



report and accounts 2003



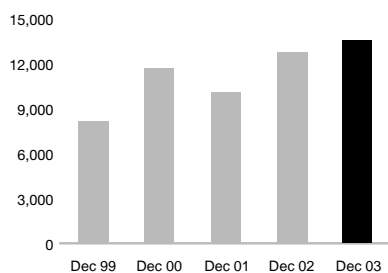
contents

- 1 financial highlights
- 2 chairman's statement
- 4 operating and financial review
- 8 the directors
- 10 report of the directors
- 12 report on directors' remuneration
- 16 corporate governance disclosure statement
- 18 report of the audit committee
- 19 report of the independent auditors
- 21 principal accounting policies
- 23 profit and loss account
- 24 balance sheet
- 25 cash flow statement
- 26 notes to the financial statements
- 36 five-year financial summary
- 37 financial calendar, directors and advisers

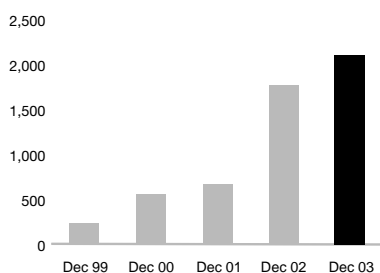
financial highlights

	2003 £000	2002 £000	Increase
Turnover	13,528	12,782	5.8%
Operating profit	1,928	1,727	11.6%
Earnings per share	4.54p	3.74p	21.3%
Dividend per share	1.5p	1.25p	20.0%

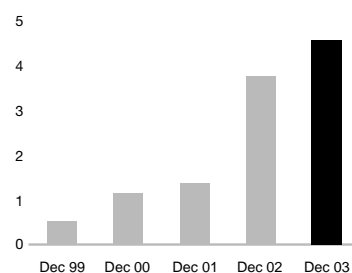
Turnover (£000)



Profit before taxation (£000)



Earnings per share (pence)



chairman's statement

I am pleased to announce strong financial results for 2003 which show increases in both turnover and profit. This is the fifth year of sustained profit growth.

Turnover for the calendar year 2003 was £13.5m (up 5.8%) with pre-tax profits of £2.1m (up 18.5%), compared with £12.8m and £1.8m respectively for 2002.

Operating profit margin expressed as a percentage of sales rose from 13.5% in 2002 to 14.3%, with basic earnings per share increasing from 3.74p to 4.54p, a rise of 21.3%.

The Company paid an interim dividend during the year of 0.5p per share. Based upon the strong full-year results, the Board is pleased to recommend a final dividend payment of 1.0p per share, giving a total dividend for the year of 1.5p per share (2002 total : 1.25p), an increase of 20%.

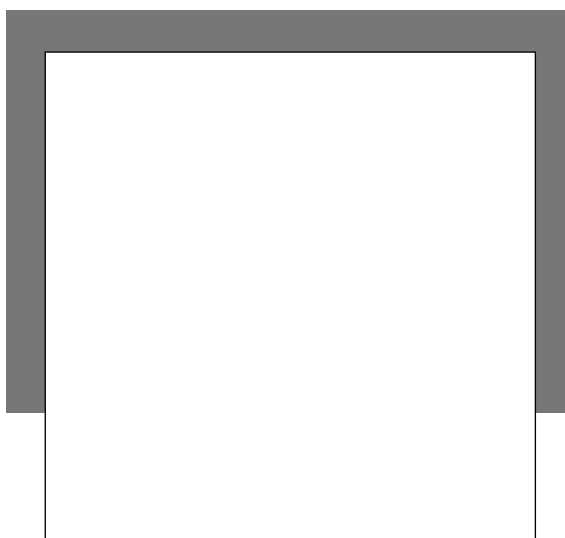
We were able to announce in October 2003, the settlement of our High Court legal action concerning patents in the field of electronic marking. The Company needed to invest significant time and resources over a period of more than a year to establish the position of intellectual property rights in this field. The 2003 interim results included a provision for legal costs which was reversed in

the full year's results following the settlement. The development of our products and services, in this very important area of our educational business, was also restricted by the dispute. However, settlement of the case has removed all restrictions and the investment in development has been increased to offset any delays. Considerable progress with piloting electronic marking has already been made in the marketplace but the benefits are not currently expected to flow through until 2005.

We also announced in October 2003 that Edexcel, one of our major customers, had been acquired by NCS Pearson and that further orders from Edexcel were unlikely. However, business with other major companies in this sector of education has increased over the past year and we expect this will make a substantial contribution to turnover beyond 2004. As expected other non-educational revenue, in particular the London Mayor and London Assembly election contract, has more than replaced the Edexcel revenue for 2004.

"Strong financial results show increases in turnover and profit. This is the fifth year of sustained profit growth."

Malcolm Brighton
Chairman



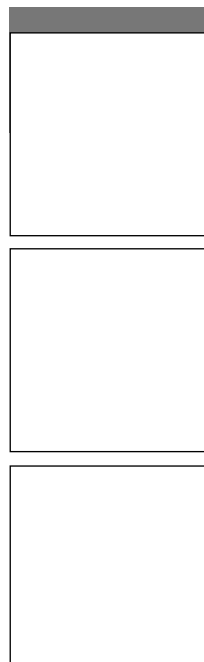


The London Mayor and London Assembly election contract was awarded early in 2003 and was originally expected to be worth in the region of £3.5m, however the government has now decided to combine the London elections with the European Parliamentary election. This will increase the size of the DRS project and the total contract value is now likely to be in the region of £4.8m, £0.9m of which is included in the 2003 results.

