

Renishaw plc

Annual report 2004



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Auditors
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Solicitors
Norton Rose

Stockbrokers
UBS

Principal bankers
Lloyds TSB

Results at a glance

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	2004	2003	change
	£'000	£'000	
Turnover	127,701	110,640	+15%
Operating profit	18,053	15,644	+15%
Profit before taxation	20,146	17,799	+13%
Taxation	4,023	3,454	+16%
Profit after taxation	16,123	14,345	+12%
Earnings per share (basic and diluted)	22.1p	19.7p	+12%
Dividend per share	18.0p	16.7p	+8%

Sir David McMurtry, CBE, RDI, CEng, FIMechE, FREng, Chairman and Chief Executive, age 64, was employed by Rolls-Royce plc, Bristol, for 17 years, latterly holding the positions of Deputy Chief Designer and Assistant Chief of Engine Design of all Rolls-Royce engines manufactured at the Filton, Bristol, works.

After inventing the original probe in the early 1970s, Sir David founded Renishaw in 1973 with John Deer and joined Renishaw in 1976. His CBE was awarded "for services to Science and Technology" and he was appointed a Royal Designer for Industry (RDI) in 1989. He is a visiting Professor of Huddersfield University and has been awarded an honorary Doctorate of Engineering at the University of Birmingham and honorary degrees of Doctor of Engineering at Heriot-Watt University and Bristol University. Sir David is a Chartered Engineer, a Fellow of the Institute of Mechanical Engineers, a Fellow of the American Society of Manufacturing Engineers and a Fellow of the Royal Academy of Engineering. In addition to his role as Chairman and Chief Executive, Sir David also has responsibility for group technology.

John Deer
Deputy Chairman, age 66, trained as a mechanical engineer and worked for Rolls-Royce plc, Bristol, from 1960 to 1974. He was Managing Director of Renishaw from 1974 to 1989, primarily involved in the commercial direction of the Group, with particular emphasis on marketing and the establishment of the Group's wholly-owned subsidiaries in USA, Ireland, Japan, Germany, France and Italy. John and Sir

David McMurtry were members of the four-man team of Renishaw engineers honoured with the MacRobert Award in 1987. John is responsible for group manufacturing and group quality and is chairman of the overseas marketing subsidiaries.

Ben Taylor
Assistant Chief Executive, age 55, has been involved in the field of metrology all his working life, after graduating in mechanical engineering and design from Pennsylvania State University. Before joining Renishaw Inc as President in 1985, he was the Director of Engineering at Sheffield Measurement, USA. Ben was appointed to the Board of Renishaw plc in 1987. He serves on various metrology committees and other professional associations and is responsible for group marketing, international operations and human resources.

Allen Roberts, FCA
Group Finance Director, age 55, is a Fellow of the Institute of Chartered Accountants in England and Wales. Before joining Renishaw in 1979, he was employed for 11 years by Peat, Marwick, Mitchell & Co. He was appointed a director in 1980. Allen heads group finance, business systems and Wotton Travel and is the company secretary.

Geoff McFarland

Group Engineering Director, age 36, graduated with a BEng in computer aided mechanical engineering at Heriot-Watt University, where he subsequently worked for several years as a research associate. After working briefly in the high-volume manufacturing electronic sector, Geoff joined Renishaw's research and development facility in Edinburgh in 1994, before moving to Renishaw's headquarters to become Director and General Manager of the CMM Products Division. Geoff was appointed to the Board in July 2002. He heads the group engineering function and is also responsible for group patents.

Joe McGeehan, CBE, FIEE, FEng

non-executive director, age 58, is Managing Director of Toshiba Research Ltd: Telecommunications Research Laboratory, Bristol. After obtaining the degrees of BEng and PhD in electrical and electronic engineering from the University of Liverpool, he spent several years involved in industrial research before entering academia. Since 1985, he has held a number of senior positions at the University of Bristol. In 2003 he was awarded the degree of DEng by the University of Liverpool for his major contribution to mobile communications research, much of which has formed the basis of international standards. He is a Fellow of the Institution of Electrical

Engineers and a Fellow of the Royal Academy of Engineering. Joe was appointed a director in January 2001.

Terry Garthwaite, FCA

non-executive director, age 57, is a chartered accountant, who qualified with Price Waterhouse, London. Following 12 years working at Foseco Minsep plc, a specialty chemical company, Terry joined the specialist multinational engineering group, Senior plc as Group Finance Director. Whilst at Senior he was also responsible for investor relations and chaired the group's tax and treasury committee and the UK pension funds. Since leaving Senior, he has been providing consultancy services whilst working with the Prince's Trust and the Support Group of the Institute of Chartered Accountants in England and Wales. Terry is a non-executive director of Brammer plc. He was appointed a director of Renishaw plc on 1st July 2003 and is the chairman of the audit committee.

David Snowden, FCA

the senior independent non-executive director, age 67, was a partner at KPMG for 25 years, latterly acting as Senior Partner for KPMG in South Wales. David was an audit partner covering a wide range of businesses and was also regional partner in charge of insolvency work for ten years. Since his retirement from

KPMG in 1993, David has been a director and corporate adviser to a number of private companies. David was appointed a director of the Company on 1st July 2003 and is the chairman of the remuneration and nomination committee.

Audit committee:

Terry Garthwaite (Chair)
Joe McGeehan
David Snowden

**Remuneration and
Nomination committee:**

David Snowden (Chair)
Terry Garthwaite
Joe McGeehan

“Renishaw fundamentally believes that success comes from innovative and patented products and processes, low-cost, high-quality manufacturing and the ability to provide excellent local customer support in all our markets.”

Trading

I have pleasure in announcing a successful set of results for the 12 months ended 30th June 2004.

Turnover rose by 15% to £127.7m (2003 £110.6m), an increase of 19% if measured at constant exchange rates. This represents the highest turnover in the Company's history. Sales rose in all markets with the exception of the UK, most notably in the Far East (including Japan), but also in the emerging markets of Eastern Europe and Russia. This reflected growth in all our product lines, but with above-average growth in Digitising (including dental), Encoders, Calibration and Machine Tool products.

Operating profit increased by 15% to £18.1m (2003 £15.6m) despite a reduction in one-off currency profits on forward foreign exchange contracts of £0.4m this year and £3.0m in 2003. Profit before tax rose by 13% to £20.1m (2003 £17.8m). Profit after tax amounted to £16.1m compared with £14.3m in the previous year, giving rise to earnings per share growth of 12% to 22.1p (2003 19.7p).

Manufacturing

There has been significant investment at the New Mills and Woodchester sites in additional capacity and capability, including CNC lathes, additional machines for incorporation into the Company's automated milling, turning and inspection system and surface-mount electronic assembly inspection and test equipment. Phase II development at Woodchester is now complete; a further 30,000 sq feet of manufacturing space will become available at this site later in the year.

Marketing

Our activity in marketing throughout the world has continued at a high level. All our recently established subsidiaries in Czech Republic, Poland, Russia, Austria, Sweden, Canada, Israel and South Korea have grown well in their markets and are already making a significant contribution to the Group's overall results and distribution infrastructure.

The Group is planning to open additional offices in both China and Russia.

Research and development

The Group's ongoing commitment to research and development, which has continued through the recent economic downturn, has resulted in the successful launch of a number of new products during the year, including the UCC2 and SPA2 CMM controller system, the NC4 non-contact laser system for high speed toolsetting and tool breakage detection, RMP60/RMI radio system, the inVia reflex Raman microscope interfaced with scanning electron microscopes for precision single point sample analysis, a range of rotary magnetic encoder products and additional software products.

Expenditure on our research and development increased to £22.0m (2003 £20.2m) including related engineering costs.

Capital expenditure

Capital expenditure, including that on new manufacturing equipment, amounted to £15.6m (2003 £8.2m), of which £6.5m (2003 £2.7m) was spent on freehold property, with the new offices in Japan costing £5.1m. Further investment was made in IT hardware and software throughout the Group, but particularly for design systems, marketing and management systems and group infrastructure.

Liquidity

The Group continues to maintain a high level of liquidity, with net bank balances at the year end of £32.8m (2003 £37.2m).

Awards

I am delighted to report that the Group has again won a number of awards. The Queen's Award for Enterprise was won in respect of the OMP40 compact spindle probe. This, I am pleased to say, was the 10th Queen's Award in the Company's history. The Metalworking and Production Award at the Mach 2004 Exhibition was awarded in respect of the SP25M scanning probe for "The Best Quality Control Product or System". The Worshipful Company of Scientific Instrument Makers awarded their 2003 Annual Achievement Award in respect of the RESR angle encoder.

