new installers joined the Latchways fold from competitors.

European installer sales were up 35%, the third consecutive year of strong growth, with Holland again leading the way. We have made further investment in sales resource in other EU countries in our ongoing efforts to replicate this success.

As mentioned above, European utility sales were down by 24% due to the timing of network maintenance programmes. We maintain excellent relationships with our customers and the programmes suggest improved shipments for the coming year.

North American sales increased 9% to £2.2 million. We have recruited an experienced sales manager to help us develop the North American market further, in partnership with our existing installers.

Operations

We remain committed to our strategy of maintaining and developing close relationships with key customers. The success of our business in recent years has been based on these relationships, and on ensuring that those customers receive the best customer service whether directly by ourselves or via our loyal and experienced network of installers. During the year, we have taken on or expanded sales resource in North America, France, Spain and Holland, as well as the UK, in order to build on our successes to date.

The HCL Safety business has benefited from an increased emphasis on customer service during the year, and further investment in this area is already underway. We are focused on providing complete, packaged solutions to major customers and on expanding the range of services we can offer. To this end, substantial investment in the maintenance and certification part of the business, both in terms of systems and manpower, have been made.

Operating and Financial Review

The success of the Wingrip acquisition has further demonstrated the strength of both the Latchways brand and our ability to make the most of niche fall protection opportunities. We continue to actively seek other such opportunities to add to the Latchways offering.

We remain concerned by the continuing rise in stainless steel commodity prices. However, as demonstrated in the past year, we are able to maintain margins through our ongoing product re-sourcing without having to pass significant increases on to our customers.

Product Development

Considerable development effort during the year has been directed towards the Wingrip product line. A number of customers, both airlines and aircraft manufacturers, identified the need for a fall protection solution that provides protection along the entirety of an aircraft wing, as a longer term solution than the existing Wingrip product. The result was a Latchways' cable-based system attached to a series of Wingrip pads. This has been very well received by customers and is now in full production.

Also, a free-standing guardrail system was released during the year. This is suitable for situations where edge access is not required and is designed more aesthetically than current competitive products.

As ever, given the importance of new products to our strategy, a number of innovative new products are currently in development and are expected to be launched this year.

International Financial Reporting Standards ("IFRS")

With effect from 1 April 2005, the group is required to prepare its financial statements in accordance with IFRS. We have conducted a review of the likely impacts of IFRS on the results of the business, and will be publishing an IFRS to UK GAAP comparison for the year ended 31 March 2005 with our interim statement in November.

Prospects

The past year has been strong across the group and we have used this opportunity to invest in our sales infrastructure. This, together with the strengthening legislative environment, will ensure that we continue to lead our industry in customer service and product offering.

Following the success of the Wingrip integration, we will continue to seek further products to enhance our range, both from product development and, where appropriate, niche acquisitions.

David Hearson, Chief Executive



Directors and Advisers

Paul Hearson

(Non Executive Chairman)

Paul Hearson (age 54) 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

(Chief Executive Officer)

David Hearson (age 54) was appointed Chief Executive Officer in September 1995. He was formerly with IBM in both the UK and overseas.

Rex Orton

(Financial Director and Company Secretary)

Rex Orton (age 39) 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 29) 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 68) 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 58) 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 (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, Bishopsgate Exchange,
155 Bishopsgate, London EC2M 3YB

The directors present their annual report and financial statements for the year ended 31 March 2005.

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 £2,881,000 (2004: £2,304,000).

The directors declared an interim dividend of 3.50 pence (2004: 3.18 pence) per ordinary share which was paid on 4 March 2005.

The directors recommend a final dividend of 7.26 pence (2004: 6.60 pence) per ordinary share to be paid on 9 September 2005 to all those shareholders whose names appear on the register on 12 August 2005.

The retained profit for the year of £1,710,000 (2004: £1,237,000) 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 6 to the financial statements.

Share capital

Information relating to the share capital of the company is given in note 19 to the financial statements.

As authorised by shareholders at the 2004 Annual General Meeting, the deferred shares were cancelled during the year for no consideration.

Directors

The present directors of the company 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 2005.

In accordance with the articles of association R A Orton and A J Hogg retire by rotation at the annual general meeting and offer themselves for re-election. In addition, in accordance with provision A.7.2 of the Combined Code, N P Hearson and B Finlayson offer themselves for annual re-election.

The interests of the directors in the shares and share options of the company 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

Whilst no formal code of payments is followed, 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 47 days' purchases outstanding at 31 March 2005 (2004: 42 days). The Company had 41 days' purchases outstanding (2004: 33 days).

Donations

Charitable donations paid during the year in respect of community affairs amounted to £4,372 (2004: £6,599). There were no political contributions (2004: Nil).

Substantial Interests

At 28 June 2005 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
Schroder Investment Management Limited	1,407,765	12.9
Jupiter Asset Management Limited	1,390,444	12.8
Merrill Lynch Investment Managers Group Limited	1,316,565	12.1
Amvescap plc	1,057,036	9.7
Invesco English & International Trust plc*	619,458	5.7
Merrill Lynch UK Special Situations Fund**	558,867	5.1
MLIT UK Smaller Companies Fund plc**	467,098	4.3
D N Hearson	411,166	3.8
Invesco GT UK Smaller Companies Fund*	406,978	3.7
Analyst Investment Management plc	370,684	3.4

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

**These holdings are included in the Merrill Lynch Investment Managers Group Limited 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 and the renewal of the company's authority to purchase its own shares.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the group will be proposed at the 2005 annual general meeting.

R A Orton

Company Secretary

The group is committed to high standards of Corporate Governance. This is the first full year of operation of the Combined Code on Corporate Governance of the Financial Reporting Council (the Code) which took effect for reporting periods commencing on or after 1st November 2003. The board endorses the main and supporting principles and the provisions of the Code, and has complied with the Code, subject to the few limited exceptions set out below.

As a small company, Latchways enjoys a significant degree of control from the close operational involvement of the executive directors, as well as frequent contact between the non executive directors and each of the executives. Whilst the board recognises the increasing emphasis on compliance with set criteria, we see these external factors as complementary to our own internal standards, which are tailored to the size and complexity of our business. Wherever reasonably practical, the group has sought to comply with the Code, provided this does not inhibit the efficient running of the business.