Stuart Henderson, a long serving Director, has indicated his intention to retire at the Annual General Meeting. Stuart played a significant role on the Board since flotation. As Chair of the Remuneration Committee and member of the Nominations and Audit Committees he helped to develop the structures of sound Board practice that are reflected in present Board procedures. Using his knowledge and experience, Stuart made a valuable contribution to the refocusing of the Company to help it through the difficult years following flotation. His contribution has been highly valued by his fellow Directors and colleagues.

2003 was a year of change and progress for the Company. The challenges we met during the year enabled the Company to develop a better understanding of the changing markets in which it operates and to promote DRS' professionalism in the services it can provide to the customers in these markets.

DRS has a strong management team which has been augmented during the year to address growing opportunities. The overall scale of investment in the UK education market also gives me confidence in the long-term growth of the Company.



Malcolm Brighton

Chairman

15 March 2004

operating and financial review

Profit for the year before taxation amounted to £2.1m (2002 : £1.8m). Earnings per share were 4.54p (2002 : 3.74p). The Directors recommend the payment of a final dividend of 1.0p per ordinary share payable on 21 May 2004 to those shareholders on the register on 23 April 2004. Full year dividends of 1.5p per share are covered 3.0 times by earnings.

dynamics of the business

The 2003 results have been achieved from a strong performance in all areas of the business, hence our relative positions of the markets have been maintained. UK education continues to be the largest single market and the schools sector had a particularly good year with sales up 25%.

UK non-education business continued to perform well with contributions in the first half of the year from the election trials. In the second half of the year major work commenced on the election contract.

Sales to the UK education sector were up from 55% to 56% of total sales despite losing Edexcel in the second half of the year.

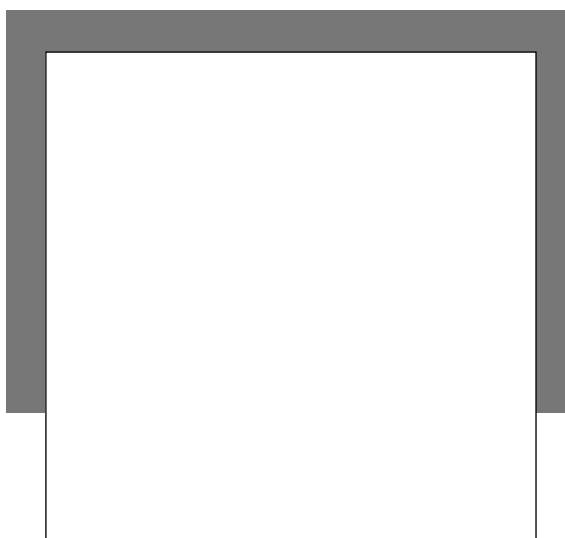
Exports continue to provide about a third of the turnover with good repeat business, particularly from Nigeria and other African countries. Some large international projects suffered from customer delays during the year which has had the effect of moving some revenue expected in 2003 into the start of 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.
- UK examinations and assessment – providing integrated services to a range of public and private examination and assessment organisations. This includes pre and post examination services and the provision of automated and computer assisted marking.
- 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.

“The 2003 results have been achieved from a strong performance in all areas of the business.”

Tony Lee
Managing Director



- International examinations, voter registration and census – where our products and services are used in more than 20 countries for national examinations and elections.

highlights of the year

- The UK schools Optical Mark Readers trade-in and upgrade programme proved to be successful. Sales of Optical Mark Readers to new customers also continued to grow strongly. Two new services for LEAs in marking and administration were also introduced during the year.
- The year started with a pilot of the e-Marker® product and following settlement of the patent case a further trial project was completed at the end of the year with a new customer.
- UK examinations and assessment continued to expand in the provision of services to schools' testing organisations.
- In the further and higher education (FE and HE) sector we secured a major HE student survey project which is likely to extend and grow in 2004.
- The successful election trials implemented in 2002 were repeated in May of 2003 at County Durham and Shrewsbury & Atcham with results being announced in record time. Later in the year the international team completed the first election of its type in Oman. This achieved two firsts for DRS, an election in the Middle East and one distributed in 59 locations in one of the most geographically challenging countries of the world. Over 60 scanners and 60 secure ballot paper types in Arabic and English with colour images of the candidates were produced by DRS. The results were announced in many areas just a few hours after the close of poll.

- Export sales of our new PS880 scanner were extremely good for the year with more than 50 units sold into seven countries. These included sales of 22 scanners to China and 17 to Nigeria for innovative examination applications.
- Our international census work continued with a project in Cameroon where DRS shipped 4 million booklets in 2003 with the prospect of further orders in 2004. This was the fourth national census we had undertaken.
- Zanzibar became the tenth country to use DRS for voter registration during the year in a small but significant project.
- As part of the London Mayor, London Assembly and the European Parliamentary election project a new scanner production unit was commissioned in Milton Keynes. Production had started by the end of the year and it is expected that approximately 300 of our new PhotoScribe® scanners will be produced there for the election.

research and development

To complement our e-counting products used in elections the VotaPad® e-voting product has been developed and the first prototype version has now been built. Research into this product has revealed a number of exciting new applications and extended features where development is likely to continue to realise this potential.