In addition, the Company won the 2003 National Training Award and was the regional winner of the National Languages for Export Award.

Personnel

With recruitment primarily targeted at local production and overseas sales personnel, particularly in the Far East and our recently established subsidiary companies, numbers employed in the Group worldwide have grown to 1,754 (2003 1,639). To all of them I express my gratitude for their commitment and drive in maintaining Renishaw as a world leader in its field.

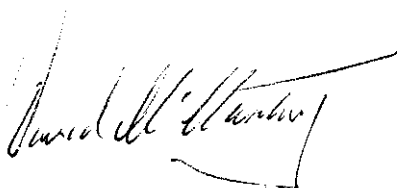
I should also like to congratulate Joe McGeehan on his recent award of a CBE.

Prospects and dividend

Activity picked up considerably in the second half of the year and forward order books have continued to increase.

Although exchange rates continue to limit the Group's ultimate profitability, we are optimistic for the current year and confident of the Group's longer term prospects.

Your Board proposes a final dividend of 12.39p per share, giving a total for the year of 18.0p (2003 16.7p).

A handwritten signature in black ink, appearing to read "David R. McMurtry". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Sir David R McMurtry
CBE, RDI, CEng, FIMechE, FREng
Chairman and Chief Executive
21st July 2004

Business outline

Renishaw's business is metrology, the science of measurement.

The Group's products comprise:

Co-ordinate measuring machine ("CMM") probes and accessories, which are used for accurate post-process inspection of components on CMMs;

Machine tool probes and tool setting systems, used for automated component identification, workpiece and tool setting and inspection, which can be fitted on CNC turning and milling machines;

Laser interferometers and the QC10 ballbar, used to determine the accuracy of CMMs, machine tools and other industrial and scientific equipment;

Linear and rotary encoder systems, for precise linear and rotary motion control;

Dental and other scanning and digitising systems, used in the process of gathering data from 3D surfaces, specifically for certain dental processes and in other fields such as jewellery, coin, shoe and automotive manufacture;

Spectroscopy products, including the Raman microscope, used to identify the composition and structure of materials and which can be applied in many different fields, such as pharmaceutical, forensic, semiconductor and chemical industries; and

Styli and custom products, to meet the business opportunities for styli and accessories and for customised products, where the standard Renishaw product does not address the customer's specialised requirements.

The Group manufactures its products in the UK and Ireland and markets and distributes them to customers around the world, with sales outside the UK representing over 90% of total group sales.

The Group has established overseas marketing and distribution subsidiaries in the USA, Japan, Germany, France, Italy, Spain, Switzerland, Hong Kong, Brazil, The Netherlands, Slovenia, India, Australia, the Czech Republic, Poland, Russia, Sweden, Austria, South Korea, Canada and Israel. These subsidiaries provide support to customers in our major markets.

There are also representative offices in The People's Republic of China, Singapore, Taiwan and Hungary.

Business strategy

The Group's business plan is to develop technologies that provide patented products and processes which support our product strategies. These products and processes include ultra high resolution encoders, high speed, high accuracy, error corrected dimensional measurement sensors, motion controllers with enhanced high speed performance and the development of novel approaches to materials analysis.

The Group plans to develop other market opportunities, in addition to the more traditional manufacturing sector, which has provided the major customers for Renishaw products in the past. These other market opportunities include printing, scientific research, dental, process control in chemical, semiconductor and material production and motion feedback systems for equipment used in the production of electronic and semiconductor components.

The Group also plans to develop territorial markets, with ongoing investment in Eastern Europe and Russia, South East Asia, especially China, and other areas considered opportune.

In order to improve the Group's ability to design, manufacture and support its products, more investment has been made in manufacturing facilities in the UK at Wotton-under-Edge and Woodchester and this strategy will continue as demand for the Group's products grows.

It is the Board's belief that success comes from patented and innovative products and processes, low cost, high quality manufacturing and the ability to provide local customer support in all the Group's markets.

Operating review

In the year to 30th June 2004, group sales increased by 15% over the previous year, from £110.6m to £127.7m. This was after adverse currency movements which had the effect of reducing group sales by £3.8m, when compared with the previous year's exchange rates. At the previous year's exchange rates, sales would have increased by 19%.

In the geographical analysis of group sales, continental Europe continues to be our major market area, with the percentage of total sales increasing from 37% last year to 38% this year. Sales to Japan and the Far East, achieved greater growth and their percentages of group sales increased to 27% (2003 24%). North and South America, on the other hand, reduced to 26% (2003 28%) of total sales, while sales to the UK and Ireland also reduced, to 7% from 9% last year.

The following table shows the analysis of turnover by geographical market and the effect of exchange rate changes.

Geographical analysis	2004 sales at actual exchange rates	2004 sales at 2003 exchange rates	2003 sales at actual exchange rates
	£'000	£'000	£'000
Continental Europe	48,983	47,973	41,619
Far East, including Japan and Australia	34,099	35,812	26,407
North and South America	33,305	36,384	31,163
United Kingdom and Ireland	8,820	8,820	9,671
Other regions	2,494	2,507	1,780
Total group turnover	127,701	131,496	110,640

We continued to invest in research and development, with total engineering costs increasing by 9%, from £20.2m in 2003 to £22.0m this year. A large proportion of this spend is eligible for the research and development tax relief, which provides a reduction of approximately £0.9m in the UK corporation tax charge for the year.

Group headcount increased during the year, from 1,639 at June 2003 to 1,754 at June 2004. The increase of 115 people included 68 in manufacturing, where we are in the process of refurbishing our Woodchester site and transferring our machine shop, assembly operation and finished goods from the New Mills site and 30 in our overseas marketing subsidiaries, where we have been increasing resources to expand and support our overseas markets.

Total labour costs increased to £57.7m from £52.0m in 2003.

Operating profit for the year was £18.1m, an increase of 15% over the £15.6m for the previous year. This was after foreign exchange gains on forward contracts of £0.4m,

compared with £3.0m in 2003. Excluding these currency gains, operating profit would have increased by 40%.

These foreign exchange gains, along with foreign exchange gains of £4.0m in the year ended 30th June 2002, are included within administrative expenses.

The overall effective rate of tax, a combination of the varying tax rates applicable throughout the countries in which the Group has subsidiaries, has increased marginally this year, to 20%, compared with 19.4% for the previous year. As a result, the percentage increase in profit after tax and earnings per share was marginally lower than the increase in the profit before tax, with earnings per share being 22.1p, a 12% increase over the 19.7p for 2003.

Balance sheet

The Group has made substantial investment in fixed assets during the year, with capital expenditure of £15.6m compared with £8.2m during the previous year.

Included is £5.1m for our new office building in Tokyo, £0.9m on property refurbishment at our Woodchester manufacturing site and £8.2m on plant and equipment, mainly investment in production machinery and IT hardware and software, as noted in the Chairman's statement.

The net book value of fixed assets was £58.5m at June 2004, compared with £50.9m at June 2003, an increase of £7.6m.

The outstanding order book at June 2004 was £12.2m compared with £6.2m at June 2003. Stock, at £22.3m at June 2004, was £2.1m higher than the £20.2m at June 2003.

Cash balances decreased during the year and were £32.8m at June 2004, £4.4m lower than the £37.2m at June 2003. Net cash inflow from operating activities was £22.2m compared with £20.5m in the previous year, but significant capital expenditure compared with the previous year has resulted in the lower year end cash balance.

The Company has continued to make additional contributions to its UK defined benefit pension scheme, in line with the recommendations from the scheme's actuaries. Although there has been an increase of £10.3m in the valuation of the assets of the Group's schemes, the schemes' liabilities have also increased due to changes in assumptions. As a result, the overall deficit, which was £8.6m net of deferred tax at June 2003, has only marginally reduced to £8.4m, net of deferred tax, at the end of the year.

Treasury policies

The Group's treasury policies are designed to manage financial risks to the Group that arise from operating in a number of foreign currencies and to maximise interest income on cash deposits. As an international group, the main exposure is in respect of foreign currency risk on the trading transactions undertaken by subsidiaries and on the translation of the net assets of overseas subsidiaries.

Regular groupwide cash management reporting and forecasting is in place to facilitate management of this currency risk. The operations of group treasury, which is situated at head office, are governed by Board-approved policies.

All Sterling and foreign currency balances not immediately required for group operations are placed on short-term deposit with leading international highly-rated financial institutions.

The Group uses a number of financial instruments to manage foreign currency risk, such as foreign currency borrowings to hedge the exposure on the net assets of the overseas subsidiaries and, from time to time, forward exchange contracts to hedge foreign currency net income streams. Also, currency swaps are used to minimise the

interest cost of maintaining the currency borrowings. The foreign currency borrowings are short-term with floating interest rates. The Group does not speculate with derivative financial instruments.