Statement of Compliance

In the opinion of the board, the group has complied fully with the provisions of the Code throughout the year, except for the following:

- **Code provision A.3.1:** Brian Finlayson, non executive director, has served on the board for over nine years. The Code identifies this as being relevant to the determination of the director's independence, but it is for the board to determine whether independence is actually undermined. As will be explained later, the board is firmly of the view that Brian Finlayson is independent in character and judgement.
- **Code provision B.2.1 and C.3.1:** The remuneration and audit committees comprise the two independent non executive directors, and the Chairman. The board is of the view that two members are insufficient to ensure open debate and hence the Chairman is included, despite being de facto non-independent. As a result, the remuneration of the Chairman is set by the board, along with that of the non executive directors.
- **Code provision A.6.1:** The board carries out rigorous reviews of its own performance and that of its committees. However, formal individual performance reviews are not carried out. The small, close-working nature of the board is such that any under-performance would be immediately apparent. Consequently, the board is of the view that a formal process would be unnecessary and potentially divisive. The Chairman explicitly encourages any board member with concerns over individual director's performances to identify those to himself or the Senior Independent Director at any time.

The remainder of this statement sets out the ways in which the group complies with the detailed provisions of the Code.

1 Directors

(a) The Board

The group is headed by the board, which comprises the Chairman, two independent non executive directors, and three executive directors. Biographies and details of length of tenure can be found on page 8.

Terms of appointment of the non executive directors can be obtained on request from the Company Secretary.

The management of the business is delegated to the executive directors by the board. The general managers of the subsidiary companies HCL Safety Limited and HCL Contracts Limited report to the Chief Executive Officer.

The board is ultimately responsible to shareholders for the overall performance of the business, within a set framework of internal controls and risk management. There is a written schedule of matters that are reserved for the board.

These include, inter alia, the formulation of strategy; approval of major capital investments, acquisitions and disposals; monitoring of internal controls and risk management processes; approval of annual budgets; approval of dividends and dividend policy; policy in important areas.

Below board level, clear approval levels exist for authority that individuals have to make financial commitments on behalf of the company. Annual performance budgets for the subsidiaries are developed by the operational managers with support from the central finance function. Beyond this, the general managers are given the operational responsibility to run their business as they see fit, whilst working with group management to ensure that group and subsidiary goals are consistent.

The board meets at least four times a year. Board papers are produced by the Company Secretary and circulated to all directors at least a week in advance of each meeting.

Certain responsibilities are delegated by the board to the three board committees: the Audit Committee, the Nomination Committee, and the Remuneration Committee. The board has set detailed terms of reference for each of these committees, copies of which are available on request from the Company Secretary. Audit Committee meetings are open to all members of the board except where a conflict of interest may arise. Remuneration and Nomination Committee meetings are open to committee members only. Each committee is provided with sufficient resources to perform its duties.

Membership of the board committees is as follows:

Audit Committee: Brian Finlayson (Chairman), Paul Hearson, James Joll.

Remuneration Committee: James Joll (Chairman), Brian Finlayson, Paul Hearson.

Nomination Committee: Paul Hearson (Chairman), Brian Finlayson, James Joll, David Hearson.

In the year ended 31 March 2005, the board met four times. All the directors attended every meeting. In the event that a director cannot attend a meeting, he is able to relay any comments that he may have on the board papers or any agenda item to the meeting via the Company Secretary.

In the event that a director has concerns which cannot be resolved about the running of the group or a proposed action, they have the right to have their concerns minuted. In the event of a director's resignation, they would be required to write to the board confirming whether they have any such concerns.

The group purchases insurance to cover its directors and officers against their costs in defending themselves in civil legal proceedings taken against them in that capacity and in respect of damages resulting from any such action. To the extent allowed by UK law, the group also indemnifies its directors and officers. Neither the insurance nor the indemnity provide cover where the director has acted fraudulently or dishonestly.

(b) Chairman and Chief Executive

The group recognises the differing roles of the Chairman and the Chief Executive Officer, and these roles are duly separated. As has been the case since before flotation in October 1997, the Chairman, Paul Hearson, is the twin brother of David Hearson, the Chief Executive Officer. Paul Hearson became Chairman prior to the appointment of David Hearson and hence was independent upon appointment. Paul Hearson does not take part in Remuneration Committee discussions relating to his brother's remuneration.

Paul Hearson has also been on the board for nine years. As Chairman, he is de facto non-independent, but will, under the terms of the Code, be subject to annual re-election at the annual general meeting.

(c) Board Balance and Independence

As allowed by the Code, Latchways, as a small company, has two non executive directors, excluding the Chairman. These are James Joll and Brian Finlayson. Both non executive directors are considered by the board to be independent. Whilst Brian Finlayson has served on the board for a period in excess of nine years, the board is of the view that his strength of character and judgement are such that this in no way impairs his independence. In the board's opinion, his replacement would not be in the interests of shareholders. He will, under the terms of the Code, be subject to annual re-election at the annual general meeting.

The Chairman is a member of all the board committees and he also chairs the Nomination Committee, although he would not lead the consideration of his successor. The board is of the view that the deliberations of the committees are enhanced by their including three, rather than two, non executive directors.

The shareholdings of the non executive directors are not considered to be significant so as to impair independence.

1 Directors (continued)

The board believes that the fact that Audit Committee meetings are open to all directors improves efficiency and clarity and ensures that all directors have an equal understanding of issues facing the business. However, the committee does meet with the auditors at least once a year without the executives present.

The board has identified James Joll as the Senior Independent Director. Given the small size of the board, his principal role is to provide an additional contact point for shareholders if they have reason for concern which contact through the normal channels of Chairman, Chief Executive or Financial Director has either failed to resolve or is inappropriate.