An initial release of the new PhotoScribe® scanner has been developed for the London Mayor and London Assembly elections and work is continuing to produce a range of products suitable for our many varied customers around the world.

operating and financial review continued

Major enhancements have been made to the election software systems we have been using over the past four years. The experience gained both in the UK and abroad during elections has led to the development of a system which is scalable to all applications and can be tailored to meet many varied election rules. The system also supplies much greater real time management information to ensure all elections are controlled as efficiently as possible.

Development of our e-Marker® products and services has become of primary importance since the patent settlement was reached. The applications are capable of being deployed on a national scale and involve a complex set of interdependent technologies. Work to scope the size and shape of the infrastructure, and use of the Internet, is well under way and initial trials have been highly successful.

Development of applications using the Anoto® Pen technology has moved more slowly than anticipated, due to implementation and pricing issues connected with the core products. However, we still believe there is much promise in the technology and we will continue to explore its possible use.

The need for faster and increased development has led us to using more outsourced resources. Better long-term relationships with partners has led to a more efficient, adaptable and sustainable resource. Project management has also been enhanced to meet the demanding needs of project complexity and increasing workloads.

funds from operating activities and current liquidity

The balance sheet remains very strong. Cash and current investments that are readily convertible to cash at 31 December 2003 were £7.4m (2002 : £5.9m).

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 27.0% (2002 : 29.5%).

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.

current trading and outlook

Orders for two major voter registration projects, in Ghana and Sierra Leone were received at the end of 2003. These orders are particularly pleasing as it is the third time DRS has undertaken this work in Sierra Leone and the second time in Ghana. In total the projects cover 12 million voters across the two countries.

The biggest single project for 2004 will be the London Mayor, London Assembly and the European Parliamentary elections to be held on 10 June. There are 5.3 million voters in Greater London and there will be three separate ballot papers. DRS will count the ballot papers in 14 constituency count centres based in ten different locations across London on 11 June. Three hundred scanners and more than 450 people will be employed to complete the task, the biggest of its type ever undertaken anywhere in the world.

"2003 was a busy year requiring the Company to address changes in its markets and to realign the internal operations of the business to support these changes."

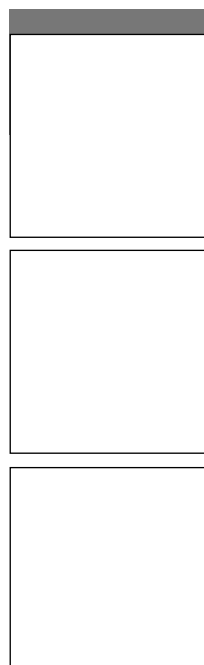
Considerable change is taking place in the areas of education assessment and testing in this country. Central to this change is the use of technology to improve the quality, efficiency and speed of examination marking and results. The DRS e-Marker® products and services are being developed to offer solutions to this requirement for new technology and the Company is well placed to develop this market. A number of successful trials and pilots have taken place and more are in place on a "roadmap" of implementation. Realisation of this potential will require increased investment in 2004 before the benefits will start to become evident in 2005.

2003 was a busy year requiring the Company to address changes in its markets and to realign the internal operations of the business to support these changes. Settlement of the legal case with NCS Pearson has opened up significant future areas of growth potential. In the short-term, loss of the Edexcel examination work and the significant investment in electronic marking will impact on 2004. Looking further ahead, there are significant opportunities from the development of electronic marking and e-voting, although research and development expenditure will be needed ahead of income arising. The development of the new scanners will provide an improved technical base on which to develop products for the commercial market.

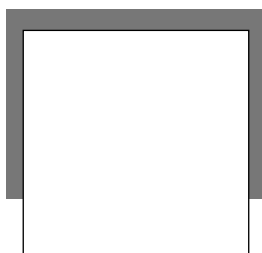
The Company is well placed to continue its sustained revenue growth throughout 2004.



Tony Lee
Managing Director
15 March 2004



the directors

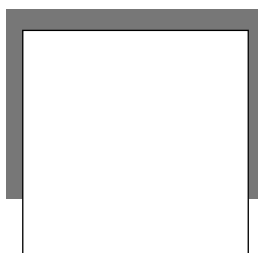


Malcolm Brighton OBE, DL

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, 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.

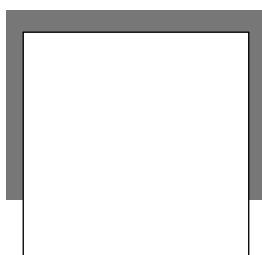


Steve Beats

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.

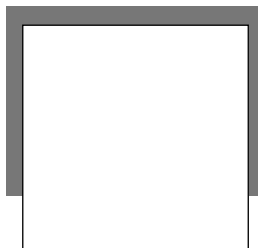


Tony Lee BSc, MPhil

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.

