

# DRS Interim Report 2003

## Chairman's Statement

### Results

I am pleased to report that the results for the first half of 2003 are better than for the same period last year and continue the trend of year on year increased profitability. Strong sales and good market growth have produced turnover up 15%. Despite having made provisions for non-recurring costs, significant investment in new products and services has been possible while maintaining net profit margins at above 11% of sales.

An exciting first half of the year has seen high profile projects in both education and elections combined with strong sales growth in the UK and internationally. Our reputation for being experts in time critical, accurate data capture projects was enhanced by media coverage during the period. Our e-marker product was demonstrated to the press while being used to mark national exams early in the year and the BBC filmed DRS in action during the local elections in May. Hardware equipment and bureau services achieved record sales.

Legal proceedings initiated by DRS, in the High Court in London, relating to patents in the field of e-marking continue. A trial date of 17<sup>th</sup> November 2003 has been set and our counsel and expert witnesses are fully prepared. However, the costs are significant and the Board has provided for the projected costs, including the trial, in the half year accounts. The Board remains confident in the successful outcome of the proceedings.

### Financial Summary

Turnover for the first half of 2003 was £7,759k compared with a figure of £6,749k for the first half of 2002. This represents an increase in turnover of 15%. Profit before tax for the 28 weeks ending 11th July 2003 was £892k compared with £761k for the comparable period in 2002. Profit before tax expressed as a percentage of sales is 11.5% (11.3% in 2002). Basic earnings per share for the first half of 2003 were 1.88p, compared with 1.57p for the first half of 2002. Available funds are still strong and at the half year were £5,922k (£5,206k in 2002). Working capital increased during the period as a result of the phasing of contract payments and an increase in manufacturing inventory ahead of the GLA contract.

### Dividend

Based upon the continued growth of the business and the strong half year results the Board is pleased to recommend an interim dividend payment of 0.5p per share (2002: nil), payable on 7<sup>th</sup> November 2003 to those shareholders on the register of the Company on 26<sup>th</sup> September 2003. The Board expects to recommend a final dividend which will reflect a total dividend commensurate with profits for the year.



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## Trading Highlights

As in 2002, the first six months featured local government election work. Authorities in Durham and Shrewsbury chose DRS to count ballot papers electronically during the May local elections. These projects were part of a series of election pilots organised by the Office of the Deputy Prime Minister. At Durham the three authorities combined to create a single count venue for an all postal ballot election. Shrewsbury & Atcham were part of a multi-channel election with DRS counting the postal ballots. Both electronic counts were completed very successfully and results were announced in record times.

All areas of our education market have produced good growth. Sales and rentals of OMR scanners to schools continue to increase and substantial orders have been secured from Local Education Authorities. We print a wide range of forms each year for use in education both directly by schools in conjunction with our scanners, and by testing and assessment bodies. This side of our business has benefited from the increased sales of scanners and from increased levels of testing and assessment. A major project using our e-marker product was completed early in the year when our technology was used to assist the marking of GCSE exams. The project received national press coverage and was heralded as "a revolution" in the process of exam marking.

We are now into our eighth year of working with the University of Durham, and have recently secured a five year contract worth £2.5m to continue that work.

The international market for our Photoscribe scanners remains buoyant. A project to process university applications in the Guangdong province of China required a number of scanners to be shipped there at short notice. Fortunately travel restrictions imposed due to the SARS virus were lifted just in time for our engineers to commission the machines and the project was completed on time. Guangdong is just one of a number of provinces in China that may have a requirement for our technology and services.

## Our People

The very experienced DRS team have demonstrated, yet again, an extremely high level of achievement. Our record half year turnover and profit is a direct consequence of their expert work. We have also recruited experienced people into several areas of the business who are already making a positive contribution to the company. Recruitment will continue in the second half of the year to enhance our ability to capitalise on our market potential.

Prior to the AGM we were pleased to announce two new appointments to the Board. Gary Brighton, who was a senior manager within the company, has been appointed Operations Director and Ann Limb, who is Chief Executive of the University for Industry, has joined us as a non-executive Director.



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## Prospects

Early in the year we were nominated as the preferred supplier to the Greater London Authority for the London Mayor and Assembly elections to take place in June 2004. We are delighted that a contract has now been signed with an expected value of £3.5 million. Work has already started on this large and complex project and a dedicated production unit has been established in Milton Keynes to handle the manufacturing and commissioning of approximately 300 Photostripe scanners and associated equipment.

Aspects of exam marking which are not subject to the patent case continue to be developed. However, following their acquisition by Pearson, Edexcel informed us that the work undertaken by DRS will in future be carried out internally. The loss of revenue from Edexcel over the next twelve months will be more than offset by work on the GLA election.

Major trials of technology and processes planned with other examination bodies for later in the year will continue, allowing us to offer full scale implementation in national exams during the summer of 2004.

Development work is also continuing in other areas. The latest of the Photostripe series of combined image and OMR scanners has been successfully completed and we hope to use it for the 2004 elections. The Votapad e-voting terminal has also completed its first phase of development and is ready for a live election trial. Also, use of the Anoto pen technology is being explored in some new applications. These major projects, and others, are incurring costs in the year but are part of our strategic plans for sustainable growth of turnover and profit.

