

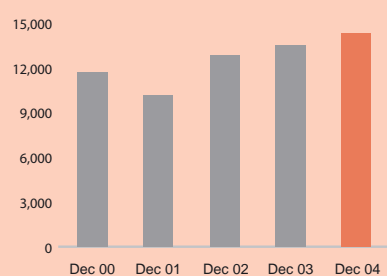
contents

1	financial highlights
2	chairman's statement
4	operating and financial review
8	the directors
10	report of the directors
13	report on directors' remuneration
18	corporate governance disclosure statement
21	report of the audit committee
22	report of the independent auditors
24	principal accounting policies
26	profit and loss account
26	statement of total recognised gains and losses
27	balance sheet
28	cash flow statement
29	notes to the financial statements
39	five year financial summary
40	financial calendar, directors and advisers

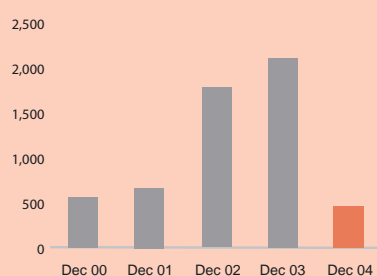
financial highlights

	2004 £000	2003 £000	Increase/ (decrease)
Turnover	14,408	13,528	6.5%
Operating profit	276	1,928	(85.7%)
Earnings per share	1.38p	4.54p	(69.6%)
Dividend per share	1.5p	1.5p	–

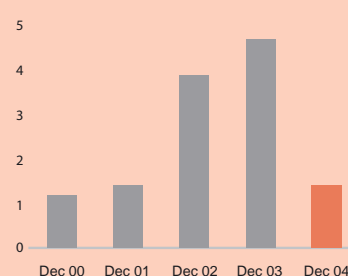
Turnover (£000)



Profit before taxation (£000)



Earnings per share (pence)



chairman's statement

Financial results for 2004 show continued growth in turnover, but profit for the year is significantly down. This mainly results from an explicit decision to invest heavily in educational products and services that are central to our strategic plans, and the costs incurred during the year have been written off.

Turnover for the calendar year 2004 was £14.4m with pre-tax profits of £0.45m, compared with £13.5m and £2.1m respectively for 2003.

Operating profit margin expressed as a percentage of sales decreased from 14.3% in 2003 to 1.9%, with basic earnings per share decreasing from 4.54p to 1.38p.

The Company paid an interim dividend during the year of 0.5p per share. Although the high level of investment in research and development has substantially reduced profits for the full year, the resultant new products and services have already attracted new strategic customers. It is already clear that the recent investment is expanding our opportunity to secure new work that would otherwise have been denied us. We are confident that this will justify the decision to forego immediate profits in order to build a suite of products and services that reflects the changing needs of our major educational customers. Therefore the Board is pleased to

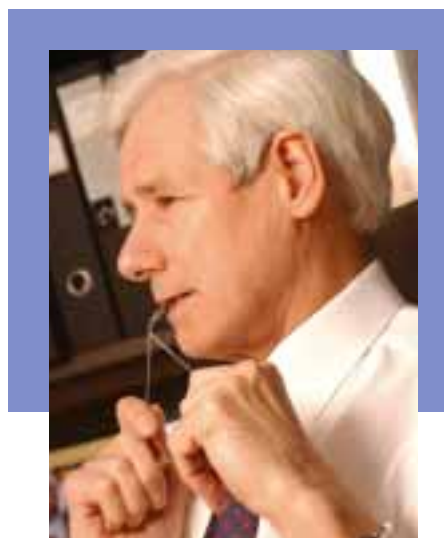
recommend a final dividend payment of 1.0p per share which maintains the total dividend for the year at 1.5p per share (2003 total: 1.5p).

DRS celebrated its tenth year as a public company in 2004 and has evolved a great deal in that time. At flotation in March 1994 the Company produced most of its turnover from selling OMR (Optical Mark Readers) and data entry forms to UK schools. Although the Company started as a mainly domestic data capture bureau 35 years ago, it has been trading internationally since those early days. The provision of services and products for high volume, time-critical data capture projects where accuracy is paramount helped the Company grow to be the world leader it is today.

The education market both in the UK and abroad has always been a major part of the business and that continues today. It is reassuring that despite a reduction in sales to schools during the mid 90s, this business has grown steadily each year since and education is still a cornerstone of the Company. Landmark international business came in 1996 when the Company's first voter registration project was completed in Sierra Leone. That has been followed by numerous voter registration, census, and full elections projects around the world ever since.

"The crucial factor in the evolution of DRS has been establishing partnerships with our customers."

Malcolm Brighton
Chairman



The crucial factor in the evolution of DRS has been establishing partnerships with our customers. Whether in education, elections, or census, it requires great trust on their part that we will complete projects “on time” and “right first time”. This factor has been amplified as the size and complexity of the projects we undertake increases and is even more relevant for 2005 and beyond. The London Mayor, London Assembly and European Parliamentary election of June 2004 required two years of planning to ensure a successful election day. Projects of this nature do not have just one customer: all 33 London Boroughs were legally responsible for returning a fair election and they all needed to have confidence in DRS. Therefore we worked in partnership with all concerned to inform, train, develop and bring in the results on the day.

The development of e-Marker® products and services is highly significant to the future of DRS. We have worked hard over the past three years to promote its use in assessment, establish our reputation in the marketplace, and to win customers. This unwavering commitment to keep DRS in the forefront of technology is starting to bring rewards. But again, this has only been possible through close collaboration with our customers. We are working with several awarding bodies to develop e-Marker® to realise improvements in the quality, efficiency, and cost of the examinations process.

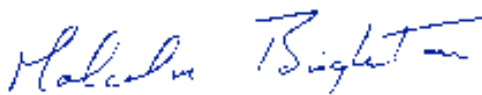
Of course, just as important as external relationships are the staff within DRS. The Company has been fortunate to have employed many talented professionals over the years, but even more so today. I would like to thank all our staff for their contribution to a very busy and demanding year.

After ten years as a non-Executive Director, Stuart Henderson retired from the Board at the AGM in May 2004. I am delighted to be able to inform you that Lord Kinnock of Bedwellty has been appointed as a non-Executive Director on the 14 March 2005.

Change has been a key aspect of DRS over several years. Technology companies in particular must adapt quickly as new developments make change necessary. DRS has been centred on a traditional paper-based technology since its inception, however,

what can be achieved to process information once it has been collected on that paper is now very different. We believe the investments we are making into e-Marker® will radically change the shape of examinations and assessment in the future and add many new technologies to DRS core competencies.

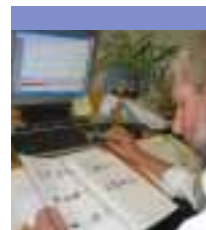
I am confident that our positive and unhesitating recent response to changing technical needs has been the right strategic decision, and will keep us in the forefront of a growing market in educational testing that will produce long term sustainable growth.



Malcolm Brighton

Chairman

14 March 2005



operating and financial review

Profit for the year before taxation amounted to £0.45m (2003: £2.1m). Earnings per share were 1.38p (2003: 4.54p). The Directors recommend the payment of a final dividend of 1.0p per ordinary share payable on 20 May 2005 to all shareholders on the register at 22 April 2005. Full year dividends of 1.5p per share are covered 0.9 times by earnings.

dynamics of the business

The profile of business in 2004 was significantly influenced by the London Mayor, London Assembly and European Parliamentary election contract. This was the largest single project that has been completed by DRS and generated turnover in excess of £4m in the first half of the year. This exceptionally large contract combined with two international projects in Ghana and Sierra Leone, resulted in the best first half year results in the Company's history.

However, as stated in previous reports, the expected change in the Company's examination and assessment business did adversely affect profits in the second half of the year. The loss of business from one of our largest customers of 2003, Edexcel, following its acquisition by NCS Pearson resulted in a significant reduction in this sector's revenue in 2004. In addition, aggressive investment in new technology to support e-Marker® services resulted in development costs greatly exceeding related income in the second half of the year.

UK schools, further and higher education business remained buoyant with increased sales.

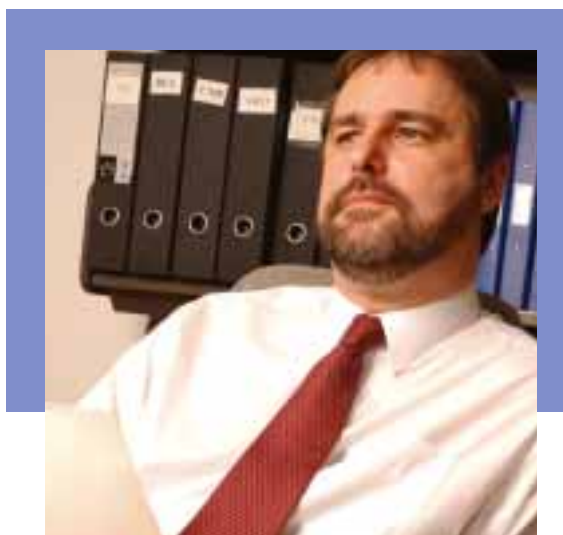
"DRS has developed a range of products and services to meet the demands of modern examinations and assessment."