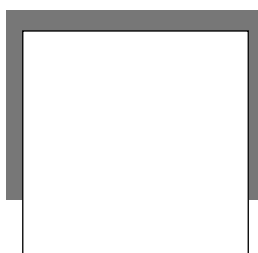


Simon Day BSc, MBA

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.

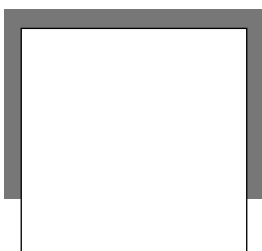


Stuart Henderson BSc, PhD

non-Executive Director

Stuart Henderson was appointed as non-Executive Director in March 1994.

A civil engineer, he worked initially in a civil engineering practice and management consultancy. He was a divisional Managing Director of Hanson Trust Ltd between 1969 and 1971, an Executive Director of SGB Group plc between 1971 and 1986, and Chairman and Managing Director of Contractors' Services Group Ltd between 1986 and 1989.

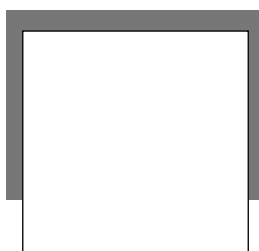


Nigel Turnbull
FCA, FCT, BSc

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 Nigel joined Rank Group plc as Finance Director until his retirement at the end of 1999. In 2000 he joined the Council of the Institute of Chartered Accountants in England and Wales and chairs its Technical Strategy Board.

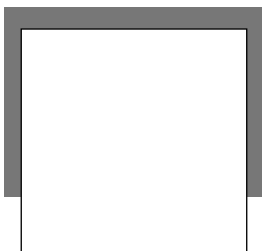


Ann Limb
PhD, MA

non-Executive Director

Ann Limb joined the Board of DRS as a non-Executive Director in May 2003.

Ann graduated in 1976, had several years' experience in leading and managing departments in Colleges of Further Education. In 1989 she was appointed Principal of Milton Keynes College, and she then became Chief Executive of Cambridge Regional College in 1996. Since July 2001 she has been Chief Executive of the University for Industry, the government's flagship for e-learning. Ann serves on a number of public service bodies and undertakes a broad range of voluntary activities. In 2003 she was awarded an Honorary Doctorate of Philosophy from APU, Cambridge.

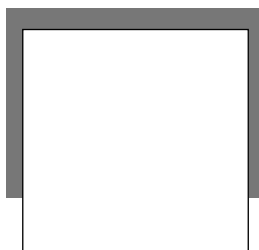


Mark Tebbutt
ACMA

*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, Misys where he held 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.

report of the directors

The Directors present their report and the audited accounts for the year ended 31 December 2003.

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 is given in the Chairman's Statement and the Operating and Financial Review.

results and dividends

The profit for the year after taxation amounted to £1,536,000 (2002 profit : £1,252,000).

The Directors recommend a final dividend for 2003 of 1.0p (2002 : 1.25p) which, together with the interim dividend of 0.5p that was paid in November 2003 (2002 : Nil), makes a total distribution for the year of 1.5p (2002 : 1.25p) per share amounting to £512,000. Subject to approval at the Annual General Meeting, the final dividend will be paid on 21 May 2004 to those shareholders whose names are on the register on 23 April 2004. The balance of £1,024,000 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 UK. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

international financial reporting standards

The Board have had initial discussions regarding the applicability of IFRS in 2005 to the Company. An initial assessment of the potential impact is under way and arrangements have been made to collect key data required as at 31 December 2003. Formal plans for implementation will be put in place during 2004.

directors and interests

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

M Brighton and S J Day retire by rotation and, being eligible, offer themselves for re-election.

S Henderson retires by rotation and is not seeking 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 page 15.

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%
Gary Brighton	2,000,000	5.78%
J A Brighton	2,000,000	5.78%
Mark Brighton	2,000,000	5.78%
HSBC Client Holdings Nominee (UK) Ltd	1,678,950	4.85%
HSBC Global Custody Nominee (UK) Ltd	1,465,000	4.23%
J P MacArthur	1,389,400	4.02%
Southwind Limited	1,092,000	3.15%

political and charitable donations

Charitable donations in the year amounted to £24,991 (2002 : £16,550). No contributions were made for political purposes (2002 : £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 34 days (2002 : 30 days) of average supplies for the year.

annual general meeting

The Annual General Meeting (AGM) of the Company will be held on 17 May 2004, 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 2004 or at the 2004 AGM, if earlier. Resolution 7 as set out in the Notice of the AGM, 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 2005 or at the 2005 AGM.

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 2004 or at the 2004 AGM, if earlier. Resolution 8 as set out in the Notice of the AGM 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 2005 or the 2005 AGM.

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

Grant Thornton 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 AGM.

BY ORDER OF THE BOARD

A M Tebbutt

Company Secretary

15 March 2004

report on directors' remuneration

remuneration committee

The Remuneration Committee comprises three independent non-Executive Directors, Stuart Henderson (who chaired the Committee until January 2004), Nigel Turnbull (the new Chairman) and Ann Limb. 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 are treated with caution to avoid remuneration escalation. The Committee met on five occasions in 2003.

Advisers – During 2003, 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 2002 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 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.