(d) Appointments to the board

There is a formal and transparent procedure for the appointment of new directors to the board, the responsibility for which is delegated to the Nomination Committee. The committee's terms of reference are available from the Company Secretary. The committee meets at least once a year or as required by the Chairman. During the period under review, the committee met once, with all members attending. For the Chairman and any non executive director appointment, the appointment would begin with an appraisal of the existing skills, knowledge and experience available to the board. A description of the requirements for the new non executive would then be agreed with an external search consultant, who would then present a shortlist of candidates to the Chairman (or, in the event that the appointment was of a new chairman, the Senior Independent Director), and the Chief Executive. Each candidate would then undergo interviews with committee members and a final evaluation meeting held to determine the appointment.

For executive appointments, the process would be similar except in the circumstances of an appropriate internal candidate being identified. The latter was the case with the appointment of Alastair Hogg, who was promoted to the board to reflect the progress that group sales had made under his management.

(e) Information and Professional Development

The Chairman takes responsibility for ensuring that the directors receive accurate, timely and clear information. Monthly management reports are provided within ten working days of the month end, providing full management accounts with commentary for the previous month. Papers are prepared and circulated at least a week in advance of all committee meetings.

On appointment to the board, new directors are given a detailed induction as to their responsibilities by the group's lawyers and the Company Secretary.

The board believes that, given the experienced nature of its members, the identification of training requirements can be left to the individual directors, or, in the case of the executive team, the Chief Executive.

The Company Secretary acts as an adviser to the board on all matters concerning corporate governance, and he ensures that board procedures are complied with. All directors have access to his advice, as well as independent professional advice, where needed, at the group's expense. No such independent advice was taken in the year to 31 March 2005.

The appointment or removal of the Company Secretary is a matter for the board as a whole.

(f) Performance Evaluation

A formal, annual appraisal process for the board is in place and takes place every February. The evaluation covers the role of the board, its structure and effectiveness, as well as that of the three committees.

Given the small size of both the group and the board, no formal appraisals of individual performances are carried out. Regular contacts are maintained between all directors, both as a group and individually, and the board does not feel that such a formal process would add anything to the effectiveness of the board. However, the Chairman explicitly

encourages any board member with concerns over individual director's performances to identify those to him at any time. Any concerns over the Chairman's performance would be addressed to the Senior Independent Director.

(g) Re-election

All directors are subject to re-election at intervals of not more than three years.

Non executive directors are appointed for an initial period of three years. Subject to shareholder approval, they may serve three such terms, after which they must submit themselves for annual re-election. In the case of Paul Hearson and Brian Finlayson, due to the length of their tenure, both are now subject to annual re-election.

2) Accountability and Audit

(a) Directors' responsibilities

The board recognises its responsibilities with respect to financial reporting. The Statement of Directors' Responsibilities is set out on page 21.

(b) Going Concern

After making enquiries, and reviewing the preliminary budget and cashflow forecast for the forthcoming year, the directors have a reasonable expectation that the group has 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.

(c) Internal Control and Risk Management

The group maintains a comprehensive system of internal control, including financial, operational and compliance controls. This system is intended to manage, rather than eliminate, business risk. Such a system can only provide reasonable, not absolute, assurance against material misstatement or loss.

On an annual basis, the board reviews the effectiveness of the system of internal control. This review takes place every February, with the last such review occurring in February 2005, with specific reviews at other times where necessary. Due to the small size of the group, the system of control benefits from the close day-to-day involvement of the executive board members. In addition, 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 subcommittee 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 protection 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 group and monthly performance is reviewed against this budget.

(d) Audit Committee

The Audit Committee comprises Brian Finlayson, Paul Hearson and James Joll. It is chaired by Brian Finlayson. With the exception of Paul Hearson, the board considers all members of the committee to be independent. The board considers that both Brian Finlayson and James Joll have relevant and recent financial experience.

2 Accountability and Audit (continued)

The executive directors all attend Audit Committee meetings, at the invitation of the Chairman, but the committee also meets with the company's auditors without the executives present at least once a year.

The committee meets at least three times a year. Three meetings were held in the year ended 31 March 2005, which were attended by all the members. Formal terms of reference exist and can be obtained on request from the Company Secretary. The principal roles of the committee are as follows:

- Monitoring the integrity of the financial statements and any other price sensitive announcements made by the group;
- Reviewing the group's internal financial controls;
- Making recommendations to the board relating to the appointment of the group's external auditors (including remuneration and terms of engagement);
- Reviewing the external auditor's appointment, scope and independence;
- Considering the need for an internal audit function.

The review of the group's internal controls and risk management processes is performed by the board as a whole.

(e) Auditor Independence

The group uses its external auditors, PricewaterhouseCoopers LLP, for additional tasks such as corporate tax advice and acquisition due diligence. Given the small size of the non-audit fees paid by the group in relation to the total fee income of PricewaterhouseCoopers, the board does not feel that this undermines the auditors' independence at all, and the benefits in terms of cost that result from the auditors' knowledge of our business is significant. This balance remains under ongoing review by the audit committee.

(f) Resolution of Staff Concerns

Informal arrangements exist for staff of the group to raise concerns, in confidence, about possible improprieties in matters of financial reporting or other matters. During the year, the audit committee reviewed these arrangements and deemed them adequate given the size of the business.

(g) Internal Audit

The Audit Committee has considered the need for an internal audit function. Given the size of the business, this remains inappropriate.

3 Relations with Shareholders

The group attaches great importance to its relationships with its shareholders, both institutional and private. The Chief Executive Officer and the Financial Director meet with major shareholders at least twice a year, as well as analysts and the financial press on an ad hoc basis. Private investors are encouraged to participate in the annual general meeting and the group regularly plays host to investors club visits.

During their meetings with major shareholders, the executives have offered meetings with either the Chairman and/or the Senior Independent Director, should the shareholders wish. Feedback is also received through the group's brokers. Any feedback received by the executives is reported to the board at or before the next board meeting.

The annual general meeting, which this year takes place on Friday, September 2nd, and for which the notice is included in this Annual Report, plays an important role in communication with shareholders. The group encourages attendance and participation from all shareholders. All members of the board attend the meeting and are available for questions. All proxy votes are counted and the balances for and against each resolution are disclosed at the meeting. A separate resolution is proposed on each substantially separate issue.