Tony Lee
Managing Director

Despite continuing strong international sales business, with many long standing customers, there were a lack of substantial projects in the second half of the year. This had the effect of reducing the revenue contribution from international business from approximately 29% in 2003, to 25% in 2004.

Key parts of the business remain as:

- UK schools, further and higher education – where we sell our specialist Optical Mark Readers and associated forms used in attendance, pupil profiling, course registration and other administrative applications. While many of these are unchanged we are moving into new service applications.
- UK examinations and assessment – centres around e-Marker®, which is an integrated service for introducing technology and bringing major efficiencies to examination marking. We continue to supply traditional OMR products and services too.
- UK election and other public sector areas – supplying machine readable ballot papers, e-Counting and e-Voting products and services. We also supply scanning products, custom data entry forms and software services for widely differing customer applications, including police forces.
- International examinations, voter registration and census – where our products and services are used in more than 20 countries for national examinations.



highlights of the year

- Our largest project was the London Mayor, London Assembly and European Parliamentary election. We also won this project in 2000, when it took place for the first time, so it was particularly pleasing to be awarded the contract for a second time.
- UK school sales of Optical Mark Readers and associated forms both as upgrades to existing customers and to new customers continued to grow. Sales direct to Local Education Authorities of existing products as well as new services, in particular school admission processing, also contributed well.
- The successful trials of e-Marker® in previous years lead to the introduction of four service variants and the processing of over 300,000 answer scripts for three awarding bodies.
- The largest volume of e-Marker® work was with AQA (Assessment and Qualifications Alliance) and this culminated in a large order for services through to the summer of 2005. In a press statement AQA said "successful use of technology in the marking of this summer's exam scripts has seen marks captured significantly faster and with greater accuracy".
- New e-Marker® services were also sold to WJEC (Welsh Joint Education Committee) who are the UAB (Unitary Awarding Body) for Wales.
- UK examination and assessment services of our traditional OMR services also continued with other awarding bodies.
- General UK sales have made good progress in the police market, especially working with one large force, and we continue to provide a range of products and services to public sector customers.
- Export of the new PhotoScribe® PS900 scanner began in October and over 30 sales were made in the Far East (including China) and Africa. To enhance our position in Africa a sales office was established in South Africa at the beginning of the year.
- We sold to Albania and Sudan for the first time and were pleased to be selected as a supplier to the pre-test stage of the Nigerian population census.

- A new product was pioneered in Ghana with the combination of OMR and ICR in their national voter registration that took place in the first half of the year. This is an exciting development for use in both voter registration and census applications and shows real promise.

research and development

The data capture technologies that DRS has developed over many years continue to be enhanced and keep the Company at the forefront of its markets. The PhotoScribe® PS900 scanner has been a major research and development project and after its outstanding performance in the London elections is attracting much attention from around the world. The PhotoScribe® platform is the base on which further development of enhanced product features will be built.

The major focus for research and development throughout 2004 has been on e-Marker®. This has involved extensive use of both internal and external resource to facilitate rapid development. The marking of examinations is a complex process due to the many subjects which are tested and the varied nature of the questions. This complexity combined with the high-volume of tests that need to be marked in a short period of time makes the use of technology challenging.

DRS has developed a range of products and services to meet the demands of modern examinations and assessment. A number of product types ensure that the most appropriate scheme is available for each examination.

OMS (On-line Mark Sheets) – A simple approach to allow total answer script marks to be entered direct to a computer – suited to essay answers.

QMS (Question Marking from Script) – Enhanced system to allow individual marks for answers to be entered with an ability to view an on-screen mark scheme related to each answer – suited to short answers.

operating and financial review continued

CMI (Computer Marking from Image) – A system where an image of the complete answer script can be displayed, a question at a time, on a computer screen allowing a marker to enter the score awarded.

CMI+ (a further enhancement of CMI) – Segments the script into separate image clips. This allows particular answer types to be sent through different processes such as automatic marking, general marking, or expert marking as appropriate.

The ability to deliver the above products, on-line and web-enabled, has also been developed and enables markers to carry out their tasks at home or in marking centres. Applications using PS900 scanners, for scanning of scripts and image production, have been developed and combined with investment in large database servers and Internet infrastructure that are necessary for national deployment.

funds from operating activities and current liquidity

The Balance Sheet remains very strong. Current investments that are readily convertible to cash at 31 December 2004 were £4.9m (2003: £7.4m).

treasury policy

Surplus funds are currently invested with and by UK banks. The Board monitors the Company's deployment of funds with a view to minimising risk. The Company maintains funds in various major foreign currencies but does not hold, nor speculate in, such currencies at levels outside of its normal trading requirements.

taxation

The effective tax rate is negative 1.1% (2003: 27.0%).

formal statement on the continuing use of the going concern basis

After making enquiries, the Directors have a reasonable expectation, at the date of approval of these financial statements, that the Company has adequate resources to continue the operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

IFRS

The Company is preparing to report its 2005 results in accordance with IFRS. Management have undertaken an initial assessment of the potential impact of IFRS on the Company's 2004 accounts and this identified two significant areas.

The first relates to the valuation of freehold land and property, which is shown in the 2004 accounts at a net book value of £3m against a fair market value of £2.9m at 1 January 2004. The land values included within these figures are £1.4m and £1m respectively. The second item relates to the cost of share options granted to employees.

The estimated impact of these items is that they would reduce reported net assets by approximately £200,000, and 2004 reported profit before tax by £20,000.

current trading and outlook

e-Marker® is well positioned in the UK market and we have successfully introduced a significant variant, CMI+, in January 2005 with AQA. This product brings a range of efficiency benefits to awarding bodies and is likely to be the most important of the current e-Marker® services. In 2005 e-Marker® will be used by a number of organisations and will be processing over three million examination answer scripts. We are exploring the international use of e-Marker® and early signs are most promising. We have also reorganised sales to focus resource on examination and assessment customers.

“The company is entering a year of major change in the type of work undertaken.”

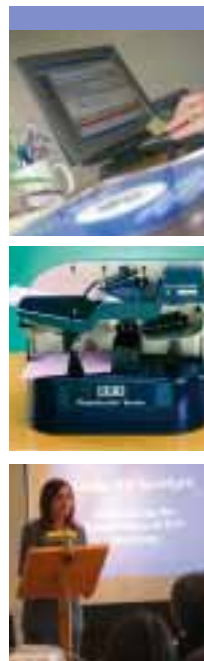
Following the success of trials and large-scale e-Counting projects over the past few years we are continuing to develop our elections business. To this end, a new senior role for election business development for the world markets was established to focus on this important area for DRS. A DRS STV (Single Transferable Vote) workshop was held in Scotland at the end of 2004 to promote better understanding of STV and the advantages of using technology to assist the process. This event was very well attended by election officials and was particularly relevant to Scotland where STV is likely to be used from 2007.

Our international sales team has also been strengthened with emphasis on both general business development and product sales of the new PhotoScribe® PS900 scanner. The launch of the PS900 at the end of 2004 produced a keen interest from a number of international customers and initial sales are very encouraging for the future.

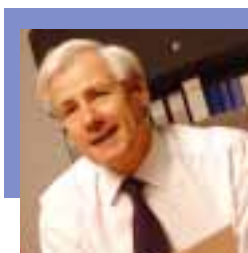
The coming year will have a very different profile for DRS to previous years. The major implementation of e-Marker® for the summer series of examinations will require considerable development during the first half of 2005. Also the change of examination and assessment work from pre-test preparation to post-test marking will move revenue generation into the second half of the year. The Internet based real time data processing of e-Marker® is an exciting direction for DRS business to be taking with tremendous potential for growth.

The Company is entering a year of major change in the type of work undertaken. Although this work is predominantly into existing marketplaces it has inherent risks combined with major opportunities. As stated at the end of 2004 it is expected that there will be a trading loss in the first half of 2005, before returning to profit, due to the high level of investment in e-Marker® services. However we remain confident that the investment in e-Marker® services will generate future profit and revenue growth.