In summary, the first six months have produced excellent results despite significant expenditure on our legal action and project costs associated with future company growth. The high level of R&D expenditure will continue in the second half of the year. Despite the loss of revenue from Edexcel, the Board believes that the prospects for the second half year will be satisfactory. There are exciting new business opportunities ahead, particularly in the market of assessment and testing. DRS is facing some interesting challenges and I am confident that we are ready to meet them.



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## UNAUDITED RESULTS

Profit and Loss Account  
For the 28 weeks ended 11 July 2003

	28 weeks ended 11 July 2003 £'000	28 weeks ended 12 July 2002 £'000	12 months ended 31 December 2002 £'000
TURNOVER	7,759	6,749	12,782
OPERATING PROFIT	790	733	1,727
Net interest received	102	28	49
PROFIT BEFORE TAX	892	761	1,776
Taxation charge	(257)	(236)	(524)
PROFIT AFTER TAX	635	525	1,252
Dividends	(173)	-	(422)
RETAINED PROFIT FOR THE PERIOD	462	525	830
EARNINGS PER SHARE			
- basic	1.88p	1.57p	3.74p
- fully diluted	1.87p	1.55p	3.68p

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## UNAUDITED RESULTS

### Balance Sheet at 11 July 2003

	11 July 2003 £'000	12 July 2002 £'000	31 December 2002 £'000
<b>FIXED ASSETS</b>			
Tangible	5,136	4,913	5,313
Investment in own shares	105	164	147
	<hr/> 5,241	<hr/> 5,077	<hr/> 5,460
<b>CURRENT ASSETS</b>			
Stocks	1,337	864	1,055
Debtors due within one year	3,463	2,947	2,015
Investments	4,017	315	3,780
Cash at bank	1,905	4,891	2,141
	<hr/> 10,722	<hr/> 9,017	<hr/> 8,991
CREDITORS: amounts due within one year	(5,676)	(4,034)	(4,604)
<b>NET CURRENT ASSETS</b>	<hr/> 5,046	<hr/> 4,983	<hr/> 4,387
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<hr/> 10,287	<hr/> 10,060	<hr/> 9,847
CREDITORS: amounts due after more than one year	(1,000)	(1,600)	(1,000)
Provisions for liabilities and charges	(106)	(46)	(128)
<b>NET ASSETS</b>	<hr/> 9,181	<hr/> 8,414	<hr/> 8,719
<b>CAPITAL AND RESERVES</b>			
Called up share capital	1,731	1,731	1,731
Share premium account	5,377	5,377	5,377
Capital redemption reserve	115	115	115
Profit and loss account	1,958	1,191	1,496
<b>SHAREHOLDERS' FUNDS</b>	<hr/> 9,181	<hr/> 8,414	<hr/> 8,719

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## UNAUDITED RESULTS

### Cash Flow Statement for the 28 weeks ended 11 July 2003

	28 weeks ended 11 July 2003 £'000	28 weeks ended 12 July 2002 £'000	12 months ended 31 December 2002 £'000
Cash inflow from operating activities	603	1,706	4,125
Net cash inflow from returns on investment and servicing of finance	102	18	49
Taxation paid	-	-	(170)
Capital expenditure	(280)	(333)	(1,098)
Equity dividends paid	(424)	(167)	(167)
Cash inflow before use of liquid resources	1	1,224	2,739
Net cash outflow from management of liquid resources	(69)	(1,123)	(1,522)
Net cash outflow from financing	-	(100)	(900)
(Decrease)/increase in cash in the period	(68)	1	317

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## NOTES

1. The unaudited interim results have been prepared on the basis of the accounting policies set out in the Company's statutory accounts. The accounts for the 12 months ended 31 December 2002 shown are abridged and have been extracted from the full accounts for that year, on which the auditors made an unqualified report under Section 235 of the Companies Act 1985, and which have been filed with the Registrar of Companies.
2. Earnings per share have been calculated by dividing profit after tax for the period by the weighted average number of ordinary shares in issue. For basic earnings per share the weighted average number of ordinary shares was 33,688,467 (33,440,553 for the 28 weeks ended 12 July 2002 and 33,440,543 for the 12 months ended 31 December 2002).

For diluted earnings per share the weighted average number of ordinary shares was 33,998,369 (33,862,973 for the 28 weeks ended 12 July 2002 and 33,991,794 for the 12 months ended 31 December 2002). The weighted average number of ordinary shares takes into account shares held in the Restricted Share Scheme and outstanding options. The calculations are in accordance with the requirements of Financial Reporting Standard 14.

3. Investment in own shares

This represents the cost of shares purchased under the Restricted Share Scheme. At 11 July 2003 680,529 (12 July 2002: 1,181,057, 31 December 2002: 1,181,057) shares with a market value of £289,225 (12 July 2002: £266,515, 31 December 2002: £354,317) were held. Of these shares, 510,000 (12 July 2002: 605,000, 31 December 2002: 865,000) had been conditionally gifted to employees.

4. Reconciliation of net cash flow to movement in net funds. Net funds represents cash at bank and current asset investments less bank loans.

	28 weeks ended 11 July 2003 £'000	28 weeks ended 12 July 2002 £'000	12 months ended 31 December 2002 £'000
Increase/(decrease) in cash in period	(68)	1	317
Cash outflow from financing	-	100	900
Cash outflow from management of liquid resources	69	1,123	1,522
Movement in net funds in period	1	1,224	2,739
Opening net funds	4,921	2,182	2,182
Closing net funds	4,922	3,406	4,921