See note 19 on page 33 for an analysis of cash balances and borrowings at the year end.

During the year, there were forward contracts in place to hedge against the major part of the Group's estimated Euro income streams.

International financial reporting standards

International financial reporting standards ("IFRS") will be mandatory for the Group's accounts for the year ended 30th June 2006, with the comparative 2005 accounts required to be restated to conform with these new standards.

The major areas which will affect the Group's accounts are expected to be the capitalisation of certain research and development costs, segmental reporting, pension accounting, hedge accounting and dividend accounting.

An internal finance team has completed an initial review and is currently working on establishing the requirements for reporting under the new standards and does not anticipate any problems in reporting under IFRS at the appropriate time.

Investment for the future

The Group invested 17% of turnover in its research and development programme, including associated engineering costs, and is committed to continuing this policy in order to develop new patented products to support its existing markets and to expand into new market areas.

Investment in manufacturing, to improve efficiencies in production and ensure capacity, will continue.

The Group will also continue to expand its presence around the world by opening offices in new territories and expanding existing offices where considered appropriate.



A C G Roberts FCA
Group Finance Director
21st July 2004

The directors have pleasure in presenting their 31st Annual report, together with the audited financial statements for the year ended 30th June 2004 as set out on pages 20 to 35.

Trading results

The group results for the year were:-

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	20,146	17,799
Taxation on profit on ordinary activities	4,023	3,454
Profit for the financial year	16,123	14,345
Dividends	13,100	12,156
Retained profit for the year	3,023	2,189

Principal activities and review of the business

The principal activities of the Group during the year were the design, manufacture and sale of advanced precision metrology and inspection equipment, computer aided design and manufacturing systems and Raman spectroscopy systems.

A review of the business and likely future developments are given in the Chairman's statement and the Operating and financial review. An analysis of turnover by geographical market is given in note 2 to the financial statements.

Further information is also available on the Group's website: www.renishaw.com and in the Group profile.

Dividends

The directors propose a final dividend of 12.39p per share (2003 11.36p) which, together with the interim dividend of 5.61p (2003 5.34p), makes a total of 18.0p for the year, compared to 16.7p for the previous year. The final dividend will be paid on 18th October 2004 to shareholders on the register on 17th September 2004.

Directors and their interests

The directors who served during the year and their interests in the share capital of the Company, at the beginning and the end of the year, were:-

	Ordinary shares of 20p each	
	2004	2003
D R McMurtry	26,377,291	26,377,291
D J Deer	12,393,040	12,393,040
B R Taylor	10,147	10,147
A C G Roberts	5,165	5,165
G McFarland	-	-
J P McGeehan	900	900
T D Snowden	5,000	5,000
T B Garthwaite	-	-

All the above holdings were beneficially held with the exception of 2,320,311 shares (2003 2,320,311 shares) which were non-beneficially held by D J Deer but in respect of which he has voting rights.

There has been no change in the above holdings in the period 1st July 2004 to 21st July 2004.

A C G Roberts and G McFarland, neither of whom has a service contract, retire by rotation and being eligible, offer themselves for re-election.

Biographical details of the directors are shown on pages 4 and 5.

Environmental control

The Group operates in an environmentally-responsible manner, adopting the most appropriate technologies and practices to minimise its impact on the environment.

All manufacturing processes have been designed and are run in a way that best preserves the environment. Waste is minimised and, wherever possible, recycling circuits have been put in place to re-use or re-process it. Manufacturing operations are run to the same high standard of cleanliness as design and clerical activities, providing an overall environment that clearly demonstrates the Company's determination to support environmental values. As a result, an extensive sample of the local wildlife has elected to take up residence on the Company's sites.

The continued refurbishment work on the Woodchester site is performed through exacting standards, using a number of techniques aimed at minimising energy consumption. These include the use of a heat and cooling recovery system (Munters wheel), systematic air re-circulation, extra roof insulation and high frequency lighting systems. Measurement systems have been put in place to monitor the energy consumption of each of the main processes in order to identify where further improvements may be achieved.

A programme is in place for the reduction in the use of lead through the Company's manufacturing operation, in line with the requirements of the European Directive for the restriction of the use of certain hazardous substances (RoHS). Compatible equipment is now in place and current efforts are focused on the analysis of supply in order to identify which product changes may be required to accommodate the new set of compatible electronic components.

Auditors

A resolution to re-appoint KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming annual general meeting.

Special business

The notice of meeting on page 37 sets out a resolution which the directors have resolved should be proposed as special business during the course of the meeting.

Purchase of own shares – The directors consider that the Company should have the flexibility to be able to make market purchases of its own ordinary shares, up to a total of 10% of the issued share capital. Shareholders are being asked to pass the necessary special resolution no. 7 at the annual general meeting to give the required authority until the earlier of the conclusion of the 2005 annual general meeting and 31st December 2005. There is at present no intention to purchase shares and, if granted, the authority would only be exercised if an improvement in earnings per share were expected to result.

Employees

The maintenance of a highly skilled workforce is essential to the future of the business and the directors place great emphasis on the continuation of the Company's approved training policy. Health and safety matters are given special attention by the directors and well established systems of safety management are in place throughout the Group to safeguard employees, customers and visitors.

Employment policies are designed to provide equal opportunities irrespective of colour, ethnic origin, nationality, religion, sex, marital or disabled status. The Company always considers carefully an application for employment by any registered disabled person. Also, opportunities are given to employees who become disabled, to continue in their employment or to be trained for other positions. Regular contact is maintained with all employees through monthly communications meetings and departmental channels. The quarterly in-house journal ensures staff are kept well informed on the progress of the Group. In addition, in August, the Assistant Chief Executive presents the final results, following their publication, to all employees.

Creditor payment policy

The Company has a variety of payment terms:

- Contracts have been negotiated with a number of suppliers and payments are made in accordance with the terms of these contracts.
- Payment terms are disclosed on the Company's standard purchase order forms, or, where appropriate, specified in individual contracts agreed with suppliers.

Two payment runs are made each month. The Company's policy is to ensure that all invoices are settled within 60 days of the receipt and agreement of a valid and complete invoice. Wherever possible, payments are made using the Bankers' Automated Clearing Service.

Typically, the Company settles all due invoices in the calendar month following their receipt. The number of days' purchasing outstanding at the end of June 2004 was approximately 30 days (2003 30 days).

Corporate governance

The Board is committed to maintaining high standards of corporate governance.

The statement below, together with the report on directors' remuneration on page 18, explains how the Company has applied the principles set out in the Combined Code and the subsequent Turnbull guidance. A new Combined Code was issued by the Financial Reporting Council in July 2003 and applies to listed companies with reporting years beginning on or after 1st November 2003. As the new Combined Code does not apply to the Company until the financial year beginning 1st July 2004, the compliance statement on corporate governance is based upon the old Combined Code. However, the content of the following corporate governance report reflects the new Combined Code provisions.

Directors

The Board is responsible for the proper management of the Company and retains control over the Company and its subsidiary undertakings. It meets as often as is necessary for the proper conduct of business. During the year ended 30th June 2004, the Board met seven times and the directors' attendance record for Board and committee meetings is set out at the end of this corporate governance statement. The Board comprises eight members, five executive directors and three non-executive directors. Biographical details are set out on pages 4 and 5. During the year, the non-executive directors met a number of times without executive directors present. Each of the non-executive directors is considered by the Board to be independent in character and judgement and free of any relationship or circumstances which are likely to affect, or could appear to affect, the director's judgement.

The Board receives appropriate documentation, management accounts, forecasts and commentaries thereon, in advance of each formal meeting to enable its members to review the financial performance of the Group, current trading and key business initiatives. The Board focuses on formulation of strategy, management of effective business controls and review of business performance. There is also a formal schedule of matters specifically reserved to it for decision, including the approval of annual and interim results, acquisitions, major capital expenditure, material agreements, forecasts and senior executive appointments and removals (including the company secretary).

The Board has two formally constituted committees; the audit committee and the remuneration and nomination committee. Both have terms of reference that have been approved by the Board. These are published on the Company's website.

There is an executive committee known as the Executive Board that is responsible for the executive management of the Group's business. It is chaired by the Chairman and includes the executive directors of Renishaw plc and the President of Renishaw Inc.

A framework of authorities is in place that maps out the structure of delegation below Board level and includes the matters reserved to the Executive Board and below.

There is an agreed procedure for directors in the furtherance of their duties to take independent professional advice if necessary, at the Company's expense. All directors have access to the advice and services of the company secretary, who is responsible to the Board for ensuring Board procedures are followed and applicable rules and regulations are complied with. All directors have the benefit of appropriate liability insurance at the Company's expense.