Tony Lee
Managing Director
14 March 2005



the directors

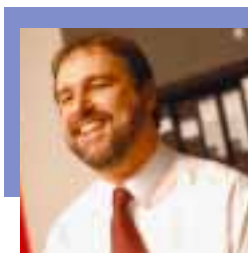


Malcolm Brighton
OBE, DL

Chairman

Malcolm Brighton was Managing Director from the Company's establishment in 1969 until 2001.

An Economics graduate, he previously worked in market research and served as Vice Chairman of the British Market Research Society. He is currently Chairman of Milton Keynes Primary Care Trust, Chairman of Milton Keynes City Orchestra and a Council Member of the Milton Keynes, Oxford and Bucks Learning and Skills Council. He is also a Director of three small private companies: Acorn Childcare Limited, Daybright Limited and Hintlesham Hall Limited.



Tony Lee
BSc, MPhil

Managing Director

Tony Lee joined the Company in March 1997 as Technical Director, having previously been European

Technical Director for Dolch Computer Systems. He has worked in the electronics and computer industry for more than 20 years. In the late 1980s he was Head of Research and Development for Epson and was involved in a number of international projects developing printing, communications, image scanning and recognition technologies. He was appointed to the Board in September 1997, and appointed Managing Director in March 2001.



Steve Beats

Technical Director

After joining DRS in a consultancy role in 1998, Steve Beats was appointed Development Manager six months later and

subsequently to the Board in May 2001. With a diverse background, including boat building, archaeology and fitness instruction, Steve has over 20 years' experience in varied software and product development disciplines, including 12 years with Commodore Business Machines in the USA.



Simon Day
BSc, MBA

Commercial Director

Simon Day joined the Company in 1992 as International Business Development Manager.

An Electronics Engineering graduate, he subsequently gained an MBA in International Business and Export Management. He previously worked for Zenith Data Systems, and in manufacturing and sales in both Britain and France with Mars Electronics. He was appointed to the Board in September 1999.



Nigel Turnbull
FCA, FCT, BSc

non-Executive Director

Nigel Turnbull was appointed as a non-Executive Director in May 2001. He trained as a Management Accountant

with a US chemical company before joining an oil Company as General Manager of their industrial group. He ultimately became Finance Director. In 1987 he joined Rank Group plc as Finance Director until his retirement at the end of 1999. He is also Chairman of the Erinaceous Group plc, Risk Advisory Group and Hotbed Limited.



Mark Tebbutt
ACMA

*Finance Director/
Company Secretary*

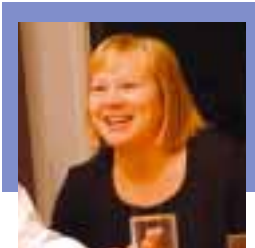
Mark Tebbutt joined the Company in 2001 as Head of Finance. He was appointed to the Board in March 2002 and appointed Company Secretary in March 2003. Having qualified as a Chartered Management Accountant in 1984, Mark gained a broad operational knowledge of financial management with Bass, GrandMet, and Misys where he had director status, and Stanley Works.



Gary Brighton

Operations Director

Gary joined DRS Bureau Operations in 1997. He was appointed Bureau Manager in 1998 and Associate Director in 2001 with responsibility for both Bureau and Print Operations before his subsequent appointment to the Board in March 2003. Prior to joining DRS, Gary was involved in IT consultancy for nine years, for companies including Credit Suisse in Zurich and Proctor & Gamble UK, before spending four years as Head of IT for Countrywide Independent Advisers, a part of the Misys group.



Ann Limb
PhD, MA

non-Executive Director

Ann Limb was appointed to the Board of DRS as a non-Executive Director in March 2003. A modern linguist and teacher by profession, she worked extensively in further education for 25 years spending over half her career as Principal and Chief Executive, firstly at Milton Keynes College and then Cambridge Regional College. Between 2001 and 2004, Ann was Group Chief Executive of the University for Industry, the government's national e-learning flagship responsible for the operation of Learndirect and UK on-line. Ann currently works as an educational adviser to government and serves on the boards of a number of other companies, charities and public bodies. She is founder and Chair of the Helena Kennedy Foundation for social justice.



Lord Kinnock
of Bedwelty

non-Executive Director

Neil Kinnock was appointed as a non-Executive Director of DRS in March 2005. An Industrial Relations and History graduate, he taught policy and trade union studies before being elected Member of Parliament for Bedwelty and Islwyn in 1970. In 1979 he was appointed Labour's Chief Opposition Spokesperson on Education and was elected Leader of the Labour Party in 1983, a position he held until 1992. He was appointed to the European Commission in 1995, with the Transport portfolio to 1999 and then as Vice President 1999-2004. He is currently Chairman of the British Council.

report of the directors

The Directors present their report and the audited accounts for the year ended 31 December 2004.

principal activities

The principal activities of the Company continue to be the provision of data capture services, the manufacture and sale of optical and image scanning equipment and complementary services.

A review of the business during the year, likely future developments and the Company's activities in research and development are given in the Chairman's Statement and the Operating and Financial Review.

results and dividends

The profit for the year after taxation amounted to £457,000 (2003 profit: £1,536,000).

The Directors recommend a final dividend for 2004 of 1.0p (2003: 1.0p) which, together with the interim dividend of 0.5p that was paid in November 2004 (2003: 0.5p), makes a total distribution for the year of 1.5p (2003: 1.5p) per share amounting to £482,000. Subject to approval at the Annual General Meeting, the final dividend will be paid on 20 May 2005 to those shareholders whose names are on the register on 22 April 2005. The loss for the year of £25,000 is transferred to reserves.

statement of responsibilities

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

- select suitable accounting policies and apply them consistently
- make judgements that are reasonable and prudent
- state whether all applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for ensuring that the Report of the Directors and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.



acquisition of treasury shares

Between 3 June and 15 July 2004 the Company purchased 1,930,000 Ordinary Shares of 5p each for a total consideration of £1,166,000 to hold as treasury shares. This represents 5.57% of the Company's called up share capital.

directors and interests

The names of the current Directors and their biographical details are given on pages 8 to 9.

Lord Kinnock of Bedwellty was appointed non-Executive Director on 14 March 2005. In accordance with Article 74 of the Articles of Association members will be asked to confirm his appointment.

S Henderson retired from the Board on 17 May 2004.

S M Beats, A M Tebbutt and N V Turnbull retire by rotation and, being eligible, offer themselves for re-election.

The interests of the Directors in the ordinary share capital of the Company, details of Directors' service contracts and details of the gains made by the Directors on share options are given in the Report on Directors' Remuneration on pages 13 to 17.

No Director has any material interest in any contractual agreement subsisting during or at the end of the year which is or may be significant to the Company.

substantial shareholdings

At the date of this report the Company has been notified of the following interests over its Ordinary Shares in accordance with Sections 198 to 208 of the Companies Act 1985:

	Ordinary Shares of 5p each	Percentage holding
Malcolm Brighton	7,079,697	20.45%
S D Stewart	2,200,000	6.35%
HSBC Global Custody Nominee (UK) Ltd	2,025,000	5.85%
Gary Brighton	2,000,000	5.78%
J A Brighton	2,000,000	5.78%
Mark Brighton	2,000,000	5.78%
DRS Data & Research Services plc	1,930,000	5.57%
HSBC Client Holdings Nominee (UK) Ltd	1,678,950	4.85%
J P MacArthur	1,139,400	3.29%

political and charitable donations

Charitable donations in the year amounted to £13,367 (2003: £24,991). No contributions were made for political purposes (2003: £Nil).

creditor payment policy

The Company's normal practice is to agree terms and conditions with all suppliers before business takes place. Payment is then made on these terms subject to satisfactory performance by the supplier. Trade creditors at the year end represented 40 days (2003: 34 days) of average supplies for the year.

report of the directors continued

annual general meeting

The Annual General Meeting of the Company will be held on 16 May 2005, at which shareholders will be asked, as items of special business, to give power to the Directors to allot shares and to give power to the Directors to disapply the pre-emption requirements of Section 89 of the Companies Act 1985.

renewal of authority to allot

The current authority to allot relevant securities within the meaning of Section 80 of the Companies Act 1985 will expire on 30 June 2005 or at the 2005 Annual General Meeting, if earlier. Resolution 9 as set out in the Notice of the Annual General Meeting, will be proposed as an Ordinary Resolution to authorise the Directors to allot Ordinary Shares in the capital of the Company up to an aggregate nominal amount of £568,920. The authority (unless previously varied, revoked or renewed) will expire on 30 June 2006 or at the 2006 Annual General Meeting.

disapplication of pre-emption rights

The current authority for Directors to allot equity securities for cash without first being required to offer such securities to existing shareholders in proportion to their existing holdings expires on 30 June 2005 or at the 2005 Annual General Meeting, if earlier. Resolution 10 as set out in the Notice of Meeting will be proposed as a special resolution to renew the authority of the Directors under Section 95 of the Companies Act 1985 to allot shares for cash otherwise than on a pre-emptive basis. The number of shares which may be allotted will be limited to an aggregate nominal value of £86,554 (representing 5% of the issued share capital of the Company). The authority (unless previously varied, revoked or re-worked) will expire on the earlier of 30 June 2006 or the 2006 Annual General Meeting.