Directors' Remuneration Report

This report has been compiled in accordance with the Directors' Remuneration Report regulations contained in schedule 7A to the Companies Act 1985 and also in accordance with Schedule B of the Combined Code on Corporate Governance (the Code).

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 board delegates all responsibility for setting executive remuneration, including pension contributions and contractual terms, to the remuneration committee, which is described below. Given the size of the group, responsibility for setting the remuneration of senior management rests with the Chief Executive Officer.

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, option entitlements and total compensation, and are normally subject to performance criteria related to earnings per share. Options are awarded at market value.

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 earnings per share. The level of bonus achievable is significant in relation to non-performance related pay. The maximum bonus achievable is capped at levels currently not exceeding 115% of the executive's basic salary. The remuneration committee feels that this is the most appropriate mechanism for aligning management and shareholders' interests.

Non executive directors' remuneration, including that of the Chairman, is determined annually by the board as a whole. It is paid only as salary and is not subject to pension or bonus. The level of remuneration reflects the time commitment and responsibilities of the role. Non executive directors are not eligible to participate in the group's share option schemes.

In making its judgements on these matters, the remuneration committee has taken account of external measures, including those relating to comparable companies and positions. In its deliberations over remuneration for the year to 31 March 2005, the committee used an external report on listed companies' executive remuneration. The basic salaries of the executive directors were adjusted, using the information from the report on similar sized companies, to ensure they were competitive but not excessive.

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 year's notice. Non executive directors are appointed for an initial period of three years and, subject to shareholder approval, may be re-appointed for similar periods. After three such periods, non executive directors are subject to annual re-election.

Directors' Remuneration Report

The details of directors' service contracts are as follows;

	Date of Contract	Expiry Date	Notice Period
Paul Hearson	10.06.05	09.06.06	6 months
Brian Finlayson	10.06.05	09.06.06	6 months
James Joll	10.06.05	09.06.06	6 months
David Hearson	27.08.04	N/A	12 months
Alastair Hogg	27.08.04	N/A	12 months
Rex Orton	27.08.04	N/A	12 months

The Remuneration Committee

This part of the remuneration report is unaudited.

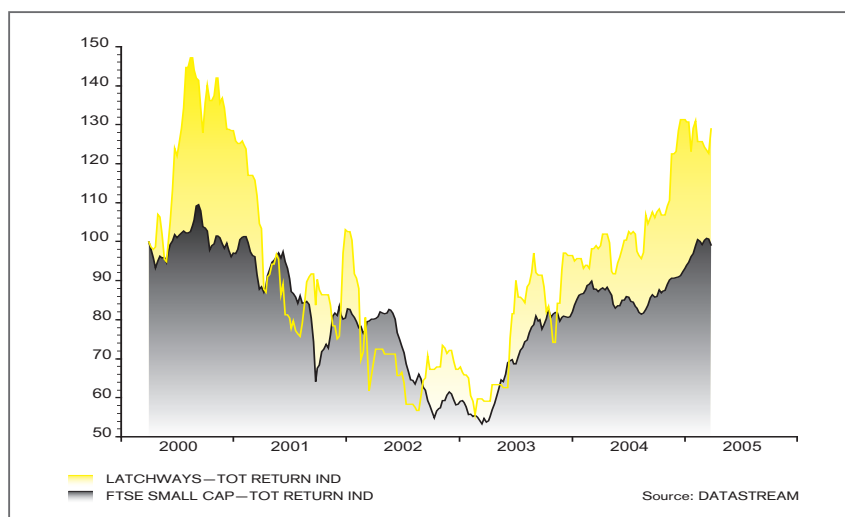
The remuneration committee comprises the Chairman, Paul Hearson and the two independent non executives, Brian Finlayson and James Joll. It is chaired by James Joll. The committee met twice during the year, with all members attending both meetings.

Written terms of reference for the committee exist and can be obtained on request from the Company Secretary.

The board notes the Code requirement that all members of the committee should be independent non executives. However, the board has taken the view that a committee of two members is insufficient to ensure appropriate debate and thus Paul Hearson, the board Chairman, is included. Paul Hearson does not participate in discussions regarding the remuneration of David Hearson.

Performance graph

This part of the remuneration report is unaudited.



April 2000 = 100%

The graph shows the performance of Latchways shares over the five years since April 2000, including dividends. During this turbulent period, Latchways has out-performed the FTSE Small Cap Index, giving a total shareholder return of 29% compared to -1% by the FTSE Small Cap index. In the twelve months to 31st March 2005, Latchways also out-performed the same index, returning 30% against 13% 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 2005	Total 2004
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
N P Hearson	18	—	—	—	—	18	12
B Finlayson	15	—	—	—	—	15	10
D N Hearson	—	149	160	21	25	355	261
A J Hogg	—	87	64	10	15	176	—
J A B Joll	15	—	—	—	—	15	10
R A Orton	—	111	80	14	10	215	166
T J Workman	—	—	—	—	—	—	81
(Resigned 2 April 2004)							
	48	347	304	45	50	794	540
2004	32	284	162	27	35	540	

Note:

Pension contributions are paid to a group personal pension plan, which is a defined contribution scheme. Only basic salary is pensionable. Benefits in kind include the provision of a company car (excluding D N Hearson until October 2004, who received a car allowance of £6,000 (2004: £13,000)), fuel (excluding R A Orton), medical and life insurance for all executive directors.

No director waived emoluments in the year ended 31 March 2005 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 2005 Ordinary 5p	31 March 2004 Ordinary 5p
N P Hearson	54,480	51,980
B Finlayson	103,074	103,074
D N Hearson	411,166	531,166
A J Hogg	2,000	—
J A B Joll	16,000	16,000
R A Orton	5,000	3,000

There have been no changes in the interests of directors between 31 March 2005 and 28 June 2005.

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 2004	Granted in the year	Exercised/ (lapsed) in the year	31 March 2005	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
A J Hogg	5,290	—	—	5,290	472.5	01.07.03	01.07.10
	17,391	—	—	17,391	287.5	31.07.04	31.07.11
	—	50,000	—	50,000**	345.0	24.06.05	24.06.14

*These options were subject to performance criteria relating to earnings per share performance in the three years ended 31st March 2004. These criteria were met.