The senior independent non-executive director position is rotated between the non-executive directors on an annual basis. The senior independent non-executive director for the year from 1st July 2004 is David Snowden.

The remuneration and nomination committee is the committee with responsibility for determining remuneration policy, determining executive director remuneration packages, reviewing the structure and composition of the Board and nominating candidates for appointment to the Board. The current members of the remuneration and nomination committee are set out on page 5. It met 5 times during the financial year.

Until 21st November 2003 the remuneration and nomination committee included the Chairman and Chief Executive and the Deputy Chairman amongst its membership. However, both stepped down from the committee on that date. There have been no new appointments to the Board during the year. There has been a period of adjustment following the increase in the size of the Board from six to eight members and the Board feels it is necessary and appropriate for there to be a period of stability in the short to medium term.

David Snowden and Terry Garthwaite, who were appointed non-executive directors at the beginning of the financial year, received appropriate induction into the business of the Group and met representatives of major shareholders.

The terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office upon request and at the annual general meeting.

Directors' remuneration

Details of directors' remuneration and information regarding compliance with the Combined Code as it relates to directors' remuneration are set out in the Directors' remuneration report on page 18 and in note 4 to the financial statements.

Accountability and audit

The Company has established procedures to ensure compliance with the Combined Code and the related Turnbull guidance regarding systems of internal controls, including financial, operational, compliance and risk management.

The Board acknowledges that it is responsible for the Company's system of internal control and for reviewing its effectiveness. Also, it acknowledges that it has ultimate responsibility for ensuring that the Group has in place a system of controls, financial and otherwise, that is appropriate to the business environment in which it operates. This is intended to ensure that the directors maintain full and effective control over all significant strategic, financial, organisational and compliance issues. However, any system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The key procedures that the directors have established, and which are designed to provide effective internal control, are set out below:

Directors and senior managers have identified the significant risks faced by the Company and its subsidiaries. There is an on-going process for identifying, evaluating and managing risks, together with determining key controls and reporting procedures to minimise their impact. It is reviewed regularly by the Board and accords with the Turnbull guidance.

Formal interviews have been conducted with directors and general managers from all areas of the business. The key risks have been identified with due consideration and analysis of political, economic, social and technological factors that could impact on each business area's objectives. For each identified risk, a value judgement has been made on the impact, both financial and reputational, that its crystallisation would have on the business, together with the likelihood of the risk occurring. Scores have been calculated for each risk using a risk score matrix and the risks prioritised based on these scores. This process has been facilitated by Internal Audit, to ensure consistency. Following this process, Internal Audit has ensured that proper control policies, procedures and activities are in place to maintain the key business risks within the risk tolerance levels agreed by the Board. This process is ongoing.

In addition, monthly reports are prepared by senior management setting out the 'strengths, opportunities, failures and threats' facing the business, which are formally reviewed in board meetings. Monthly sales reports are also prepared for the Board by each overseas subsidiary company. These reports address pertinent business risks.

There is an appropriate organisation structure with clearly defined areas of responsibility and delegation of authority from the Board to the operating divisions and companies. Appropriate reporting lines are established, including a comprehensive set of procedures for monthly reporting to the Board. There is a commitment to competence and integrity and this is achieved through appropriate recruitment procedures and employment policy.

Control procedures are established that are considered appropriate to the size and nature of the organisation. In particular, controls are designed to prevent the unauthorised use or disposition of the Group's assets, to ensure proper accounting records are maintained and that financial information used within the business or for publication is reliable.

Up-to-date internal financial reports, including monthly management accounts and forecasts are prepared. Sales and orders are reported daily, cash balances are reported weekly and there is periodic reporting to the Board on the Group's tax and treasury position.

Key procedures and controls are defined in the Group Internal Control Manual. Authorisation limits have been reviewed, documented and formally approved at Board level. All items of capital expenditure and all employee recruitment require authorisation by the Board of the relevant group company or division. Treasury policies are defined by the Board. The overseas trading subsidiaries only retain sufficient funds to meet their working capital requirements. Significant foreign currency transactions are decided by the Board, which determines when and how foreign currency is converted into Sterling. The Group does not use any open-ended financial derivative instruments.

The Board has an audit committee whose members are set out on page 5 and comprises solely independent non-executive directors. The Board is satisfied that at least one member of the committee has recent and relevant financial experience. It met 3 times in respect of the financial year including at least one meeting, or part, with the external auditors without the executive directors being present. The Group Finance Director, Group Internal Audit Manager and external auditors have been in attendance at all such meetings.

The audit committee reviews the accounting policies and procedures of the Group and its compliance with statutory requirements. It reviews the scope and reports of the external audit and its cost effectiveness, internal audit reports and the internal control self-assessment declarations made by the senior management of all group

companies. The internal control system is monitored and supported by Internal Audit. This monitoring process is continual. It is a principal function of the Group's managers to ensure established control procedures are adhered to and that appropriate corrective measures are taken, should control weaknesses be identified.

It is recognised that internal controls must evolve over time, given the growth in the Group's business activities and the audit committee reviews the controls formally on an annual basis.

Relations with shareholders

The Company reports formally to shareholders twice a year, when its half-year and full-year results are announced, and an interim report and an annual report are issued to the shareholders. After the announcements, the Assistant Chief Executive and Group Finance Director give presentations on the results to institutional investors, analysts and the media. Meetings with institutional shareholders and others are reported at each Board meeting.

The Board is ready, where practicable, to enter into a dialogue with institutional shareholders based on the mutual understanding of objectives. Institutional investors and analysts are actively encouraged to visit the Company.

The annual general meeting takes place at the Company's head office and formal notification is sent to shareholders at least 20 working days in advance. At the meeting, a business presentation is made to shareholders and all directors are available, formally during the meeting, and informally afterwards, for questions. Shareholders are offered the opportunity to meet non-executive directors at this time.

The Company will advise shareholders attending the annual general meeting of the number of proxy votes lodged for each resolution, in the categories 'For' and 'Against', together with the numbers 'at the Chairman's discretion', and of abstentions. These will be advised after each resolution has been dealt with on a show of hands.

The Company's internet site (www.renishaw.com) gives access to information about the Group, its products and its performance. The interim results and the preliminary announcement of the full year's results are published on the website no later than ten minutes after they have been released at the Financial Services Authority.

Going concern

On the basis of current financial projections and available funds and facilities, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Compliance statement

The Board has reviewed the effectiveness of the system of internal control during the year and for the period to the date of approval of the financial statements.

In its opinion, the Company has complied from 1st July 2003 with the Combined Code (before reissue in July 2003), except for the following matters:

The roles of Chairman and Chief Executive are currently combined, as the directors consider this to be in the best interests of the Company and shareholders. The Board considers that there is a clear division of responsibilities at the head of the Company, which ensures an appropriate balance of power and authority, such that no one individual has unfettered powers of decision.

The remuneration and nomination committee was not constituted in accordance with the Combined Code (as regards its role as the remuneration committee) from 1st July 2003 to 21st November 2003 since it included the Chairman and Chief Executive and the Deputy Chairman, both being executive directors. However, since 21st November 2003, the committee has comprised solely non-executive directors and has therefore complied with the Code's requirements from that date.

In accordance with the articles of association of the Company, the Chairman and Chief Executive and Deputy Chairman are not subject to re-election by the shareholders.

Board and committee membership attendance record

Against each director's name is shown the number of meetings of the Board and its committees at which the director was present and, in brackets, the number of such meetings that director was eligible to attend during the year.

Director	Board	AC*	R&NC*
D R McMurtry	7 (7)	-	0 (2)
D J Deer	7 (7)	-	0 (2)
B R Taylor	7 (7)	-	-
A C G Roberts	7 (7)	-	-
G McFarland	6 (7)	-	-
J P McGeehan	7 (7)	3 (3)	5 (5)
T D Snowden	7 (7)	3 (3)	5 (5)
T B Garthwaite	7 (7)	3 (3)	5 (5)

* AC - Audit committee

R&NC - Remuneration and Nomination committee

Substantial shareholdings

Apart from the shareholdings of Sir David McMurtry and John Deer (36.2% and 17% respectively), the shareholdings notified to the directors, which represent 3% or more of the issued share capital of the Company, as at 21st July 2004, are:

Company	Number of shares	Percentage
Aegon UK plc	3,645,018	5.01%
HBOS plc	2,834,442	3.89%

During the year, the Company received notifications from Capital Management and Research Company of the reduction in its holding of shares in the Company to 1,482,396 (2.04%).

Research and development

The Group has a continuing commitment to a high level of research and development. The expenditure involved is directed towards the research and development of new products relating to metrology, computer aided design and manufacturing systems and Raman spectroscopy systems.