Although there is no present intention of issuing any shares (other than pursuant to the Company's share option schemes), the Directors consider it is desirable to maintain the flexibility afforded by these provisions.

auditors

On 1 July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under Section 26(5) of the Companies Act 1989, the Directors consented to extend the audit appointment to Grant Thornton UK LLP from 1 July 2004.

Grant Thornton UK LLP offer themselves for re-appointment as auditors in accordance with Section 385(2) of the Companies Act 1985 and a resolution to re-appoint them will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

Mark Tebbutt
Company Secretary
14 March 2005

remuneration committee

At the beginning of 2004, the Remuneration Committee comprised three independent non-Executive Directors, Nigel Turnbull (the Chairman), Stuart Henderson and Ann Limb. At the Annual General Meeting in May 2004, Stuart Henderson retired from the Board and ceased to be a member of the Committee. At the Board Meeting in March 2005 Lord Kinnock was appointed to the Committee, so that once again, it consisted of three independent non-Executive Directors. None of the Committee members have any personal financial interests (other than as shareholders), potential conflicts of interest arising from cross-Directorships, or any day-to-day involvement in running the business. The Chairman and Chief Executive, at the invitation of the Committee, attend the meetings but are not present when their own remuneration is discussed.

The Committee meets formally at least once a year in January, but it is the practice of the Committee to meet on an ad-hoc basis throughout the year to address matters that arise. As well as considering the conditions in the Company as a whole, the Committee takes into account the position of the Company relative to other companies and is aware of what companies are paying though comparisons and are treated with caution to avoid remuneration escalation. The Committee met on three occasions in 2004.

Advisers – During 2004, external independent professional advice was sought from Watson Wyatt by the Board and the Committee on remuneration issues in respect of the structure and appropriateness of the total remuneration packages of both the Chairman and non-Executive Directors. In 2003 they reviewed the remuneration packages of the Executive Directors.

remuneration policy

The Company's policy on Directors' remuneration is that the packages are designed to attract, motivate and retain Directors of the calibre necessary to maintain the Company's position as a market leader and so reward them for enhancing shareholder value. The Remuneration Committee determines the

contract terms, basic salary and other remuneration for each of the Executive Directors, including performance-related share options, bonuses and pension rights.

remuneration packages

The Executive Directors' remuneration package includes fixed and variable elements to provide rewards for both the short and long term. Details of the individual elements of the remuneration package and employment contracts are:

Basic salary and benefits – An Executive Director's basic salary is determined by the Remuneration Committee in January of each year, having regard to individual responsibilities, performance and comparative information. In addition the Company provides benefits comprising a company car fully funded for business mileage, or a cash allowance in lieu of a company car, settlement by the Company of professional fees in respect of personal tax affairs, private healthcare arrangements, life assurance cover and permanent health insurance.

Performance related cash bonus – The Remuneration Committee, in awarding annual bonuses, considers the Company's financial performance during the year in respect of turnover, EPS and residual income in relation to individual responsibilities and an assessment of the individual Executive Director's performance which includes non-financial criteria.

Long term equity based incentive plans – The Remuneration Committee's current policy, introduced in 2003, is to grant to Executive Directors share options that are related to the Company's growth in EPS, in order to align the interests of Directors more closely with those of the shareholders.

In February 2005 the Inland Revenue approved a Share Incentive Plan (SIP) for all employees of the Company including the Directors. The SIP allows participants to invest up to £1,500 per annum by way of salary deduction in the Company's shares. For every two partnership shares purchased by the participant, one additional matching share is gifted by the Company. The scheme is operated in accordance with Inland Revenue rules.

report on directors' remuneration continued

Pensions – Each of the Executive Directors is a member of one of the Company's money purchase pension schemes. Their dependants are eligible for Dependant's Pension and the payment of a lump sum equivalent to four times basic salary in the event of death in service. Pension arrangements for each Executive Director provide for a pension on retirement at the age of 65 based on a contribution by the Company of a sum equivalent to 20% of basic salary. Base salary is the only component of remuneration which is pensionable. There is no requirement for an individual Director to contribute to his pension scheme.

directors' contracts

The Executive Directors have rolling contracts with six months' notice which are in line with the recommendations of the Combined Code. The contracts date from the dates of appointment to the Board as set out in Directors' Interests below.

There is no defined provision for compensation payable upon early termination of the contract.

It is the intention of the Remuneration Committee that any future Executive Director appointment will be based on contracts similar to those in effect for the current Executive Directors.

The non-Executive Directors each have letters of appointment, which refer to the re-election requirements under the Company's Articles of Association. Each appointment is for a period of three years, or when individual Directors are required to offer themselves for retirement by rotation, whichever is the earlier. The appointment may, however, be terminated by three months' notice from either party at any time. There is no provision for compensation payable upon early termination. Copies of the letters of appointment will be available for inspection at the AGM.

directors' interests

The interests of Directors (including their spouses' holdings) in the Ordinary Shares of the Company as recorded in the register maintained by the Company in accordance with the provisions of the Companies Act 1985 were as follows:

	Date of Appointment to Board	Ordinary Shares of 5p	
		As at 31.12.2004	As at 01.01.2004
S M Beats	14.05.2001	92,948	92,948
G Brighton	17.03.2003	2,000,000	2,000,000
M Brighton OBE (Chairman)	16.09.1969	9,079,697	9,079,697
S J Day	17.09.1999	98,307	98,994
Lord Kinnoek	14.03.2005	–	–
A C Lee	15.09.1997	100,000	100,000
A G Limb	17.03.2003	15,000	–
A M Tebbutt	25.03.2002	449,856	435,729
N V Turnbull	15.05.2001	150,000	205,000

There have been no changes in the Directors' interests since the year end up to the date of this report.



performance graphs

The graphs below compare the Company's total shareholder return performance against the FTSE SmallCap and the FTSE techMARK All Share indexes. The FTSE techMARK index is considered the most appropriate for comparison purposes, but this index has not existed for five years and has been shown separately.

The graphs show the change in hypothetical value of £100 invested in the Company's Ordinary Shares on 1 January 2000 and 4 December 2000 compared with the change in hypothetical value of £100 invested in the FTSE SmallCap and FTSE techMARK All Share indexes respectively.



INFORMATION SUBJECT TO AUDIT

directors' remuneration

The remuneration of the individual Directors listed is as follows:

	Salary and fees		Annual performance-related bonus*		Benefits £000	Total 2004 £000	Total 2003 £000	Money purchase pension contributions	
	£000	£000	%	£000				2004 £000	2003 £000
Executive									
S M Beats	78	–	–	11	89	115	16	15	
G Brighton	70	–	–	10	80	84	14	10	
S J Day	77	–	–	12	89	110	15	15	
A C Lee (CE)	95	–	–	13	108	140	19	17	
A M Tebbutt	83	–	–	10	93	115	17	15	
	403	–	–	56	459	564	81	72	
non-Executive									
M Brighton (Ch)	25	–	–	–	25	25	–	–	
S Henderson	8	–	–	–	8	19	–	–	
A G Limb	20	–	–	–	20	12	–	–	
N V Turnbull	20	–	–	–	20	19	–	–	
	73	–	–	–	73	75	–	–	
TOTAL	476	–	–	56	532	639	81	72	

* Annual performance-related bonus is expressed as a percentage of annual salary. The maximum bonus achievable is, for the Chief Executive, 50% of salary and for other Directors 40%.

The Executive Directors waived their rights to any potential non financial performance related bonus.

Executive Director benefits – S M Beats did not take up the medical insurance. Only S M Beats and G Brighton took up the assistance with personal tax matters.

share option schemes

Share options are awarded by the Remuneration Committee. Three Company share option schemes are currently in operation for Executive Directors and employees: 1996 DRS Restricted Share Scheme, the DRS Data & Research Services plc Enterprise Management Incentive Scheme and the DRS Data & Research Services plc Executive Share Option Plan 2003.