**50,000 options were granted to Alastair Hogg on 24 June 2004, following his election to the board as Group Sales Director. 25,000 of these options are not subject to performance criteria, and will vest in three equal tranches on the first, second and third anniversaries of the grant. The remaining 25,000 are subject to similar vesting periods, but with the added performance criterion that earnings per share must increase by at least 10% compound per annum over the three years from 1 April 2004 for the options to vest. The first tranche for the year ended 31 March 2005 will therefore vest on 24 June 2005.

The market value of the company's ordinary shares as at 31 March 2005 was 430p, and the range of market prices during the year was 311p to 450p.

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 exercised by the directors 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 which 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 to ensure 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

28 June 2005

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 nine provisions

of the 2003 Financial Reporting Council's 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.

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 2005 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

28 June 2005

Consolidated Profit and Loss Account

for the year ended 31 March 2005

	Note	Results before amortisation of goodwill 2005 £'000	Amortisation of goodwill 2005 £'000	Results after amortisation of goodwill 2005 £'000	2004 £'000
Turnover					
– Continuing operations		21,121	–	21,121	19,460
– Acquisitions		1,261	–	1,261	–
	2	22,382	–	22,382	19,460
Cost of sales	3	(10,439)	–	(10,439)	(9,008)
Gross profit		11,943	–	11,943	10,452
Administrative expenses					
– excluding goodwill amortisation		(7,215)	–	(7,215)	(6,834)
– goodwill amortisation		–	(296)	(296)	(100)
	3	(7,215)	(296)	(7,511)	(6,934)
Group operating profit					
– Continuing operations		4,261	(96)	4,165	3,518
– Acquisitions		467	(200)	267	–
		4,728	(296)	4,432	3,518
Interest receivable and similar income				34	31
Interest payable and similar charges	5			(159)	(243)
Profit on ordinary activities before taxation	6			4,307	3,306
Tax on profit on ordinary activities	7			(1,426)	(1,002)
Profit on ordinary activities after taxation				2,881	2,304
Dividends	8			(1,171)	(1,067)
Retained profit for the year				1,710	1,237
Basic earnings per share (pence)	9			26.50	21.21
Diluted earnings per share (pence)	9			26.38	21.20

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 retained profit for the year as stated above, and their historical cost equivalents.

Consolidated Balance Sheet

as at 31 March 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Intangible assets	10	3,068	2,161
Tangible assets	12	2,774	2,789
		<u>5,842</u>	<u>4,950</u>
Current assets			
Stocks	14	2,041	1,485
Debtors	15	6,795	5,769
Cash at bank and in hand		1,434	2,273
		<u>10,270</u>	<u>9,527</u>
Creditors: amounts falling due within one year	16	<u>(5,843)</u>	<u>(5,305)</u>
Net current assets		<u>4,427</u>	<u>4,222</u>
Total assets less current liabilities		<u>10,269</u>	<u>9,172</u>
Creditors: amounts falling due after more than one year	17	(1,420)	(2,070)
Provisions for liabilities and charges	18	(93)	(81)
Net assets		<u>8,756</u>	<u>7,021</u>
Capital and reserves			
Called up share capital	19	544	655
Capital redemption reserve	20	111	—
Share premium account	20	999	974
Profit and loss account	20	7,102	5,392
Equity shareholders' funds	20	<u>8,756</u>	<u>7,021</u>

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 10 June 2005 and signed on its behalf by:

N P Hearson Chairman
R A Orton Financial Director

Company Balance Sheet

as at 31 March 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Intangible assets	10	1,409	406
Tangible assets	12	2,592	2,654
Investments	13	2,662	2,662
		<u>6,663</u>	<u>5,722</u>
Current assets			
Stocks	14	1,780	1,084
Debtors	15	4,412	4,445
Cash at bank and in hand		1,109	2,075
		<u>7,301</u>	<u>7,604</u>
Creditors: amounts falling due within one year	16	<u>(4,348)</u>	<u>(4,457)</u>
Net current assets		<u>2,953</u>	<u>3,147</u>
Total assets less current liabilities		<u>9,616</u>	<u>8,869</u>
Creditors: amounts falling due after more than one year	17	(1,420)	(2,070)
Provisions for liabilities and charges	18	(113)	(109)
Net assets		<u>8,083</u>	<u>6,690</u>
Capital and reserves			
Called up share capital	19	544	655
Capital redemption reserve	20	111	—
Share premium account	20	999	974
Profit and loss account	20	6,429	5,061
Equity shareholders' funds	20	<u>8,083</u>	<u>6,690</u>

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 10 June 2005 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 2005

	Note	2005 £'000	2004 £'000
Net cash flow from operating activities	21	4,499	4,284
Returns on investments and servicing of finance			
Interest received		34	31
Interest paid		(150)	(237)
Net cash outflow from returns on investments and servicing of finance		(116)	(206)
Taxation			
UK Corporation tax paid		(1,216)	(963)
UK Corporation tax received		—	12
Net cash outflow on taxation		(1,216)	(951)
Capital expenditure			
Purchase of intangible fixed assets		(63)	(38)
Purchase of tangible fixed assets		(430)	(438)
Net cash outflow on capital expenditure		(493)	(476)
Acquisitions			
Payments for acquisitions		(1,150)	—
Costs incurred on acquisitions		(46)	—
Net cash outflow for acquisitions		(1,196)	—
Equity dividends paid		(1,099)	(1,029)
Net cash inflow before financing		379	1,622
Financing			
Repayment of bank loans		(779)	(292)
Repayment of loan notes		(464)	(116)
Issue of ordinary shares		25	54
Net cash outflow from financing		(1,218)	(354)
(Decrease)/Increase in cash in the year	21	(839)	1,268

Notes to the Financial Statements

for the year ended 31 March 2005

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 and the Companies Act 1985.

Basis of consolidation

The group accounts consolidate the accounts of the company and all of 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.

Revenue is recognised at the point at which the company receives the right to consideration, which is either on despatch of goods or completion of contract work.