Donations and community involvement

During the year the Group made charitable donations of £101,661 (2003 £57,345). The Group organises its charitable donations by two methods: firstly, by allocating a fund of money to its Charities Committee; and secondly, through direct grants as decided by the Board. The Charities Committee meets at least four times a year to consider all applications for donations from local groups in the UK. Its donations policy is to provide funds to local causes or local branches of national groups, with specific focus on youth projects.

In addition to donations to charitable causes, the Company is actively involved with the community, for example, hosting events at its premises for local schools and supporting the community sports foundation efforts in providing sporting facilities in Wotton-under-Edge. No political donations were made during the year (2003 £nil).

By order of the Board
A C G Roberts FCA
Secretary
21st July 2004



Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether 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 group 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Report of the independent auditors to the members of Renishaw plc

We have audited the financial statements on pages 20 to 35. 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 auditor's 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.

consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the 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 Group's circumstances, consistently applied and adequately disclosed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual report and the Directors' remuneration report. As described above, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

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.

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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th June 2004 and of the profit of the Group 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.

We review whether the statement on page 17 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules 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 Group's corporate governance procedures, or its risk and control procedures.

We read the other information contained in the Annual report, including the corporate governance statement and the unaudited part of the Directors' remuneration report and

KPMG Audit Plc
 KPMG Audit Plc
 Chartered Accountants
 Registered Auditor
 21st July 2004

Marlborough House
 Fitzalan Court
 Cardiff
 CF24 0TE

Directors' remuneration report

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Remuneration policy

The Board as a whole is responsible for the overall remuneration policy. The remuneration and nomination committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration. It makes recommendations to the Board on specific remuneration packages for each of the executive directors.

William M Mercer provides advice in relation to certain benefits for the directors.

Details of directors' remuneration (including pensions), which form the audited section of this report, are shown in note 4 on page 26.

Remuneration and Nomination committee

The committee was chaired by Joe McGeehan until 23rd July 2003, the other members to this date being Sir David McMurtry, Chairman and Chief Executive and John Deer, the Deputy Chairman. From 23rd July 2003, David Snowden and Terry Garthwaite (non-executive directors) joined the committee, with David Snowden chairing the committee from that date. Sir David McMurtry and John Deer stepped down from membership of the committee on 21st November 2003. Accordingly the committee has comprised solely non-executive directors from that date. The committee has access to internal and external advisers when required.

Remuneration of the non-executive directors is determined by the executive directors.

The committee's policy is to motivate and retain executive directors by rewarding them with competitive salary and benefit packages and incentives which are linked to personal performance and the overall performance of the Group and, in turn, to the interests of the shareholders. The remuneration and nomination committee reviews annually all aspects of the executive directors' remuneration, performance and employment.

Basic salary

Basic salaries are reviewed by the committee to take effect from 1st July each year. In deciding appropriate levels, the committee takes account of financial data taken from a cross-section of UK companies within the electronic and engineering sectors.

Appreciation award

The Company operates an annual appreciation award scheme for all group employees and directors, on which no pension contributions are made. The award is based upon group profit performance and the achievement of a number of strategic objectives to maintain the long-term development of the Group. The non-executive directors do not participate in the appreciation award scheme.

Pension arrangements

The Company makes annual contributions to individual pension policies for each executive director, based upon a percentage of basic salary, as follows:

D R McMurtry	41% of previous year's salary
D J Deer	41% of previous year's salary
B R Taylor	15% of current year's salary
A C G Roberts	15% of current year's salary

G McFarland participates in the Company's defined benefit scheme and more details are given in note 4 on page 26. The non-executive directors do not participate in the Company's pension scheme.

Service contracts

No director has a service contract although the committee is working on the implementation of executive service contracts (including the compensation implications of early termination) which is expected to be completed in the next financial year. The three non-executive directors have been appointed under contracts for services which are intended to continue for an initial period of three years. However, these contracts may be terminated by either the Company or the director on one month's notice.

Benefits

Company cars and other benefits provided to directors are subject to income tax and no benefits are pensionable. The benefits are included in the directors' remuneration table on page 26.

Share options and long-term incentive schemes

There are no share options or long-term incentive schemes in operation for the directors.

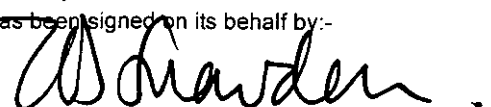
Performance graph

The graph below shows the Company's total shareholder return ("TSR") performance, compared with the FTSE mid 250 index, which the directors believe is the most appropriate broad index for comparison.

The report was approved by the Board of directors on 21st July 2004 and has been signed on its behalf by:-

T D Snowden

Chairman, Remuneration and Nomination committee



Consolidated profit and loss account

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for the year ended 30th June 2004

	Notes	2004 £'000	2003 £'000
Turnover	2	127,701	110,640
Cost of sales		69,188	59,941
Gross profit		58,513	50,699
Distribution costs		25,201	22,880
Administrative expenses		15,259	12,175
		40,460	35,055
Operating profit	3	18,053	15,644
Interest receivable less payable	5	2,043	1,925
Other finance income	6	50	230
Profit on ordinary activities before taxation		20,146	17,799
Tax on profit on ordinary activities	7	4,023	3,454
Profit for the financial year		16,123	14,345
Dividends	8	13,100	12,156
Retained profit for the financial year	17	3,023	2,189
		pence	pence
Earnings per share (basic and diluted)	9	22.1	19.7
Dividend per share	8	18.0	16.7

The current and the previous years' results derive from continuing operations.

There is no difference between the profit for the current and previous financial year stated above and its historical cost equivalent.

Balance sheets

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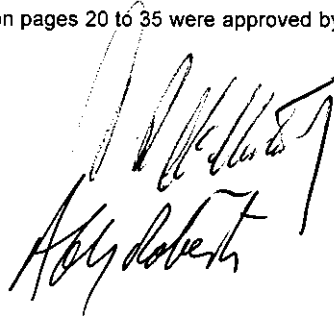
at 30th June 2004

	Notes	The Group		The Company	
		2004	2003	2004	2003
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	10	58,496	50,877	36,165	32,584
Investments	11	-	-	25	25
		58,496	50,877	36,190	32,609
Current assets					
Stocks	12	22,288	20,171	14,300	12,831
Debtors	13	32,820	29,600	268,235	89,703
Cash at bank	20	32,833	37,235	7,512	7,264
		87,941	87,006	290,047	109,798
Creditors					
Amounts falling due within one year	14	26,031	20,534	49,485	101,917
Net current assets					
Due within one year		61,910	66,472	38,319	7,881
Due after more than one year	13	-	-	202,243	-
		61,910	66,472	240,562	7,881
Total assets less current liabilities		120,406	117,349	276,752	40,490
Provisions for liabilities and charges	15	(4,306)	(3,503)	(3,953)	(4,162)
Net assets excluding pension liability		116,100	113,846	272,799	36,328
Pension liability	18	(8,390)	(8,620)	(8,000)	(8,470)
Net assets including pension liability		107,710	105,226	264,799	27,858
Capital and reserves					
Called up share capital	16	14,558	14,558	14,558	14,558
Share premium account	16	42	42	42	42
Profit and loss account	17	93,110	90,626	250,199	13,258
Shareholders' funds – equity		107,710	105,226	264,799	27,858

The financial statements on pages 20 to 35 were approved by the Board of directors on 21st July 2004 and were signed on its behalf by:-

Sir D R McMurtry
A C G Roberts

Directors



Consolidated cash flow statement

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for the year ended 30th June 2004

	Notes	2004 £'000	2003 £'000
Net cash inflow from operating activities	20	22,159	20,481
Returns on investments and servicing of finance			
Interest received		2,066	1,954
Interest paid		(40)	(48)
		2,026	1,906
Tax paid		(3,096)	(1,380)
Capital expenditure			
Purchase of tangible fixed assets		(14,899)	(8,184)
Proceeds from the sale of tangible fixed assets		163	158
		(14,736)	(8,026)
Equity dividends paid		(12,351)	(11,763)
Cash (outflow)/inflow before management of liquid resources		(5,998)	1,218
Management of liquid resources			
Decrease in bank deposits		1,322	7,628
(Decrease)/increase in cash in the year		(4,676)	8,846

Reconciliation of net cash flow to movement in net funds
for the year ended 30th June 2004

	Notes	2004 £'000	2003 £'000
(Decrease)/increase in cash in the year		(4,676)	8,846
Cash inflow from movement in liquid resources		(1,322)	(7,628)
Changes in net funds resulting from cash flows		(5,998)	1,218
Currency differences		1,596	361
Movement in net funds in the year		(4,402)	1,579
Net funds at 1st July		37,235	35,656
Net funds at 30th June	20	32,833	37,235