During 2004 options have been granted to the Executive Directors under the terms of the DRS Data & Research Services plc Enterprise Management Incentive Scheme and the DRS Data & Research Services plc Executive Share Option Plan 2003. Both schemes' performance criteria

are set out on a sliding scale dependent upon the increase in Earnings Per Share (EPS), based on the EPS reported in the audited annual accounts for the three years following the granting of the option. 25% of the qualifying option will be exercisable if the rate of growth equals RPI, 50% will be exercisable if the rate equals RPI + 5% per annum and 100% will be exercisable if rate of growth exceeds RPI + 10% per annum, with pro-rata award between these levels. In any financial year a participant may not be awarded options over Ordinary Shares with an aggregate value of more than their basic salary calculated by reference to the market value of the Ordinary Shares at the time of the grant.



INFORMATION SUBJECT TO AUDIT

directors' share options

Details of Directors' share options are given below:

	Scheme	Options granted to 01.01.04	Granted in year	Exercised during year	Options held at 31.12.04	Exercise price	Exercisable date	Expiry date
A C Lee	RSS	100,000	–	–	100,000	18.0p	10.09.03	10.09.10
A C Lee	EMI	239,437	–	–	239,437	35.5p	28.05.06	28.05.13
A C Lee	EMI	–	24,793	–	24,793	60.5p	26.03.07	26.03.14
A C Lee	ESOP	–	53,719	–	53,719	60.5p	26.03.07	26.03.14
S M Beats	EMI	186,413	–	–	186,413	35.5p	28.05.06	28.05.13
S M Beats	EMI	–	41,322	–	41,322	60.5p	26.03.07	26.03.14
S M Beats	ESOP	–	11,605	–	11,605	60.5p	26.03.07	26.03.14
G Brighton	EMI	140,017	–	–	140,017	35.5p	28.05.06	28.05.13
G Brighton	EMI	–	42,627	–	42,627	60.5p	26.03.07	26.03.14
S J Day	EMI	180,691	–	–	180,691	35.5p	28.05.06	28.05.13
S J Day	EMI	–	43,239	–	43,239	60.5p	26.03.07	26.03.14
S J Day	ESOP	–	7,672	–	7,672	60.5p	26.03.07	26.03.14
A M Tebbutt	EMI	186,413	–	–	186,413	35.5p	28.05.06	28.05.13
A M Tebbutt	EMI	–	41,322	–	41,322	60.5p	26.03.07	26.03.14
A M Tebbutt	EMI	–	17,889	–	17,889	60.5p	26.03.07	26.03.14

directors' other rights to shares

100,000 shares previously granted to A C Lee under the Restricted Share Scheme vested in 2003, their value at date of vesting was £51,000.

175,000 shares granted to S M Beats under the Restricted Share Scheme vested in 2003, their value at date of vesting was £62,125.

G Brighton was provisionally granted 20,000 shares in November 2002 under the Restricted Share Scheme before he was appointed to the Board, which will vest in November 2005.

The market price of the Company's shares at 31 December 2004 was 42.75p (2003: 60.25p) and the high and low values during the year were 69p and 32p respectively.

ON BEHALF OF THE BOARD

N V Turnbull

Chairman of Remuneration Committee

14 March 2005

corporate governance disclosure statement

The Company has applied the principles of good governance contained in the Combined Code (2003) appended to Listing Rules of the Financial Services Authority.

directors

The Company supports the concept of an effective Board leading and controlling the Company. The Board provides leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Company's strategic aims, ensures the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board sets the Company's values and standards and ensures that the Company's obligations to its shareholders and others are understood and met.

As part of their role as members of the Board, non-Executive Directors constructively challenge and help develop proposals on strategy. They satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are adequate. They are responsible for determining appropriate levels of remuneration of Executive Directors and have a prime role in appointing, and where necessary removing, Executive Directors, and in succession planning.

The Board met six times in 2004 and has a schedule of matters specifically reserved to it for decision. Management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professionals at the Company's expense.

At the year end, the Board consisted of five Executive Directors who hold the key operational positions in the Company and three non-Executive Directors who bring a breadth of experience and knowledge.

After ten years as a non-Executive Director, Stuart Henderson retired from the Board at the AGM in May 2004. To replace this vacancy Lord Kinnock of Bedwellty was appointed as a non-Executive Director on the 14 March 2005.

Three of the non-Executive Directors, Nigel Turnbull, Ann Limb and Lord Kinnock of Bedwellty are independent of management and any business or other relationship which could interfere with exercise of their independent judgement. This provides a balance whereby the Board's decision making cannot be dominated by an individual or a small group. The Chairman of the Board is Malcolm Brighton and the Company's business is run by Tony Lee, the Managing Director and Chief Executive. The Board has named Nigel Turnbull as the Senior Independent Director. The Board members are described on pages 8 and 9.

All Directors are subject to re-election every three years and on appointment at the first AGM after appointment.

attendance at meetings

All Board and Committee meetings are diarised prior to the commencement of the year and Directors are expected to make every effort to attend all the meetings. Due to ill health, S Henderson was unable to attend any meetings up to his retirement at the AGM. M Brighton was unable to attend the Board Meeting on 15 March 2004 and A G Limb was unable to attend the Remuneration Committee, Audit Committee and Board meetings held on 6 September 2004.

board evaluation

During the summer an internal self evaluation of the Board and the Audit Committee was undertaken. The collective results were discussed in their respective meetings held in September 2004.

In November 2004, TBSP Limited was appointed to carry out a 360° appraisal of all the Board members. The results were presented and discussed at the January 2005 Remuneration Committee meeting. One to one feedback was subsequently arranged for each member of the Board.

nominations committee

This Committee meets as required to initiate the selection process and the appointment of members to the Board. The members of the Nominations Committee are the Chairman, the Chief Executive, and the three other non-Executive Directors. The Chief Executive is available to members to provide supporting information. The Committee is chaired by Malcolm Brighton. No Nomination Committee meetings were held during 2004. All business was discussed at Board Meetings.

environmental policy

It is the Company's policy to support and encourage environmentally sound business operations. Recognising that the Company's own operations have minimal direct environmental impact, our policy is to:

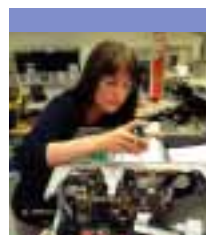
- meet all statutory obligations placed on us
- where sensible, encourage working practices, such as electronic information exchange, that reduce environmental load
- recycle waste products wherever possible, encourage use of environmentally friendly materials and dispose safely of any non-recyclable materials.

health and safety

The Company recognises the importance of this and recognises the high standard required to ensure the health, safety and welfare of its employees at work, its customers and the general public.

relations with shareholders

The Company values the views of its shareholders and recognises their interest in the Company's strategy and performance, Board membership and quality of management. As a result of increased interest from existing and potential shareholders, the Company appointed Williams de Broë as its stockbrokers in September 2003. The AGM is used to communicate with private investors and they are encouraged to participate. The Chairman of the Audit and Remuneration Committees are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to adopt the Annual Report and Accounts. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution before it has been dealt with by a show of hands. The Company further operates a well developed and up-to-date website which regularly publicises changes and initiatives of direct interest to shareholders. An electronic version of the Annual Report and Accounts is available to allow this information to be easily downloaded. That website address is www.drs.co.uk.



compliance

Combined Code (2003)

The Company is committed to applying the highest principles of Corporate Governance and is taking relevant action to work towards compliance as is appropriate for a company of its size. The Board believes that the Company has been in compliance with the provisions of the Combined Code (2003) during the year other than the following items detailed below:

- A.2.2 The Chairman does not meet the independence criteria set out in the Combined Code (2003). He is one of the founding Directors of the Company who continues to have a significant role owning 20% of the Company's share capital.
- C.2.1 The Company is not fully compliant with the standards outlined in the "Internal Control Guidance for Directors on the Combined Code". The Directors believe that a company of this size cannot justify the cost of putting in place all the formal review procedures.

- C.3.1 The Chairman, who does not meet the independence criteria set out in the Combined Code (2003), is a member of the Audit Committee. Therefore, even though the Company maintained at least two independent non-Executive Directors throughout the year, it is not fully compliant.
- D.1.2 The responsibility of communicating with the major shareholder and institutional investors rests with the Chief Executive and the Finance Director. It is the Company's policy to make the Directors available at the shareholders request.

BY ORDER OF THE BOARD

A M Tebbutt
Company Secretary
14 March 2005

report of the audit committee

accountability and audit

The Board presents a balanced and understandable assessment of the Company's position and prospects in all interim and price-sensitive reports as well as in the information required to be presented by statute. The responsibilities of the Directors with regards to the accounts are described on page 10, and that of the Auditors on page 22. A statement on going concern is on page 6.

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Company's assets. A description of the key features of the Company's system of internal control is detailed below.