Pensions – Each of the Executive Directors is a member of one of the Company's money purchase pension schemes. Their dependants are eligible for a 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 on page 14. 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 later. The appointment may, however, be terminated by three months' notice from either party at any time. There is no defined provision for compensation payable upon early termination. Copies of the letters of appointment will be available for inspection at the AGM.

performance graphs

The graphs shown 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 1999 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.



report on directors' remuneration continued

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 31.12.2003	As at 01.01.2003 (or at subsequent date of appointment)
S M Beats	14.05.2001	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	98,994	99,382
S Henderson	15.03.1994	200,000	200,000
A C Lee	15.09.1997	100,000	–
A G Limb	17.03.2003	–	–
A M Tebbutt	25.03.2002	435,729	419,306
N V Turnbull	15.05.2001	205,000	205,000

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

INFORMATION SUBJECT TO AUDIT

directors' remuneration

The remuneration of the individual Directors listed is as follows:

	Salary and fees		Annual performance-related bonus*		Benefits	Total 2003	Total 2002	Money purchase pension contributions	
	£000	£000	%	£000				2003	2002
Executive									
S M Beats	75	30	39.6	10	115	105	15	14	
G Brighton	51	24	39.6	9	84	–	10	–	
S J Day	74	25	34.0	11	110	110	15	14	
A C Lee (CE)	85	42	49.4	13	140	120	17	15	
A M Tebbutt	75	30	39.6	10	115	81	15	10	
	360	151		53	564	416	72	53	
non-Executive									
M Brighton (Ch)	25	–	–	–	25	25	–	–	
S Henderson	19	–	–	–	19	19	–	–	
A G Limb	12	–	–	–	12	–	–	–	
N V Turnbull	19	–	–	–	19	19	–	–	
	75	–	–	–	75	63	–	–	
TOTAL	435	151	–	53	639	479	72	53	

* 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%.

Executive Director benefits – S M Beats and S J Day did not take up the medical insurance and only S M Beats 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 2003 options have been granted to the Executive Directors under the terms of the DRS Data & Research Services plc Enterprise Management Incentive Scheme. The scheme's 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.

directors' share options

Details of Directors' share options are given below:

	Scheme	Options granted to 01.01.03	Granted in year	Exercised during year	Options held at 31.12.03	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
S M Beats	EMI	–	186,413	–	186,413	35.5p	28.05.06	28.05.13
G Brighton	EMI	–	140,017	–	140,017	35.5p	28.05.06	28.05.13
S J Day	EMI	–	180,691	–	180,691	35.5p	28.05.06	28.05.13
A M Tebbutt	EMI	–	186,413	–	186,413	35.5p	28.05.06	28.05.13

directors' other rights to shares

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

175,000 shares previously granted to S M Beats under the Restricted Share Scheme vested in the year, 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 2003 was 60.25p (2002 : 30p) and the high and low values during the year were 73p and 27.5p respectively.

ON BEHALF OF THE BOARD

N V Turnbull

Chairman of Remuneration Committee

15 March 2004

corporate governance disclosure statement

The Company has applied the principles of good governance contained in the Combined Code (1998) 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 is responsible for approving Company policy and strategy. It meets at least six times a year 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 four non-Executive Directors who bring a breadth of experience and knowledge, three of whom, Stuart Henderson, Nigel Turnbull and Ann Limb, 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.

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.

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 is 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 after 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 (1998)

The Board believes that the Company has been in compliance with the provisions of the Combined Code (1998) during the year other than the following item detailed below:

- D2.1 The Company is not fully compliant with the standards outlined in the "Internal Control Guidance for Directors on the Combined Code". Many procedures have been formalised, but the Directors do not believe a company this size can justify putting in place all the formal review procedures at lower levels of management without incurring a level of administrative cost which would be difficult to justify operationally.

Implementation of Combined Code (2003)

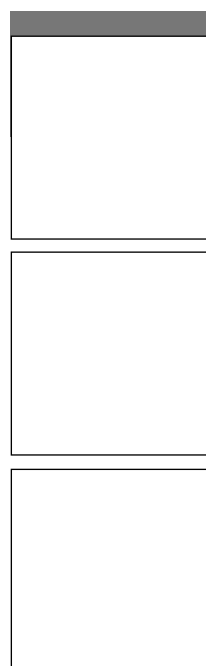
Recognising the above, the Company has reviewed in detail the requirements of this Code and is taking relevant action to work towards compliance as is appropriate for a company of its size.

BY ORDER OF THE BOARD

A M Tebbutt

Company Secretary

15 March 2004



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 as regards the accounts are described on page 10, and that of the Auditors on page 19. 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.

The Audit Committee comprises Nigel Turnbull, Malcolm Brighton, Ann Limb and Stuart Henderson who are non-Executive Directors. 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. The Committee meets formally at least three times each year and met a total of five times during 2003.

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

15 March 2004

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 2003, which comprise the principal accounting policies, the profit and loss account, the balance sheet, the cash flow statement and notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the report on Directors' remuneration 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 UK 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 report on Directors' remuneration to be audited in accordance with relevant legal and regulatory requirements and UK 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 report on Directors' remuneration 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 seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or 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 unaudited 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.

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

basis of opinion

We conducted our audit in accordance with UK 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 2003 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

*Registered Auditors
Chartered Accountants
Central Milton Keynes*

15 March 2004

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 with applicable accounting standards and under the historical cost convention.