Consolidated statement of total recognised gains and losses

23

for the year ended 30th June 2004

	2004 £'000	2003 £'000
Profit for the financial year	16,123	14,345
Currency translation differences on foreign currency net investments	(299)	52
Actuarial loss recognised in the pension schemes	(240)	(6,680)
Deferred tax thereon	-	1,980
	(240)	(4,700)
Total recognised gains and losses for the financial year	15,584	9,697

Analysis of actuarial loss recognised in the Consolidated
statement of total recognised gains and losses:

	2004 £'000	2003 £'000
Actual return less expected return on pension scheme assets	2,550	(4,110)
Experience gains and losses arising on the scheme liabilities	-	(270)
Changes in assumptions underlying the present value of scheme liabilities	(2,790)	(2,300)
Actuarial loss recognised in the statement above	(240)	(6,680)

Reconciliations of movements in shareholders' funds

for the year ended 30th June 2004

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Profit for the financial year	16,123	14,345	249,971	17,060
Dividends	(13,100)	(12,156)	(13,100)	(12,156)
Retained profit for the year	3,023	2,189	236,871	4,904
Currency translation differences	(299)	52	-	-
Actuarial (loss)/gain net of deferred tax	(240)	(4,700)	70	(4,550)
Net addition to/(reduction in) shareholders' funds	2,484	(2,459)	236,941	354
Shareholders' funds at 1st July	105,226	107,685	27,858	27,504
Shareholders' funds at 30th June	107,710	105,226	264,799	27,858

(forming part of the financial statements)

1. Accounting policies

The following principal accounting policies have been applied consistently in the preparation of the financial statements of the Group. The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary undertakings. Details of subsidiary undertakings are shown in note 22.

In accordance with FRS 8, transactions or balances between group companies that have been eliminated on consolidation are not reported as related party transactions.

Turnover

Turnover represents the amount derived from the provision by the Group of goods and services to third party customers during the year less returns, allowances and value added tax.

Tangible assets and depreciation

Tangible assets are stated at cost less accumulated depreciation. Depreciation is provided to write off the cost of assets less their estimated residual value on a straight line basis over their estimated useful economic lives as follows:-

Freehold buildings – 50 years

Plant and equipment – 3 to 10 years

Motor vehicles – 3 to 4 years

No depreciation is provided on freehold land.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises direct materials and labour plus overheads applicable to the stage of manufacture reached.

Research and development

Research and development expenditure is charged to profit and loss account in the year in which it is incurred.

Taxation

The charge for taxation is based on the group profit for the year. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Foreign currency

Overseas results are translated into Sterling at weighted average exchange rates for the year. Overseas assets and

liabilities included in the consolidated balance sheet are translated into Sterling at the rates of exchange ruling at the end of the accounting year. The resultant currency exchange differences, net of exchange differences arising on related foreign currency net borrowings, are treated as movements on reserves and are reported in the consolidated statement of total recognised gains and losses. All other currency exchange differences are accounted for in the profit and loss account.

Liquid resources and cash

Cash, for the purposes of the consolidated cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources comprise term deposits of less than one year.

Pension costs

The Group operates contributory pension schemes, of the defined benefit type, for UK and Irish based employees. The schemes are administered by trustees and are independent of the group finances. Contributions are paid to the schemes in accordance with the recommendations of independent actuaries to enable the trustees to meet from the schemes the benefits accruing in respect of current and future service.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

The pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

Foreign based employees are covered by state, defined benefit and private pension schemes in their countries of residence. Actuarial valuations of foreign pension schemes, in accordance with FRS 17, were not obtained because of the smaller number of foreign employees.

Warranty on the sale of products

The Group provides a warranty from the date of purchase on all its products. This is typically for a twelve-month period, although up to two years is given for a small number of products. A warranty provision is included in the accounts, which is calculated on the basis of historical return in warranty information and other quality reports.

2. Turnover

Turnover is defined under the accounting policies in note 1 and relates to the principal trade. An analysis by geographical market is:-

	2004 £'000	2003 £'000
Continental Europe	48,983	41,619
Far East, including Japan and Australia	34,099	26,407
North and South America	33,305	31,163
Other overseas regions	2,494	1,780
United Kingdom and Ireland	8,820	9,671
Total group turnover	127,701	110,640

Substantially all sales originate from products manufactured in the UK and Ireland. A geographical analysis by origin of profit before taxation and net assets is not shown because, in the opinion of the directors, disclosure of such information would be seriously prejudicial to the interests of the Group.

3. Operating profit

Operating profit is stated after charging/(crediting):-

	2004 £'000	2003 £'000
Research and development	15,503	14,246
Depreciation	6,779	6,295
Foreign exchange gains	(415)	(2,980)
Profit on disposal of fixed assets	(10)	(36)
Auditors' remuneration – audit for the Group	135	128
– audit for the Company	36	35
Other fees paid to the auditors and their associates - tax	257	260
- other	34	58

Staff numbers and costs:-

The average number of persons employed by the Group during the year (including directors) was:-

	2004 Number	2003 Number
United Kingdom	1,220	1,143
Overseas	459	432
	1,679	1,575

The aggregate payroll costs of the above were:-

	2004 £'000	2003 £'000
Wages and salaries	48,053	43,831
Social security costs	5,436	4,352
Other pension costs (note 18)	4,208	3,780
	57,697	51,963

4. Directors' remuneration and share options

The total remuneration of the directors was:-

	2004 £'000	2003 £'000
Salaries and fees	1,271	1,141
Benefits	132	140
Appreciation award	400	328
Pension contributions	316	291
	<u>2,119</u>	<u>1,900</u>

	Salary & fees £'000	Benefits £'000	Appreciation award £'000	Total 2004 £'000	Total 2003 £'000	Pension contributions	
						2004 £'000	2003 £'000
Chairman							
D R McMurtry	370	19	133	522	480	141	133
Other executive directors							
D J Deer	226	34	81	341	310	86	81
B R Taylor	314	33	94	441	407	47	44
A C G Roberts	167	28	50	245	224	25	23
G McFarland	140	18	42	200	176	17	10
Non-executive							
J P McGeehan	18	-	-	18	12	-	-
T D Snowden	18	-	-	18	-	-	-
T B Garthwaite	18	-	-	18	-	-	-
	<u>1,271</u>	<u>132</u>	<u>400</u>	<u>1,803</u>	<u>1,609</u>	<u>316</u>	<u>291</u>

Benefits include company cars (or cash alternative), private telephone and private health insurance. There were no directors' share options outstanding at any time during the year.

The amounts in respect of pension contributions are the amounts paid by the Company to the personal pension plans of the directors for the relevant periods, except for G McFarland, where the amounts paid are those to the Company's defined benefit scheme, in which he participates. The values required to be reported in respect of G McFarland were:-

AB* at 24th July 2003	Increase in AB excluding inflation (A)	Increase in AB including inflation	Transfer value of (A) less director's contribution	Transfer value of AB at 30th July 2003	Transfer value of AB at 30th June 2004	Increase in transfer value less director's contribution
£ p.a.	£	£	£	£	£	£
17,000	2,010	2,420	2,100	78,550	90,300	5,765

* AB = Accrued benefits

5. Interest receivable less payable

	2004 £'000	2003 £'000
Bank interest receivable	2,083	1,973
Bank interest payable	(40)	(48)
	<u>2,043</u>	<u>1,925</u>

6. Other finance income

	2004 £'000	2003 £'000
Expected return on pension fund assets	2,350	2,530
Interest on pension fund liabilities	(2,300)	(2,300)
	<u>50</u>	<u>230</u>

7. Tax on profit on ordinary activities

	2004 £'000	2003 £'000
UK corporation tax	-	-
Foreign tax	3,124	2,431
Total current tax	<u>3,124</u>	<u>2,431</u>
Deferred tax – origination and reversal of timing differences	899	1,023
Tax on profit on ordinary activities	<u>4,023</u>	<u>3,454</u>

The tax for the year is lower than the UK standard rate of corporation tax of 30% (2003 30%). The differences are explained as follows:

	2004 £'000	2003 £'000
Tax at 30% (2003 30%) on the profit on ordinary activities	6,044	5,340
Effects of:		
Different tax rates applicable in overseas subsidiaries	(2,246)	(2,514)
Research and development tax credit	(900)	(809)
Companies with brought forward tax losses relieved in the year	(509)	-
Capital allowances in excess of depreciation	(444)	(131)
Expenses not deductible for tax purposes	90	38
Companies with unrelieved tax losses in the year	266	1,355
Tax relating to pension fund liability	(210)	(500)
Other timing differences	1,033	(348)
Current tax charge for the year	<u>3,124</u>	<u>2,431</u>

A further liability to taxation would arise if the retained profits of certain overseas subsidiaries were distributed to the UK.