At the end of 2004, the Audit Committee comprised Nigel Turnbull, Malcolm Brighton and Ann Limb. At the Board meeting in March 2005, Lord Kinnock was appointed to the Committee and Malcolm Brighton retired from the Committee. The Committee is still chaired by Nigel Turnbull, and all three non-Executive Directors are independent in accordance with the Combined Code (2003). The Committee meets formally at least three times each year and met a total of five times during 2004.

The Committee reviews the independence and objectivity of the external auditors and obtains confirmation of independence from them on an annual basis. The Audit Committee reviews the nature and extent of all audit services supplied by the external auditors, seeking to balance objectivity and value for money. In determining the policy, the Audit Committee has taken into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and does not agree to the auditor providing a service if, having regard to the ethical guidance, the result is that:

- the external auditor audits its own firm's work;
- the external auditor makes management decisions for the Company;
- a mutuality of interest is created; or
- the external auditor is put in the role of advocate for the Company.

internal control

The Board is responsible for maintaining a sound system of internal control to assist with safeguarding

shareholders investment and the Company's assets and to enable the Company to achieve its objectives. The Directors acknowledge their responsibility for the Company's system of internal control and for reviewing its effectiveness. The Board has continued to operate an internal process to review formally the operation and effectiveness of the Company's internal control. It should be noted that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurances against material errors, losses or fraud.

The Board and senior managers are involved in an ongoing process of risk assessment and evaluation of internal controls and procedures to meet the standards outlined in the "Internal Control Guidance for Directors on the Combined Code". The Board has adopted a schedule of matters which are required to be brought to it for decision. This procedure is intended to ensure the Directors maintain full and effective financial and operational control over the business and at least one issue of strategic risk is reviewed in detail at each Board meeting.

Internal financial controls are based upon a budgetary process which involves senior managers working with the Executive Directors to prepare an annual budget that is in line with corporate objectives. Senior managers' performance is then monitored against the agreed financial targets in management accounts that are prepared on a four weekly basis. The overall approach is supported by detailed internal financial controls operated on a day-to-day basis on all aspects of the business.

Internal operational controls are based on project management teams assigned to each major customer contract or internal development. Such project teams are cross functional to reflect the needs of the project and which encourage the interaction of skills and knowledge throughout the Company.

The Board has considered the need for an internal audit function but has decided the size of the Company does not justify it at present. However, it will keep the decision under annual review.

ON BEHALF OF THE BOARD

N V Turnbull

Chairman of Audit Committee

14 March 2005

report of the independent auditors to the members of DRS Data & Research Services plc

We have audited the financial statements of DRS Data & Research Services plc for the year ended 31 December 2004, which comprise the principal accounting policies, the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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

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

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the financial highlights, the chairman's report, the operating and financial review, the details of the Directors, the report of the directors, the un-audited part of the report on directors' remuneration, the corporate governance disclosure statement, the report of the audit committee, the five-year financial summary and the details of Directors and advisers. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. 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 part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2004 and of its profit for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON UK LLP

*Registered Auditors
Chartered Accountants
Central Milton Keynes*

14 March 2005

- 1 The maintenance and integrity of the DRS Data & Research Services plc website is the responsibility of the Directors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- 2 Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. The principal accounting policies have remained unchanged from the prior year except where stated.

turnover

Turnover is the total amount receivable by the Company for goods supplied and services provided, excluding VAT and trade discounts.

Rental income is recognised on a straight line basis over the period of the lease.

In the case of long-term contracts, turnover is recognised to the extent that the Company has obtained the right to consideration, and is primarily the proportion of total contract value that costs incurred to date bear to total expected contract costs.

long-term contracts

The attributable profit on long-term contracts is recognised once their outcome can be assessed with reasonable certainty. The profit recognised reflects the proportion of work completed to date on the project.

Costs associated with long-term contracts are included in stock to the extent that they cannot be matched with contract work accounted for as turnover. Long-term contract balances included in stocks are stated at cost, after provision has been made for any foreseeable losses and the deduction of applicable payments on account.

Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

tangible fixed assets and depreciation

Depreciation is calculated to write down the cost, less estimated residual value, of tangible fixed assets except freehold land by annual instalments over their expected useful lives.

The rates generally applicable are:

Freehold buildings	2% straight line
Computer equipment	33⅓% straight line
Fixtures and fittings	20% reducing balance or 20% straight line
Plant and machinery	20% reducing balance or between 10% and 33⅓% straight line
Rental machines	33⅓% straight line

investments

Investments are stated at cost less amounts written off.

share schemes and options

The Accounting Standards Board issued UITF Abstract 38, "Accounting for ESOP Trusts", in December 2003 and is effective for accounting periods ending on or after 22 June 2004. The Abstract requires that shares which have been issued, but which are held by the employee share trust, are deducted from shareholders' funds rather than shown as an asset on the balance sheet. This represents a change in accounting policy for the Company and as a result, an adjustment of £92,000 has been made in the prior year to restate 580,529 shares previously disclosed within Fixed Asset Investments. There is no impact on the profit and loss account in the financial year.

Unallocated shares are stated at cost less any provision for permanent diminution in value.

The cost of shares conditionally gifted to employees under the terms of the Restricted Share Scheme is amortised over the relevant qualifying period. Finance costs and administration expenses are charged to profit as they accrue.

In respect of share option schemes the difference between the fair value of the shares at the date of the grant, and the amount of consideration required to be paid by the participants is charged to the profit and loss account on a straight line basis over the period to which performance criteria relate or if not performance related, over the period from award to the date the employee becomes unconditionally entitled to exercise the option. Where the options are performance related, the amounts are based on a reasonable expectation of the extent to which performance criteria will be met, subject to subsequent adjustments.

deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured on an undiscounted basis using rates of tax that have been enacted or substantively enacted by the balance sheet date.

stocks

Stocks are stated at the lower of cost and net realisable value.

financial instruments

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate.

Interest receivable/payable is accrued, and credited/charged, to the profit and loss account in the period to which it relates.

operating leases

Total payments made as a lessee under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

research and development

Research and development expenditure is written off as incurred.

foreign currencies

Monetary 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.

contributions to pension funds

The pension costs charged against profits represent the amount of the contributions payable to the defined contribution schemes in respect of the accounting period.

liquid resources

Liquid resources within the cash flow statement are term deposits and government securities.

treasury shares

Own shares held in treasury are stated at cost and included as a deduction in arriving at shareholders' funds.

profit and loss account for the year ended
31 december 2004

	Notes	2004 £000	2003 £000
Turnover	1	14,408	13,528
Change in stocks of finished goods and work in progress		(168)	289
Own work capitalised		–	6
		14,240	13,823
Operating charges	2	(13,964)	(11,895)
Operating profit		276	1,928
Net interest	3	176	176
Profit on ordinary activities before taxation	1	452	2,104
Tax on profit on ordinary activities	5	5	(568)
Profit for the financial year		457	1,536
Dividends	6	(482)	(512)
(Loss)/profit transferred to reserves	19	(25)	1,024
Earnings per share	7		
– basic		1.38p	4.54p
– diluted		1.35p	4.50p

All operations are continuing.

statement of total recognised gains and losses

	2004 £000	2003 £000
Profit for the financial year	457	1,536
Total recognised gains and losses for the year	457	1,536
Prior year adjustment	(92)	
Total gains and losses recognised since last financial statements	365	

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

balance sheet at 31 december 2004

	Notes	2004 £000	2003 Restated £000
Fixed assets			
Tangible assets	8	4,523	5,005
Current assets			
Stocks	9	1,751	2,107
Debtors	10	1,978	1,999
Investments	11	3,419	6,312
Cash at bank and in hand		1,478	1,063
		8,626	11,481
Creditors: amounts falling due within one year	12	(3,642)	(5,775)
Net current assets		4,984	5,706
Total assets less current liabilities		9,507	10,711
Creditors: amounts falling due after more than one year	12	(1,000)	(1,000)
Provisions for liabilities and charges	14	(14)	(60)
		8,493	9,651
Capital and reserves			
Called up share capital	17	1,731	1,731
Share premium account	18	5,377	5,377
Capital redemption reserve	18	115	115
Own shares reserve	18	(122)	(122)
Profit and loss account	18	1,392	2,550
Shareholders' funds	19	8,493	9,651

The financial statements were approved by the Board of Directors on 14 March 2005.