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%
Plant and machinery	20%–50%
Motor vehicles	20%–25%
Fixtures and fittings	15%–50%
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 determined on acquisition.

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

All 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.

Notes to the Financial Statements

① Principal accounting policies (continued)

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

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.

② Turnover by geographical market destination

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:

	2005	2004
	£'000	£'000
United Kingdom	14,473	12,379
Europe	5,093	4,668
North America	2,193	2,013
Other	623	400
	22,382	19,460

Notes to the Financial Statements

③ Gross profit and administrative expenses

	2005	2004
	£'000	£'000
Cost of goods sold		
– Continuing operations	10,079	9,008
– Acquisitions	360	–
	10,439	9,008
Gross profit		
– Continuing operations	11,042	10,452
– Acquisitions	901	–
	11,943	10,452
Administrative expenses		
– Continuing operations	6,877	6,934
– Acquisitions	634	–
	7,511	6,934

The amounts above relating to acquisitions are in respect of Wingrip, a business purchased during the year.
For further information see note 11.

Notes to the Financial Statements

④ Employee numbers and remuneration

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

	2005 £'000	2004 £'000
Administration and management	50	47
Operations and development	127	116
Sales and marketing	19	19
	196	182

Employee costs

	2005 £'000	2004 £'000
Salaries	4,303	4,094
Social security costs	406	396
Pension costs	251	192
	4,960	4,682

Directors' emoluments

	2005 £'000	2004 £'000
Aggregate emoluments	749	513
Contributions to defined contribution pension schemes	45	27
	794	540

Emoluments to highest paid director

	2005 £'000	2004 £'000
Aggregate emoluments for qualifying services	334	249
Contributions to defined contribution pension schemes	21	12
	355	261

⑤ Interest payable and similar charges

	2005 £'000	2004 £'000
On bank loans and overdrafts	145	210
Amortisation of loan expenses	9	6
On loan notes	5	27
	159	243

Notes to the Financial Statements

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting)

	2005	2004
	£'000	£'000
Directors' emoluments	794	540
Depreciation—owned assets	445	435
Amortisation of intangible fixed assets — patents	56	68
—goodwill	296	100
Loss on sale of fixed assets	—	5
Auditors' remuneration —for statutory audit services	46	44
—for non-audit services (tax compliance work)	20	10
Research and development—current year expenditure	508	492
Operating lease charges—vehicles	267	250
—property	134	128
Gain on foreign exchange	(42)	(5)

The audit fee for the parent company was £26,000 (2004: £22,000).

In addition the auditors, PricewaterhouseCoopers LLP, received fees totalling £20,000 in respect of their work on the acquisition of the Wingrip business. These costs have been charged to the cost of the investment.

7 Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2005	2004
	£'000	£'000
The charge for taxation is made up as follows:		
Current tax		
UK corporation tax on profits of the year	1,428	1,037
Adjustments in respect of previous periods	(14)	(19)
Total current tax (note 7(b))	1,414	1,018
Deferred tax		
Origination and reversal of timing differences	12	(16)
Total deferred tax (note 18)	12	(16)
Total tax on profit on ordinary activities	1,426	1,002

Notes to the Financial Statements

7 Tax on profit on ordinary activities

(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:

	2005	2004
	£'000	£'000
Profit on ordinary activities before taxation	4,307	3,306
Profit multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	1,292	992
Effects of:		
Temporary differences between taxable and accounting profit:		
— movement in accelerated capital allowances	45	13
Adjustments in respect of previous periods	(14)	(19)
Permanent differences	91	32
Current tax charge for year (note 7(a))	1,414	1,018

(c) Factors that may affect future tax charges

Deferred tax is measured on a non-discounted basis at the tax rates 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.

8 Dividends

Dividends on ordinary shares of 5 pence each:

	2005	2004
	£'000	£'000
2003 Final dividend on shares issued in July 2003	—	3
Interim dividend of 3.50 pence per share (2004: 3.18p)	381	346
Proposed final dividend of 7.26 pence per share (2004: 6.60p)	790	718
Total dividend for year	1,171	1,067

Notes to the Financial Statements

9 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 374.7p (2004: 296.3p).

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

	Earnings	2005 Weighted average number of shares	Per share amount	Earnings	2004 Weighted average number of shares	Per share amount
	£'000	Thousand	Pence	£'000	Thousand	Pence
Basic EPS						
Earnings attributed to ordinary shareholders	2,881	10,873	26.50	2,304	10,862	21.21
Effect of dilutive share options	—	49	(0.12)	—	5	(0.01)
Diluted EPS	2,881	10,922	26.38	2,304	10,867	21.20

Notes to the Financial Statements

10 Intangible fixed assets

Group

	Goodwill £'000	Patents, Trade Marks & Designs £'000	Total £'000
Cost			
At 1 April 2004	1,988	722	2,710
Additions in the year	1,196	63	1,259
At 31 March 2005	3,184	785	3,969
Amortisation			
At 1 April 2004	233	316	549
Charge for the year	296	56	352
At 31 March 2005	529	372	901
Net book value			
At 31 March 2005	2,655	413	3,068
At 31 March 2004	1,755	406	2,161

Goodwill which arose on the acquisition of HCL Group plc is being amortised over 20 years, being the directors' best estimate of its useful economic life. The addition to goodwill in the year relates to the acquisition of Wingrip and is being amortised over 6 years, being the directors' best estimate of its useful economic life. For further information see note 11.

The Patents, Trade Marks and Registered Designs analysed above are all attributable to the company.

Company

	Goodwill £'000	Patents, Trade Marks & Designs £'000	Total £'000
Cost			
At 1 April 2004	—	722	722
Additions in the year	1,196	63	1,259
At 31 March 2005	1,196	785	1,981
Amortisation			
At 1 April 2004	—	316	316
Charge for the year	200	56	256
At 31 March 2005	200	372	572
Net book value			
At 31 March 2005	996	413	1,409
At 31 March 2004	—	406	406

Notes to the Financial Statements

11 Acquisitions

(a) Acquisition statement

On 2 April 2004, Latchways purchased the Wingrip business from Rota Limited. The fair value of the consideration, net assets and resultant goodwill are set out below:

	2005
	£'000
Cash	1,150
Professional Fees	46
Total Consideration	1,196
Total net assets acquired	—
Goodwill	1,196

The contribution of Wingrip from the date of acquisition to 31 March 2005 is set out in Note 3 and on the face of the consolidated profit and loss account.