The principal accounting policies of the Company are set out below. The Directors have reviewed the accounting policies and confirm that they remain the most appropriate for the Company and so they remain unchanged from the previous year except that the policy for turnover has been refined to take into account FRS5 Application Note G in respect of revenue recognition on long-term contracts.

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

Shares purchased under the Restricted Share Scheme are funded by loans from the Company and in accordance with the requirements of UITF 13 are treated as fixed asset investments where they are held for the continuing benefit of the Company. 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.

principal accounting policies continued

In respect of share option schemes the difference between the intrinsic fair value of the options at the date of the grant, or the book value of shares purchased under an employee share scheme that are available to fulfil the options, 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 using rates of tax that have been enacted or substantively enacted by the balance 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 normal development expenditure is currently written off as incurred. In view of the changing nature of the Company's business in particular the e-Marker® project, the Directors will keep under review the appropriateness of the policy.

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.

profit and loss account for the year ended 31 december 2003

	Notes	2003 £000	2002 £000
Turnover	1	13,528	12,782
Change in stocks of finished goods and work in progress		289	122
Own work capitalised		6	55
		13,823	12,959
Operating charges	2	(11,895)	(11,232)
Operating profit		1,928	1,727
Net interest	3	176	49
Profit on ordinary activities before taxation	1	2,104	1,776
Tax on profit on ordinary activities	5	(568)	(524)
Profit for the financial year		1,536	1,252
Dividends	6	(512)	(422)
Profit transferred to reserves	19	1,024	830
Earnings per share	7		
– basic		4.54p	3.74p
– diluted		4.50p	3.68p

All operations are continuing.

There were no other recognised gains or losses other than the profit for the financial year.

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

balance sheet at 31 december 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Tangible assets	8	5,005	5,313
Investments	9	92	147
		5,097	5,460
Current assets			
Stocks	10	2,107	1,055
Debtors	11	1,999	2,015
Investments	12	6,312	3,780
Cash at bank and in hand		1,063	2,141
		11,481	8,991
Creditors: amounts falling due within one year	13	(5,775)	(4,604)
Net current assets		5,706	4,387
Total assets less current liabilities		10,803	9,847
Creditors: amounts falling due after more than one year	13	(1,000)	(1,000)
Provisions for liabilities and charges	15	(60)	(128)
		9,743	8,719
Capital and reserves			
Called up share capital	18	1,731	1,731
Share premium account	19	5,377	5,377
Capital redemption reserve	19	115	115
Profit and loss account	19	2,520	1,496
Shareholders' funds	20	9,743	8,719

The financial statements were approved by the Board of Directors on 15 March 2004.

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 2003

	Notes	2003 £000	2002 £000
Net cash flow from operating activities	21	2,839	4,125
Returns on investment and servicing of finance			
Interest received		196	172
Interest paid		(47)	(123)
Net cash flow from returns on investment and servicing of finance		149	49
Taxation			
		(433)	(170)
Capital expenditure and financial investment			
Payments to acquire fixed assets		(530)	(1,135)
Receipts from sales of fixed assets		22	37
Net cash flow from capital expenditure		(508)	(1,098)
Equity dividends paid		(593)	(167)
Cash flow before use of liquid resources		1,454	2,739
Management of liquid resources			
Sale of term deposits		1,173	1,943
Purchase of current asset investments		(2,532)	(3,465)
Net cash flow from management of liquid resources		(1,359)	(1,522)
Financing			
Repayment of loan		-	(900)
Net cash flow from financing		-	(900)
Increase in cash in the year		95	317

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 2003

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 £641,000 (2002 : £390,000) of rental income.

	2003 £000	2002 £000
Profit on ordinary activities before taxation is stated after:		
Auditors' remuneration:		
– audit services	23	21
– non audit services (other assurance services)	5	7
Hire of plant and machinery	29	22
Other operating lease rentals	295	241
Research and development costs	796	530

2. operating charges

	2003 £000	2002 £000
Raw materials and consumables	2,158	2,393
Other external charges	1,795	1,350
Staff costs	5,202	4,424
Depreciation and amortisation	888	775
Other operating charges	1,852	2,290
	11,895	11,232

3. net interest

	2003 £000	2002 £000
Interest receivable and similar income	223	172
Interest payable on bank loans	(47)	(123)
	176	49

4. directors and employees

Staff costs during the year were:

	2003 £000	2002 £000
Wages and salaries	4,526	3,868
Social security costs	455	362
Other pension costs	221	194
	5,202	4,424

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

	2003	2002
Management and administration	71	57
Manufacturing	59	59
Sales and marketing	23	20
	153	136

Remuneration in respect of Directors was as follows:

	2003 £000	2002 £000
Emoluments	639	479
Gains made on the exercise of share options	113	–
Pension contributions to money purchase pension schemes	72	53
	824	532

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

5. the tax charge represents

	2003 £000	2002 £000
UK corporation tax at 30%	636	469
Adjustment in respect of prior period	–	(9)
Total current tax	636	460
Origination and reversal of timing differences	(68)	64
Total deferred tax	(68)	64
Tax on profit on ordinary activities	568	524

The tax assessed for the period is higher/lower than the standard rate of corporation tax in the UK of 30%.