A C Lee
Managing Director

A M Tebbutt
Finance Director

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

cash flow statement for the year ended
31 december 2004

	Notes	2004 £000	2003 £000
Net cash flow from operating activities	20	(66)	2,839
Returns on investment and servicing of finance			
Interest received		230	196
Interest paid		(54)	(47)
Net cash flow from returns on investment and servicing of finance		176	149
Taxation paid		(649)	(433)
Capital expenditure and financial investment			
Payments to acquire tangible assets		(307)	(530)
Receipts from sales of fixed assets		36	22
Net cash flow from capital expenditure		(271)	(508)
Equity dividends paid		(502)	(593)
Cash flow before use of liquid resources		(1,312)	1,454
Management of liquid resources			
(Purchase)/sale of term deposits		(650)	1,173
Sale/(purchase) of current asset investments		2,893	(2,532)
Net cash flow from management of liquid resources		2,243	(1,359)
Financing			
Purchase of share capital		(1,166)	–
Net cash flow from financing		(1,166)	–
(Decrease)/increase in cash in the year	21	(235)	95

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

notes to the financial statements for the year ended 31 december 2004

1. turnover and profit on ordinary activities before taxation

Geographical and segmental information required by the Companies Act 1985 and SSAP 25 'Segmental Reporting' has not been disclosed. The Directors are of the opinion that disclosure of this information would be seriously prejudicial to the Company.

Turnover by origin is all UK turnover, and includes £559,000 (2003: £641,000) of rental income.

	2004 £000	2003 £000
Profit on ordinary activities before taxation is stated after:		
Auditors' remuneration:		
– audit services	24	23
– non audit services (other assurance services)	20	5
Hire of plant and machinery	260	29
Other operating lease rentals	316	295
Research and development costs	1,544	796

2. operating charges

	2004 £000	2003 £000
Raw materials and consumables	2,481	2,158
Other external charges	3,452	1,795
Staff costs	5,484	5,202
Depreciation and amortisation of Restricted Share Scheme shares	821	888
Other operating charges	1,726	1,852
	13,964	11,895

3. net interest

	2004 £000	2003 £000
Interest receivable and similar income	230	223
Interest payable on bank loans	(54)	(47)
	176	176

4. directors and employees

Staff costs during the year were:

	2004 £000	2003 £000
Wages and salaries	4,712	4,526
Social security costs	505	455
Other pension costs	267	221
	5,484	5,202

notes to the financial statements for the year ended 31 december 2004 continued

The average number of employees of the Company during the year was:

	2004	2003
Management and administration	75	71
Manufacturing	64	59
Sales and marketing	23	23
	162	153

Remuneration in respect of Directors was as follows:

	2004 £000	2003 £000
Emoluments	532	639
Gains made on the exercise of share options	-	113
Pension contributions to money purchase pension schemes	81	72
	613	824

Further details on Directors' remuneration and share options are set out in the Directors' Remuneration Report.

5. tax on profit on ordinary activities

The tax charge represents

	2004 £000	2003 £000
United Kingdom corporation tax at 30%	66	636
Adjustment in respect of prior period	(25)	-
Total current tax	41	636
Origination and reversal of timing differences	(46)	(68)
Total deferred tax	(46)	(68)
Tax on profit on ordinary activities	(5)	568

The tax assessed for the period is lower/higher than the standard rate of corporation tax in the United Kingdom of 30%. The differences are explained as follows:

	2004 £000	2003 £000
Profit on ordinary activities before tax	452	2,104
Profit on ordinary activities multiplied by standard rate of United Kingdom tax of 30%	136	631
Effect of:		
expenses not deductible for tax purposes	24	21
additional relief of R&D expenditure	(125)	(92)
depreciation for the period in excess of capital allowances	63	76
effect of marginal rate	(32)	-
adjustment in respect of prior periods	(25)	-
	41	636

6. dividends

	2004 £000	2003 £000
Dividends on Ordinary Shares		
Interim paid of 0.5p per share (2003: 0.5p)	173	173
Final proposed of 1.0p per share (2003: 1.0p)	346	346
	519	519
Less: dividend on shares held by Restricted Share Scheme	(8)	(7)
dividend on Treasury shares held	(29)	–
	482	512

7. earnings per share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. Shares held in employee share trusts are treated as cancelled for the purposes of this calculation.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

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

	Earnings £	2004 Weighted average number of shares	Per share	Earnings £	2003 Weighted average number of shares	Per share
Basic earnings per share						
Earnings attributable to ordinary shareholders	457,000	33,093,359	1.38p	1,536,000	33,838,879	4.54p
Dilutive effect of shares in Restricted Share Scheme		323,919			222,647	
Dilutive effect of options under unapproved share option scheme		67,334			59,216	
Dilutive effect of options under the Enterprise Management Incentive Scheme		331,904				
Dilutive earnings per share	457,000	33,816,516	1.35p	1,536,000	34,120,742	4.50p

notes to the financial statements for the year ended
31 december 2004 continued

8. tangible fixed assets

	Total £000	Freehold land & building £000	Computer equipment £000	Fixtures & fittings £000	Plant & machinery £000	Rental machines £000
Cost						
At 1 Jan 2004	9,271	3,146	1,789	1,472	2,273	591
Additions	307	–	143	51	70	43
Disposals	(111)	–	(91)	(1)	(9)	(10)
At 31 Dec 2004	9,467	3,146	1,841	1,522	2,334	624
Depreciation						
At 1 Jan 2004	4,266	88	1,394	964	1,410	410
Provided in the year	787	35	258	176	198	120
Disposals	(109)	–	(90)	(2)	(9)	(8)
At 31 Dec 2004	4,944	123	1,562	1,138	1,599	522
Net book amount						
At 31 Dec 2004	4,523	3,023	279	384	735	102
At 31 Dec 2003	5,005	3,058	395	508	863	181

9. stocks

	2004 £000	2003 £000
Raw materials and consumables	757	1,338
Short term work in progress	137	248
Finished goods and goods for resale	857	521
	1,751	2,107

Finished goods are stated net of a provision of £485,000 against 100 PS900 scanning machines that were built for the London election contract and are deemed to be in excess of anticipated sales.

10. debtors

	2004 £000	2003 £000
Trade debtors	1,347	1,356
Amounts recoverable on contracts	254	152
Other debtors	–	82
Prepayments and accrued income	377	409
	1,978	1,999

11. current asset investments

	2004		2003	
	Book value £000	Market value £000	Book value £000	Market value £000
Bonds	2,388	2,388	3,741	3,741
Liquidity fund	1,031	1,031	2,571	2,598
	3,419	3,419	6,312	6,339

The bonds have been reflected at market value in the accounts as the reduction in their value is not expected to be recovered prior to their redemption date.

The liquidity fund has been reflected in the current year at cost in the accounts, which is the same as the market valuation.

Details of investments held are shown in Note 13.

12. creditors

	2004 £000	2003 £000
Amounts falling due within one year		
Payments received on account	39	1,554
Trade creditors	592	793
Current taxation	66	673
Social security and other taxes	265	262
Proposed dividends	321	341
Accruals and deferred income	2,359	2,152
	3,642	5,775
Amounts falling due after more than one year		
Secured loan	1,000	1,000
	1,000	1,000

The secured loan was taken out in June 2001 to purchase the freehold land and buildings of the Company. The loan of £1m at 31 December 2004 was secured by a fixed charge against the freehold land and buildings. The £1m was borrowed at a variable rate of 1% over base rate with a 6.5% cap repayable June 2006.

notes to the financial statements for the year ended 31 december 2004 continued

13. financial instruments

The Company uses financial instruments, comprising bank loans, cash, term deposits, fixed interest corporate bonds and fixed interest funds, and various items such as trade debtors and trade creditors that arise directly from its operations.

The main risks arising from the financial instruments are interest rate risk and liquidity risk with a minimal capital risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

Fixed interest corporate bonds and fixed interest funds are readily convertible into cash if required, but are primarily held for the short to medium term.

Term deposits are structured so as to enable cash to be available when required. Most are on fixed interest rates. No transactions in derivatives are undertaken.

Short term debtors and creditors

Short term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

Interest rate risk

The Company finances its operations through a mixture of shareholders' funds and bank loans. The Company exposure to interest rate fluctuations on its borrowings is managed by the use of capped floating facilities. The Company mixes the duration of its deposits to reduce the impact of interest rate fluctuations.

At the year end £Nil (2003: £Nil) of the Company's term deposits were at fixed interest rates.

Details of the interest rate exposure on the bank loan is set out in Note 12.

Investments set out in Note 11 consisted of:

Sterling fixed interest corporate bonds and fixed interest funds confined to investment grade defined minimum rating of "BBB+", where average rating of the portfolio is 'A' or above, giving an average weighted fixed interest rate of 5.2% (2003: 4.7%). Redemption dates for the corporate bonds and fixed interest funds range between May 2005 and December 2008.

Sterling Liquidity Fund is a UCITS certified open-ended fund with an investment objective of providing investors with daily liquidity and security of capital in a diversified portfolio of short-term securities, instruments and obligations which carry a minimum rating of A1/P1.