The turnover attributable to the Wingrip product for Rota Limited for the year end 31 August 2003 was £471,000, and for the seven months to 2 April 2004 was £601,000. The gross margin, operating costs and profits attributable to Wingrip for these periods are not available as the business was not separately identified in the accounting records of Rota Limited.

(b) The effect of the Wingrip Acquisition during the year on the cashflow of the business was as follows:

	2005
	£'000
Operating profit	267
Amortisation of goodwill	200
Movement in stocks	(148)
Movement in debtors	(336)
Movement in creditors	77
Net cash inflow from operating activities	60

In addition, approximately £63,000 of the corporation tax paid in the year related to Wingrip.

Notes to the Financial Statements

12 Tangible fixed assets

Group

	Freehold land & buildings £'000	Plant & machinery £'000	Motor vehicles £'000	Fixtures, fittings & equipment £'000	Total £'000
Cost					
At 1 April 2004	2,124	1,048	40	1,143	4,355
Additions in the year	67	70	—	293	430
At 31 March 2005	2,191	1,118	40	1,436	4,785
Depreciation					
At 1 April 2004	154	667	24	721	1,566
Charge for the year	35	145	9	256	445
At 31 March 2005	189	812	33	977	2,011
Net book value					
At 31 March 2005	2,002	306	7	459	2,774
At 31 March 2004	1,970	381	16	422	2,789
Company					
Cost					
At 1 April 2004	2,124	959	33	938	4,054
Additions in the year	67	66	—	170	303
At 31 March 2005	2,191	1,025	33	1,108	4,357
Depreciation					
At 1 April 2004	154	594	23	629	1,400
Charge for the year	35	128	7	195	365
At 31 March 2005	189	722	30	824	1,765
Net book value					
At 31 March 2005	2,002	303	3	284	2,592
At 31 March 2004	1,970	365	10	309	2,654

Freehold land & buildings includes £462,000 (2004: £462,000) relating to land.

Notes to the Financial Statements

13 Investments

	Company	
	2005 £'000	2004 £'000
Investment in subsidiary undertakings:		
As at 1 April 2004 and 31 March 2005	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

14 Stocks

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Raw materials and consumables	1,317	886	1,056	618
Work in progress	—	133	—	—
Finished goods and goods for resale	724	466	724	466
	2,041	1,485	1,780	1,084

15 Debtors

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Trade debtors	6,282	5,353	3,539	3,499
Amounts owed by subsidiary undertakings	—	—	525	774
Other debtors	132	46	131	46
Prepayments and accrued income	381	370	217	126
	6,795	5,769	4,412	4,445

All debtors fall due within 1 year.

Notes to the Financial Statements

16 Creditors: amounts falling due within one year

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank loans	652	772	652	772
Loan notes	—	464	—	464
Trade creditors	1,990	1,338	1,313	1,066
Corporation tax	801	603	584	600
Social security and other taxes	143	136	60	76
Other creditors	391	284	18	14
Accruals	1,076	990	931	747
Dividends payable	790	718	790	718
	5,843	5,305	4,348	4,457

The group has an undrawn overdraft 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 17.

The loan notes were payable to the vendors of HCL Group plc and were convertible to cash from 7 April 2004. They were guaranteed by the Bank of Scotland and were subject to a fixed interest rate of 4.63%.

Notes to the Financial Statements

17 Creditors: amounts falling due after more one year

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank loans	1,420	2,070	1,420	2,070
Bank loans				
Due within 1 to 2 years	653	652	653	652
Due within 2 to 5 years	767	1,418	767	1,418
	1,420	2,070	1,420	2,070

In 2005, 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 £22,000 (2004: £31,000) in respect of loan issue costs which are being amortised over the period of the loans.

Notes to the Financial Statements

18 Provisions for liabilities and charges

Deferred tax

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
At start of year	81	97	109	119
Profit and loss account	12	(16)	4	(10)
At end of year	93	81	113	109
The deferred tax provided is made up as follows:				
Accelerated capital allowances	103	85	118	109
Other timing differences	(10)	(4)	(5)	—
	93	81	113	109

19 Share capital

Authorised

	Ordinary	Deferred	Total
	5p shares	65p shares	
	No.	No.	£'000
Share capital as at 1 April 2004	12,821,603	191,429	766
Cancellation of deferred shares	—	(191,429)	(124)
As at 31 March 2005	12,821,603	—	642

Allotted, called up and fully paid

	Ordinary	Deferred	Total
	5p shares	65p shares	
	No.	No.	£'000
Share capital as at 1 April 2004	10,871,106	171,429	655
Cancellation of deferred shares	—	(171,429)	(111)
Ordinary shares issued on exercise of options at 287.5p per share	8,695	—	—
As at 31 March 2005	10,879,801	—	544

In accordance with the authority provided by shareholders at the 2004 Annual General Meeting, the deferred shares were cancelled for nil consideration during the year. An amount of £111,000 equal to the nominal value of shares cancelled was consequently transferred to a capital redemption reserve.

Notes to the Financial Statements

19 Share capital (continued)

As at 31 March 2005, options had been granted over 314,589 ordinary shares (2004: 287,269). 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
	2005	2004	
28.06.02 – 28.06.09	34,782	34,782	349.0p
06.07.02 – 06.07.09	21,246	21,246	353.0p
04.02.03 – 04.02.10	38,062	38,062	352.5p
01.07.03 – 01.07.10	5,290	10,580	472.5p
31.07.02 – 31.07.11	52,171	69,561	287.5p
31.07.04 – 31.07.11	104,564	104,564	287.5p
26.11.02 – 26.11.11	8,474	8,474	295.0p
24.06.07 – 24.06.14	50,000	—	345.0p

8,695 share options were exercised in 2005. Options over 13,985 shares lapsed in 2005.