The differences are explained as follows:

	2003 £000	2002 £000
Profit on ordinary activities before tax	2,104	1,776
Profit on ordinary activities multiplied by standard rate of UK tax of 30%	631	533
Effect of:		
expenses not deductible for tax purposes	21	23
additional relief of R&D expenditure	(92)	(42)
depreciation for the period in excess of capital allowances	76	(45)
adjustments in respect of prior period	–	(9)
	636	460

notes to the financial statements for the year ended
31 december 2003 continued

6. dividends

	2003	2002
	£000	£000
Dividends on ordinary shares		
Interim paid of 0.5p per share (2002 : Nil)	173	–
Final proposed of 1.0p per share (2002 : 1.25p)	346	433
	519	433
Less: dividend on shares held by restricted share scheme	(7)	(11)
	512	422

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:

	2003			2002		
	Earnings	Weighted	Per share	Earnings	Weighted	Per share
	£	average		£	average	
		number of			number of	
		shares			shares	
Basic earnings per share						
Earnings attributable to ordinary shareholders	1,536,000	33,838,879	4.54p	1,252,000	33,440,543	3.74p
Dilutive effect of shares in Restricted Share Scheme		222,647			529,754	
Dilutive effect of options under unapproved share option scheme		59,216			21,497	
Dilutive earnings per share	1,536,000	34,120,742	4.50p	1,252,000	33,991,794	3.68p

8. tangible fixed assets

	Total	Freehold land and building	Computer equipment	Fixtures & fittings	Plant & machinery	Rental machines
	£000	£000	£000	£000	£000	£000
Cost						
At 1 Jan 2003	8,789	3,146	1,550	1,340	2,252	501
Additions	530	–	239	136	58	97
Disposals	(48)	–	–	(4)	(37)	(7)
At 31 Dec 2003	9,271	3,146	1,789	1,472	2,273	591
Depreciation						
At 1 Jan 2003	3,476	53	1,155	814	1,190	264
Provided in the year	833	35	239	152	256	151
Disposals	(43)	–	–	(2)	(36)	(5)
At 31 Dec 2003	4,266	88	1,394	964	1,410	410
Net book amount						
At 31 Dec 2003	5,005	3,058	395	508	863	181
At 31 Dec 2002	5,313	3,093	395	526	1,062	237

9. fixed asset investments

	Investment in own shares £000
Cost	
At 1 Jan 2003	264
Disposals	(142)
At 31 Dec 2003	122
Amortisation	
At 1 Jan 2003	117
Provided in the year	55
Disposals	(142)
At 31 Dec 2003	30
Net book amount	
At 31 Dec 2003	92
At 31 Dec 2002	147

The above investment represents the cost of shares purchased under the Restricted Share Scheme, less those unconditionally vested in employees. At 31 December 2003, 580,529 (2002 : 1,181,057) shares with a market value of £349,769 (2002 : £354,317) were held. Of these 310,000 (2002 : 865,000) had been conditionally gifted to employees and a further 100,000 (2002 : 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.

notes to the financial statements for the year ended
31 december 2003 continued

10. stocks

	2003	2002
	£000	£000
Raw materials and consumables	1,338	575
Short-term work in progress	248	141
Finished goods and goods for resale	521	339
	2,107	1,055

11. debtors

	2003	2002
	£000	£000
Trade debtors	1,356	1,400
Amounts recoverable on contracts	152	370
Other debtors	82	18
Prepayments and accrued income	409	227
	1,999	2,015

12. current asset investments

	2003		2002	
	Book value £000	Market value £000	Book value £000	Market value £000
Bonds	3,741	3,741	3,780	3,808
Liquidity fund	2,571	2,598	–	–
	6,312	6,339	3,780	3,808

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 at cost in the accounts.

Details of investments held are shown in Note 14.

13. creditors

	2003 £000	2002 £000
Amounts falling due within one year		
Payments received on account	1,554	31
Trade creditors	793	794
Current taxation	673	469
Social security and other taxes	262	105
Proposed dividends	341	422
Accruals and deferred income	2,152	2,783
	5,775	4,604
Amounts falling due after more than one year		
Secured loans	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 2003 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.

14. 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's 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 £500,000 (2002 : £600,000) of the Company's term deposits were at fixed interest rates.

Details of the interest rate exposure on the bank loan are set out in Note 13.

notes to the financial statements for the year ended 31 december 2003 continued

Investments set out in Note 12 consisted of:

Sterling fixed interest corporate bonds, fixed interest index linked treasury 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 4.7% (2002 : 5.2%). Redemption dates for the corporate bonds and fixed interest funds range between May 2005 and December 2009, and for the index linked treasury bonds 2009 and 2016.

Sterling Liquidity Plus Fund is a UCITS certified open-ended fund with an investment objective of providing investors with daily liquidity and capital appreciation in a diversified portfolio of money market instruments, giving an averaged return of 3.68%.

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 profitably.

Maturity of financial liabilities

The Company's financial liabilities analysis at 31 December 2003 was as follows:

	2003	2002
	£000	£000
In more than two years but less than five years		
Bank and other borrowings	1,000	1,000
	1,000	1,000

Borrowing facilities

The Company has no overdraft facilities. Details of the loan facilities are set out in Note 13.