Liquidity risk

The Company seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitability.

Maturity of financial liabilities

The Company's financial liabilities analysis at 31 December 2004 was as follows:

	2004 £000	2003 £000
Bank and other borrowings		
In one or two years	1,000	–
In more than two years but less than five years	–	1,000
	<u>1,000</u>	<u>1,000</u>

Borrowing facilities

The Company has no overdraft facilities. Details of the loan facilities are set out in Note 12.

Currency risk

The Company operates in overseas markets and is subject to currency exposures on transactions undertaken during the year. The Company does not hedge any transactions, and foreign exchange differences on retranslation of foreign assets and liabilities are taken to the profit and loss account.

The tables below show the extent to which the Company has monetary assets in currencies other than Sterling.

	US Dollars	2004	US Dollars	2003
	£000	Other currencies £000	£000	Other currencies £000
Sterling equivalent	23	19	28	42

Fair values

The fair value of the Company's financial instruments is considered equal to their book value.

14. provisions for liabilities and charges

	Deferred taxation (Note 15) £000
At 1 January 2004	60
Release for the year	(46)
At 31 December 2004	14

15. deferred taxation

Deferred taxation is provided in full at 30% (2003: 30%) as follows:

	2004 £000	2003 £000
Accelerated capital allowances	28	60
Other timing differences	(14)	–
	14	60

notes to the financial statements for the year ended
31 december 2004 continued

16. share options

During the year the Company had in existence various share option schemes. The 1994 Executive Share Option Scheme and the 1994 Employee Share Option Scheme have expired, details of which are set out below.

The details to the 1995 Restricted Share Scheme are given in Note 18. The details to the DRS Enterprise Management Incentive Plan and the DRS Executive Share Option Plan 2003 are given on pages 16 and 17 in the Report on Directors' Remuneration.

	Date of grant	At 01.01.2004	Number lapsed in year	At 31.12.2004	Exercise price	Exercise period from	Exercise period to
1994							
Employee							
Scheme	24.04.1994	172,800	172,800	–	83.33	22.04.1997	22.04.2004
1994							
Executive							
Scheme	24.04.1994	159,450	159,450	–	83.33	22.04.1997	22.04.2004

Options granted under the 1994 Executive Share Option Scheme are subject to performance criteria based on the real growth in earnings per share as a condition on the exercise of the options. Determination of such criteria is the responsibility of the Remuneration Committee. The options granted under the 1994 Employee Share Option Scheme are not subject to any performance criteria.

17. share capital

	Ordinary shares of 5p each At 31 December 2004 and 2003	
	Number	£000
Authorised	46,000,000	2,300
Allotted, issued, called up and fully paid	34,621,600	1,731

18. reserves

	Share premium £000	Capital redemption £000	Own share reserve £000	Profit and loss account £000
As previously reported	5,377	115	–	2,520
Prior year adjustment	–	–	(122)	30
As restated	5,377	115	(122)	2,550
Purchase of treasury shares	–	–	–	(1,166)
Amortisation of shares granted under RSS scheme	–	–	–	33
Retained loss	–	–	–	(25)
At 31 December 2004	5,377	115	(122)	1,392

The Own Share Reserve represents the cost of shares purchased under the Restricted Share Scheme, less those unconditionally vested in employees. At 31 December 2004, 580,529 (2003: 580,529) shares with a market value of £248,176 (2003: £349,769) were held. Of these 450,000 (2003: 310,000) had been conditionally gifted to employees and a further 100,000 (2003: 100,000) are vested to a director at an option price of 18p. The Scheme authorises the Trustees to purchase up to 5% of the issued share capital, funded by loans from the Company. Shares so acquired, are conditionally gifted to employees at the discretion of the Board.

At the year end the Company held 1,930,000 Treasury shares with an aggregate nominal value of £96,500. These shares were purchased for cash at a cost of £1,166,000.

19. reconciliation of movement in shareholders funds

	2004 £000	2003 £000
Profit for financial year	457	1,536
Dividends	(482)	(512)
	(25)	1,024
Amortisation of shares granted under RSS scheme	33	30
Purchase of Treasury shares	(1,166)	–
Net (decrease)/increase in shareholders' funds	(1,158)	1,054
Opening shareholders' funds after prior year adjustment of £92,000	9,651	8,597
Closing shareholders' funds	8,493	9,651

20. reconciliation of operating profit to net cash inflow from operating activities

	2004 £000	2003 £000
Operating profit	276	1,928
Depreciation and amortisation	821	888
Profit on sale of fixed assets	(34)	(17)
Decrease/(increase) in stock	356	(1,052)
Decrease in debtors	21	43
(Decrease)/increase in creditors	(1,506)	1,049
	(66)	2,839

21. reconciliation of net cash flow to movement in net funds

	2004 £000	2003 £000
(Decrease)/increase in cash in the period	(235)	95
Cashflow from management of liquid resources	(2,243)	1,359
Change in net funds resulting from cash flows	(2,478)	1,454
Net funds at 1 January 2004	6,375	4,921
Net funds at 31 December 2004	3,897	6,375

notes to the financial statements for the year ended
31 december 2004 continued

22. analysis of net funds

	1 Jan 2004 £000	Cash flow £000	31 Dec 2004 £000
Cash at bank and in hand	563	(235)	328
Term deposits	500	650	1,150
	1,063	415	1,478
Current asset investments	6,312	(2,893)	3,419
Secured loan	(1,000)	–	(1,000)
	6,375	(2,478)	3,897

23. capital commitments

There were no capital commitments at 31 December 2004 or 31 December 2003.

24. leasing commitments

Operating lease payments due within one year amount to £223,000 (2003: £276,000). The leases to which these amounts relate expire during the following years:

	Lease of land and buildings		Other leases	
	2004 £000	2003 £000	2004 £000	2003 £000
Within one year	–	29	24	40
Within two to five years	92	–	68	76
Over five years	39	131	–	–
	131	160	92	116

25. pension commitments

During 2003 and 2004 the Company operated separate defined contribution schemes for the benefit of employees and Executive Directors respectively. In all cases the assets of the schemes are administered by trustees in funds independent of the Company. Pension contributions are shown in Note 4.

five year financial summary

	2004	2003	2002	2001	2000
	£000	£000	£000	£000	£000
Turnover	14,408	13,528	12,782	10,054	11,653
Operating profit	276	1,928	1,727	538	381
Profit before taxation	452	2,104	1,776	665	563
Tax	5	(568)	(524)	(208)	(185)
Profit after taxation	457	1,536	1,252	457	378
Dividends	(482)	(512)	(422)	(167)	–
Retained profit	(25)	1,024	830	290	378
Cash and current investments	4,897	7,375	5,921	4,082	3,923
Net assets	8,493	9,651	8,572	7,701	7,323
Operating profit/turnover	1.9%	14.3%	13.5%	5.3%	3.3%
Cash and current investments per share	14.2p	21.3p	17.1p	11.8p	11.3p
Net assets per share	24.5p	27.9p	24.8p	22.2p	21.2p
Earnings per share (basic)	1.38p	4.54p	3.74p	1.37p	1.15p
Dividend per share	1.5p	1.5p	1.25p	0.5p	–
Dividend cover	0.9	3.0	3.0	2.7	–
Year end share price	42.75p	60.25p	30.0p	15.0p	13.0p
Shares in issue	34.6m	34.6m	34.6m	34.6m	34.6m
Market capitalisation	£14.0m	£20.9m	£10.4m	£5.2m	£4.5m

The net asset and net asset per share figures have been restated to reflect the change in accounting policy in the current year.

financial calendar

Annual General Meeting	16 May 2005
Final dividend paid	20 May 2005
Interim results announced	13 September 2005
Interim report distributed to shareholders	19 October 2005
Interim dividend paid	04 November 2005

directors and advisers

Directors	Malcolm Brighton* OBE, Chairman Stephen Mark Beats Gary Brighton Simon John Day Lord Kinnock of Bedwelty* Anthony Christopher Lee Ann Limb* Arthur Mark Tebbutt Nigel Victor Turnbull*†	*non-Executive †Senior Independent Director
Company Secretary	Arthur Mark Tebbutt	
Registered Head Office	1 Danbury Court Linford Wood Milton Keynes MK14 6LR	
Stockbrokers	Williams de Broë plc 1 Waterloo Street Birmingham B2 5PG	
Auditors	Grant Thornton UK LLP Registered Auditors & Chartered Accountants Grant Thornton House 202 Silbury Boulevard Central Milton Keynes MK9 1LW	
Principal Bankers	HSBC Bank plc 19 Midsummer Place Milton Keynes MK9 3GB	
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	