8. Dividends

	2004 £'000	2003 £'000
Interim dividend paid of 5.61p (2003 5.34p)	4,081	3,887
Final dividend proposed of 12.39p (2003 11.36p)	9,019	8,269
	<u>13,100</u>	<u>12,156</u>

9. Earnings per share

Basic and diluted earnings per share are calculated on earnings of £16,123,000 (2003 £14,345,000) and on 72,788,543 shares, being the number of shares in issue during both years.

10. Tangible assets

The Group	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1st July 2003	39,520	42,140	3,748	85,408
Additions	6,477	8,152	921	15,550
Disposals	-	(1,202)	(500)	(1,702)
Currency adjustment	(956)	(408)	(89)	(1,453)
At 30th June 2004	45,041	48,682	4,080	97,803
Depreciation				
At 1st July 2003	5,218	27,052	2,261	34,531
Charge for the year	950	5,094	735	6,779
Released on disposals	-	(1,127)	(431)	(1,558)
Currency adjustment	(116)	(290)	(39)	(445)
At 30th June 2004	6,052	30,729	2,526	39,307
Net book value				
At 30th June 2004	38,989	17,953	1,554	58,496
At 30th June 2003	34,302	15,088	1,487	50,877
The Company				
Freehold land and buildings £'000		Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1st July 2003	22,546	34,449	2,294	59,289
Additions	1,387	7,106	361	8,854
Disposals	-	(438)	(248)	(686)
At 30th June 2004	23,933	41,117	2,407	67,457
Depreciation				
At 1st July 2003	3,593	21,568	1,544	26,705
Charge for the year	455	4,378	424	5,257
Released on disposals	-	(431)	(239)	(670)
At 30th June 2004	4,048	25,515	1,729	31,292
Net book value				
At 30th June 2004	19,885	15,602	678	36,165
At 30th June 2003	18,953	12,881	750	32,584

11. Investments

The Company	2004 £'000	2003 £'000
Shares at cost in subsidiary undertakings	25	25

Details of subsidiary undertakings are shown in note 22.

12. Stocks

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Raw materials	11,086	9,530	8,933	8,008
Work in progress	1,999	1,519	1,933	1,414
Finished goods	9,203	9,122	3,434	3,409
	22,288	20,171	14,300	12,831

13. Debtors

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Due within one year				
Trade debtors	30,298	27,200	4,097	3,820
Amounts owed by group undertakings	-	-	60,424	84,249
Corporation tax recoverable	-	-	-	414
Prepayments	2,522	2,400	1,471	1,220
	32,820	29,600	65,992	89,703
Amounts due after more than one year				
Amounts owed by group undertakings	-	-	202,243	-
	32,820	29,600	268,235	89,703

14. Creditors

Amounts falling due within one year	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Trade creditors	8,755	4,845	7,209	3,455
Amounts owed to group undertakings	-	-	29,833	87,884
Corporation tax	1,427	1,415	174	-
Other taxes and social security	2,446	2,742	832	934
Other creditors	4,384	3,263	2,418	1,375
Proposed dividend payable	9,019	8,269	9,019	8,269
	26,031	20,534	49,485	101,917

15. Provisions for liabilities and charges

Movements during the year were:-

	The Group			The Company		
	At 1st July 2003 £'000	Changes in the year £'000	At 30th June 2004 £'000	At 1st July 2003 £'000	Changes in the year £'000	At 30th June 2004 £'000
Deferred taxation	3,071	689	3,760	3,730	(230)	3,500
Warranty provisions	432	114	546	432	21	453
	3,503	803	4,306	4,162	(209)	3,953

Deferred taxation is represented by:-

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Difference between accumulated depreciation and capital allowances	4,038	3,594	3,750	3,213
Reserves of overseas subsidiaries to be remitted	628	240	-	-
Other timing differences	(906)	(763)	(250)	517
	3,760	3,071	3,500	3,730
Deferred tax asset on pension schemes (note 18)	(3,440)	(3,650)	(3,400)	(3,630)
At 30th June	320	(579)	100	100

The movements in the deferred tax balance were:-

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
At 1st July	(579)	378	100	1,750
Amount charged to/(released from) profit and loss account	899	1,023	(230)	(180)
Amount reflected through the statement of total recognised gains and losses	-	(1,980)	230	(1,470)
At 30th June	320	(579)	100	100

Deferred tax is provided on unremitted reserves only to the extent that there is a commitment to remit the reserves to the UK. The warranty provision has been calculated on the basis of historical return in warranty information and other quality reports. It is expected that most of this expenditure will be incurred in the next financial year and all expenditure will be incurred within two years of the balance sheet date.

16. Share capital and Share premium

Share capital	2004 £'000	2003 £'000
Authorised 75,000,000 ordinary shares of 20p each	15,000	15,000
Allotted, called up and fully paid 72,788,543 ordinary shares of 20p each	14,558	14,558
Share premium	2004 £'000	2003 £'000
Balance at 30th June	42	42

The middle market price of the shares at 30th June 2004 was 516p (2003 442.5p). The range during the year was 442.5p to 585.5p.

17. Profit and loss account

Movements during the year were:-

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
At 1st July	90,626	93,085	13,258	12,904
Retained profit for the year	3,023	2,189	236,871	4,904
Currency translation difference on foreign currency net investments	(299)	52	-	-
Actuarial (loss)/profit on pension schemes (note 18) Deferred tax thereon	(240)	(6,680)	100	(6,500)
	-	1,980	(30)	1,950
	(240)	(4,700)	70	(4,550)
At 30th June	93,110	90,626	250,199	13,258

The profit and loss account reserve in the Company of £250,199,000 (2003 £13,258,000) includes £202,243,000 (2003 £nil) which is currently non-distributable.

The profit and loss account reserve includes a deficit of £8,390,000 (2003 £8,620,000) net of a deferred tax credit of £3,440,000 (2003 £3,650,000) in respect of pension fund deficits of the Group's defined benefit pension schemes.

The cumulative amount of goodwill resulting from acquisitions made in earlier financial years, which has been written off to reserves, is £1,913,000 (2003 £1,913,000).

18. Pension schemes

The Group operates a number of pension schemes throughout the world. The major schemes, which cover over 90% of scheme members, are of the defined benefit type.

The total pension cost of the Group for the year was £4,208,000 (2003 £3,780,000), of which £316,000 (2003 £291,000) related to directors and £981,000 (2003 £1,168,000) related to overseas schemes. The pension cost relating to the UK scheme is assessed in accordance with the advice of a qualified actuary using the projected unit method and relates entirely to current service costs.

The latest full actuarial valuation of the schemes was carried out at July 2001 and updated to 30th June 2004 by a qualified independent actuary. The major assumptions used by the actuary were:

	30th June 2004	30th June 2003	30th June 2002
Rate of increase in pensionable salaries	4.0%	3.5%	3.5%
Rate of increase in pension payments	2.8%	2.25%	2.3%
Discount rate	5.8%	5.5%	5.8%
Inflation rate	3.0%	2.5%	2.5%
Expected return on equities	8.5%	8.0%	8.0%
Expected return on bonds	5.4%	5.0%	5.0%
Retirement age	65	65	65

The assets and liabilities in the schemes were:-

	The Group			The Company		
	30th June 2004 £'000	30th June 2003 £'000	30th June 2002 £'000	30th June 2004 £'000	30th June 2003 £'000	30th June 2002 £'000
Market value of assets:						
Equities	39,400	29,230	26,400	37,600	27,900	25,100
Bonds and cash	1,110	960	500	500	300	100
	40,510	30,190	26,900	38,100	28,200	25,200
Actuarial value of liabilities	52,340	42,460	34,200	49,500	40,300	32,400
Deficit in the scheme	(11,830)	(12,270)	(7,300)	(11,400)	(12,100)	(7,200)
Deferred tax thereon	3,440	3,650	2,170	3,400	3,630	2,160
Net pension liability	(8,390)	(8,620)	(5,130)	(8,000)	(8,470)	(5,040)

The history of experience gains and losses is:-

	Year ended 30th June 2004	Year ended 30th June 2003	Year ended 30th June 2002	Year ended 30th June 2001	Year ended 30th June 2000
Difference between the expected and actual return on scheme assets					
amount (£'000)	2,550	(4,110)	(7,370)	(4,100)	2,800
percentage of scheme assets	6%	(14%)	(5%)	(14%)	10%
Experience gains and losses on scheme liabilities					
amount (£'000)	-	(270)	180	(200)	(1,100)
percentage of present value of scheme liabilities	-	(1%)	1%	(1%)	(4%)
Total amount recognised in the Consolidated statement of total recognised gains and losses					
amount (£'000)	(240)	(6,680)	(8,590)	(1,650)	4,600
percentage of present value of scheme liabilities	-	(16%)	(25%)	(6%)	16%

18. Pension schemes (continued)

The movements in the schemes' deficit were:-

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Deficit in schemes at 1st July	(12,270)	(7,300)	(12,100)	(7,200)
Current and past service cost (included in operating profit)	(3,350)	(2,500)	(3,200)	(2,400)
Contributions paid	3,980	3,980	3,800	3,800
Other finance income	50	230	30	200
Actuarial (loss)/gain	(240)	(6,680)	70	(6,500)
Deficit in schemes at 30th June	(11,830)	(12,270)	(11,400)	(12,100)

The total service cost for the year includes £335,000 (2003 £nil) in respect of past service costs.