20 Reconciliation of movements in equity shareholders' funds

Group

	Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Profit & Loss Account £'000	2005 Total £'000	2004 £'000
Opening equity shareholders' funds	655	974	—	5,392	7,021	5,730
Profit after taxation	—	—	—	2,881	2,881	2,304
Dividends payable	—	—	—	(1,171)	(1,171)	(1,067)
Issue of ordinary share capital	—	25	—	—	25	54
Cancellation of deferred shares	(111)	—	111	—	—	—
Closing equity shareholders' funds	544	999	111	7,102	8,756	7,021

Company

Opening equity shareholders' funds	655	974	—	5,061	6,690	5,356
Profit after taxation	—	—	—	2,539	2,539	2,347
Dividends payable	—	—	—	(1,171)	(1,171)	(1,067)
Issue of ordinary share capital	—	25	—	—	25	54
Cancellation of deferred shares	(111)	—	111	—	—	—
Closing equity shareholders' funds	544	999	111	6,429	8,083	6,690

Notes to the Financial Statements

21 Notes to the cash flow statement

Net cash flow from operating activities	2005	2004
	£'000	£'000
Operating profit	4,432	3,518
Amortisation of intangible fixed assets	56	68
Amortisation of goodwill	296	100
Depreciation of tangible fixed assets	445	435
Loss on sale of tangible fixed assets	—	5
Movement in stocks	(556)	(45)
Movement in debtors	(1,026)	499
Movement in creditors	852	(296)
Net cash inflow from operating activities	4,499	4,284
Reconciliation of net cash flow to movement in net debt	2005	2004
	£'000	£'000
Movement in cash in the year	(839)	1,268
Net cash outflows from bank loans	779	286
Net cash outflows from loan notes	464	116
Change in net debt resulting from cash flows	404	1,670
Other non cash movements	(9)	(458)
Movement in net debt	395	1,212
Net debt at 1 April 2004	(1,033)	(2,245)
Net debt at 31 March 2005	(638)	(1,033)

Analysis of net debt	At		Other	At
	1 April	Cash flow	non-cash	31 March
	2004	£'000	£'000	2005
	£'000	£'000	£'000	£'000
Cash at bank in hand	2,273	(839)	—	1,434
Bank loans	(2,842)	779	(9)	(2,072)
Loan notes	(464)	464	—	—
	(1,033)	404	(9)	(638)

The non-cash movement relates to the amortisation of bank loan issue costs amounting to £9,000.

Notes to the Financial Statements

22 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 £2,539,000 (2004: £2,347,000) before dividends has been dealt with in the company books of Latchways plc.

23 Financial commitments

At 31 March 2005 capital expenditure authorised by the board and contracted for but not provided in these financial statements was £Nil (2004: £Nil).

As at 31 March 2005 the group had annual operating lease commitments as follows;

	Land and Buildings £'000	Other £'000	Total 2005 £'000	2004 £'000
Expiry				
Within 1 year	24	30	54	66
1 to 2 years	23	102	125	53
2 to 5 years	78	206	284	277
Total	125	338	463	396

24 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 £1,511,784 (2004: £990,000) and in US Dollars of £393,695 (2004: £475,000).

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 2005, £2,076,000 had been drawn down. 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 were 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 2006, which was not utilised at 31st March 2005. Interest on this overdraft is charged at LIBOR plus 1.25%.

Details of the maturity profile of financial liabilities are set out in notes 16 and 17.

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 2.7% (2004: 2.3%). Interest yields on other currency balances were not material.

As at 31st March 2005, the group had negative cash balances denominated in Euros of £357,000 (2004: Cash of £325,000). The group has offset facilities across its bank accounts and therefore the negative Euro balance has not been disclosed as an overdraft in the financial statements.

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

25 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.

26 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 2 September 2005 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 2005.
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 re-elect A J Hogg as a director.
6. To re-elect R A Orton as a director.
7. To receive and adopt the Directors' Remuneration Report for the year ended 31 March 2005.
8. 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.
9. 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 10 will be proposed as an ordinary resolution and numbers 11 and 12 as special resolutions:

10. 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 £97,090 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.
11. 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 10 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;
 - 11.1 In connection with a rights issue; and
 - 11.2 the allotment (otherwise than pursuant to sub-paragraph 11.1 above) of equity securities up to an aggregate nominal amount of £27,199;

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 the 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 11:

- (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.
12. 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 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 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.

By order of the board
Rex Orton
Company Secretary

Registered office:
Hopton Park
Devizes
Wiltshire
SN10 2JP

28 June 2005

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; and
 - 3.2 copies of the directors' contracts of service.
4. Short biographies of each of the directors offering themselves for re-election are on page 8 of the annual report and accounts.
 - 4.1 Both B Finlayson and N P Hearson have held non executive roles on the board for over nine years. For this reason, in accordance with the Combined Code they will henceforth be subject to annual re-election. In the opinion of the board, both directors continue to be effective and significantly enhance the performance of the board as a whole. In the case of B Finlayson, the board is of the view that the length of his tenure in no way affects his independence of view. As Chairman, N P Hearson is deemed non-independent by the Combined Code.
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 10 will be put to members as special business to authorise the directors to allot ordinary shares with a nominal value of £97,090 out of the Company's unissued ordinary share capital representing approximately 17.8 per cent of the Company's current issued ordinary share capital. The authority shall expire 5 years from the date of passing 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 11 would permit the directors to allot for cash equity securities or sell any shares held as treasury shares with an aggregate nominal value of £27,199 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 of, 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 share will only be increased on a temporary basis, until such time as the shares are re-sold out of treasury.

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 2 September 2005 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 re-elect A J Hogg		
6. To re-elect R A Orton		
7. To receive the remuneration report and adopt it		
8. To re-appoint the auditors		
9. To authorise the directors to fix the auditors' remuneration		
10. To authorise the directors under section 80		
11. To authorise the directors under section 95		
12. To authorise the Company under section 166		

Dated this

day of

2005

(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, The Causeway, Worthing, West Sussex BN99 6ZR, 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.



2005

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 **LATCHWAYS**
FALL PROTECTION

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