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 table below shows the extent to which the Company has monetary assets in currencies other than Sterling:

	2003	2003	2002	2002
	US Dollars	Other currencies	US Dollars	Other currencies
	£000	£000	£000	£000
Sterling equivalent	28	42	339	69

Fair values

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

15. provisions for liabilities and charges

Deferred taxation (Note 16)

	£000
At 1 January 2003	128
Release for the year	(68)
At 31 December 2003	60

16. deferred taxation

Deferred taxation is provided in full at 30% (2002 : 30%) as follows:

	2003	2002
	£000	£000
Accelerated capital allowances	60	128

17. share options

At 31 December 2002 and 2003 options existed under various Company share option schemes as follows:

	Date of grant	At 01.01.2003	Number lapsed in year	At 31.12.2003	Exercise price	Exercise period from	Exercise period to
1994 Employee Scheme	24.04.1994	175,800	3,000	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.

18. share capital

	Ordinary shares of 5p each	
	At 31 December 2003 and 2002	
	Number	£000
Authorised	46,000,000	2,300
Allotted, issued, called up and fully paid	34,621,600	1,731

notes to the financial statements for the year ended
31 december 2003 continued

19. reserves

	Share premium £000	Capital redemption £000	Profit and loss account £000
At 1 January 2003	5,377	115	1,496
Retained profit	–	–	1,024
At 31 December 2003	5,377	115	2,520

20. reconciliation of movement in shareholders funds

	2003 £000	2002 £000
Profit for financial year	1,536	1,252
Dividends	(512)	(422)
Net increase in shareholders funds	1,024	830
Opening shareholders funds	8,719	7,889
Closing shareholders funds	9,743	8,719

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

	2003 £000	2002 £000
Operating profit	1,928	1,727
Depreciation and amortisation	888	775
Profit on sale of fixed assets	(17)	(25)
Increase in stock	(1,052)	(18)
Decrease in debtors	43	360
Increase in creditors	1,049	1,306
	2,839	4,125

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

	2003 £000	2002 £000
Increase in cash in the period	95	317
Cash outflow from management of liquid resources	1,359	1,522
Change in net funds resulting from cash flows	1,454	1,839
Secured loan	–	900
Movement in net funds	1,454	2,739
Net funds at 1 January 2003	4,921	2,182
Net funds at 31 December 2003	6,375	4,921

23. analysis of net funds

	1 Jan 2003 £000	Cash flow £000	31 Dec 2003 £000
Cash at bank and in hand	468	95	563
Term deposits	1,673	(1,173)	500
	2,141	(1,078)	1,063
Current asset investments	3,780	2,532	6,312
Secured loan	(1,000)	–	(1,000)
	4,921	1,454	6,375

24. capital commitments

There were no capital commitments at 31 December 2003 or 31 December 2002.

25. leasing commitments

Operating lease payments due within one year amount to £276,000 (2002 : £260,000). The leases to which these amounts relate expire during the following years:

	Lease of land and buildings		Other leases	
	2003 £000	2002 £000	2003 £000	2002 £000
Within one year	29	–	40	28
Within two to five years	–	–	76	101
Over five years	131	131	–	–
	160	131	116	129

26. pension commitments

During 2002 and 2003 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

	2003	2002	2001	2000	1999
	£000	£000	£000	£000	£000
Turnover	13,528	12,782	10,054	11,653	8,176
Operating profit	1,928	1,727	538	381	23
Profit before taxation	2,104	1,776	665	563	236
Tax	(568)	(524)	(208)	(185)	(63)
Profit after taxation	1,536	1,252	457	378	173
Dividends	(512)	(422)	(167)	–	–
Retained profit	1,024	830	290	378	173
Cash and current investments	7,375	5,921	4,082	3,923	2,899
Net assets	9,743	8,719	7,889	7,599	7,221
Operating profit/turnover	14.3%	13.5%	5.3%	3.3%	0.3%
Cash and current investments per share	21.3p	17.1p	11.8p	11.3p	8.4p
Net assets per share	28.1p	25.2p	22.8p	21.9p	20.9p
Earnings per share (basic)	4.54p	3.74p	1.37p	1.15p	0.53p
Dividend per share	1.5p	1.25p	0.5p	–	–
Dividend cover	3.0	3.0	2.7	–	–
Year end share price	60.25p	30.0p	15.0p	13.0p	23.0p
Shares in issue	34.6m	34.6m	34.6m	34.6m	34.6m
Market capitalisation	£20.9m	£10.4m	£5.2m	£4.5m	£8.0m

financial calendar

Annual General Meeting	17 May 2004
Final dividend paid	21 May 2004
Interim results announced	07 September 2004
Interim report distributed to shareholders	11 October 2004
Interim dividend paid	05 November 2004

directors and advisers

Directors	Malcolm Brighton* OBE, Chairman Stephen Mark Beats Gary Brighton Simon John Day Stuart Henderson* 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 Registered Auditors & Chartered Accountants Grant Thornton House 202 Silbury Boulevard Central Milton Keynes MK9 1LW	
Financial Advisers	MacArthur & Co Ltd 60 Lombard Street London EC3V 9EA	
Principal Bankers	HSBC Bank plc 19 Midsummer Place Milton Keynes MK9 3GB	
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	