At the date of the latest full actuarial valuation, the market value of the assets of the UK scheme was £28,040,000 and the actuarial value of the assets was sufficient to cover 82% of the benefits that had accrued to members after allowing for expected future increases in earnings. The deficit on an ongoing basis is being reduced over members' future working lives by additional company contributions. On a minimum funding requirement basis, the scheme is 83% funded and the contributions payable are sufficient to amortise the deficit.

19. Foreign currency holdings and borrowings

An analysis by currency of Group net cash at the year end is as follows:-

Currency	Net cash balance at 30th June 2004 £'000	Net cash balance at 30th June 2003 £'000
	Pounds Sterling	69,101
US Dollar	(11,836)	(10,974)
Japanese Yen	(9,296)	(3,427)
Euro	(14,230)	(15,632)
Other	(906)	(1,890)
	<u>32,833</u>	<u>37,235</u>

The carrying value approximates to fair value because of the short maturity of the deposits and borrowings. Interest rates are floating and based on libor/libid.

Net assets and associated borrowings at the year end were:-

As noted in the Operating and financial review on page 12, the Group maintains foreign currency borrowings as a method of providing hedging against the currency translation risk of the net assets of its overseas subsidiaries. The level of hedging in place at the year end for the major currencies and their relative base borrowing interest rates, were as follows:

Currency	Net assets of subsidiary £'000	Currency borrowing £'000	Base borrowing interest rate %
US Dollar	16,588	15,565	1.25%
Japanese Yen	10,792	10,640	0.1%
Euro	17,847	17,290	2.0%

The currency borrowings are short-term, with floating interest rates. In order to minimise the cost of these borrowings, short-term currency swaps are used on a rolling one-month cycle. These currency swaps are not reflected in the table above.

19. Foreign currency holdings and borrowings (continued)

Unrecognised gains and losses on currency hedges at the year end:-

	£'000
Unrecognised gains on hedges at 1st July 2003	31
Gains arising in previous years that were recognised in 2004	(31)
Gains arising in 2004 that were not recognised in the year	-
Unrecognised gains on hedges at 30th June 2004	-

Gains and losses on instruments used as hedges are not recognised in the financial statements until the hedged position matures. At the year end, there were no unrecognised gains or losses on foreign currency monetary assets and liabilities.

Short-term debtors and creditors, as defined in FRS 13 – Derivatives and other financial instruments disclosures, have been omitted from all the financial instruments disclosures, save for those relating to currency risk.

20. Notes to the consolidated cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities:-

	2004 £'000	2003 £'000
Operating profit	18,053	15,644
Depreciation charges	6,779	6,295
Profit on sale of tangible fixed assets	(10)	(36)
(Increase)/decrease in stocks	(2,117)	1,905
Additional pension contributions in excess of service cost	(630)	(1,480)
Increase in debtors	(4,273)	(2,672)
Increase in creditors	4,243	770
Increase in provisions	114	55
Net cash inflow from operating activities	22,159	20,481

Analysis of net funds:-

	Net cash at bank £'000	Bank deposits £'000	Net funds £'000
At 1st July 2003	12,979	24,256	37,235
Cash flows	(4,676)	(1,322)	(5,998)
Currency	1,596	-	1,596
At 30th June 2004	9,899	22,934	32,833

21. Commitments

Outstanding capital expenditure not provided for in these financial statements was:-

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Authorised and committed	2,667	6,490	2,486	1,890

Group annual commitments under non-cancellable operating leases (all of which relate to land and buildings in subsidiary companies) were £275,000 (2003 £258,000), of which £217,000 (2003 £208,000) expires within one year and £58,000 (2003 £50,000) expires in the second to fifth years inclusive. The Company has no material annual commitments under non-cancellable operating leases.

22. Subsidiary undertakings

The following are the subsidiary undertakings of Renishaw plc, all of which are wholly-owned, unless otherwise stated. The country of incorporation and registration is England and Wales unless otherwise stated. The country of incorporation is also the country of operation. *[equity held by a subsidiary undertaking]

Company	Principal activities
Renishaw International Limited*	Overseas holding and investment company.
Renishaw (Ireland) Limited (Republic of Ireland)*	Manufacture and sale of advanced precision metrology and inspection equipment.
Renishaw Investments Limited (Guernsey)*	Investment company.
Renishaw Finance and Insurance (Guernsey) Limited (Guernsey)*	Finance and captive insurance company.
Renishaw Holdings Limited	Holding and investment company.
Renishaw Finance Limited*	Finance company.
Renishaw International B.V. (The Netherlands)*	Overseas holding and investment company and service and distribution of group products.
Renishaw S.A.S. (France)*	Service, distribution, research and development and manufacture of group products.
Wotton Travel Limited	Travel agency.
RLS merilna tehnika d.o.o. (Slovenia) (50%)*	Manufacture and distribution of own products and distribution of group products.
Company – principal activity is the service and distribution of group products	
Renishaw Inc (USA)*	Renishaw Oceania Pty Limited (Australia)*
Renishaw KK (Japan)*	Renishaw s.r.o. (Czech Republic)*
Renishaw GmbH (Germany)*	Renishaw Sp. z o.o. (Poland)*
Renishaw S.p.A. (Italy)*	OOO Renishaw (Russia)*
Renishaw Iberica S.A. (Spain)*	Renishaw AB (Sweden)*
Renishaw A.G. (Switzerland)*	Renishaw (Austria) GmbH (Austria)*
Renishaw (Hong Kong) Limited (Hong Kong)*	Renishaw (Korea) Limited (South Korea)*
Renishaw Latino Americana Ltda. (Brazil)*	Renishaw (Canada) Limited (Canada)*
Renishaw Metrology Systems Private Limited (India)*	Renishaw (Israel) Limited (Israel)*

Shareholders' profile

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Number of shareholders in each shareholding range

Shareholdings	
1 – 5,000	1,811 (2.8%)
5,001 – 25,000	162 (2.5%)
25,001 – 50,000	31 (1.6%)
50,001 – 100,000	28 (2.5%)
100,001 – 500,000	44 (12.9%)
500,001 – 1,000,000	3 (3.4%)
1,000,001 – 3,000,000	7 (16.4%)
more than 3,000,000	2 directors plus one other (57.9%)

Categories of shareholders

Directors	53.3%
Institutions	44.1%
Individuals	2.6%

The above information was compiled from the register as at 6th July 2004.

Financial calendar

Annual general meeting
15th October 2004

Dividends

Final dividend

Payment date 18th October 2004
Record date 17th September 2004
Ex-div date 15th September 2004

Interim dividend (provisional)

Payment date 11th April 2005
Record date 11th March 2005
Ex-div date 9th March 2005

Announcement of results

Annual results – July
Half year results – January

The interim results and the preliminary announcement of the full year's results are published on our website, which is at www.renishaw.com no later than ten minutes after they have been released at the Financial Services Authority.

Notice of meeting

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NOTICE IS HEREBY GIVEN that the 31st annual general meeting of the Company will be held at New Mills, Wotton-under-Edge, Gloucestershire, GL12 8JR on Friday 15th October 2004 at noon to transact the following business:-

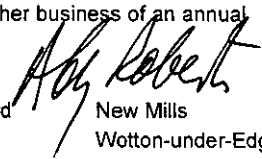
1. To receive and adopt the reports of the directors and auditors and the financial statements for the year ended 30th June 2004.
2. To declare a final dividend.
3. To re-elect as a director of the Company A C G Roberts, who is retiring by rotation.
4. To re-elect as a director of the Company G McFarland, who is retiring by rotation.
5. To approve the Directors' remuneration report contained in the Annual report 2004.
6. To re-appoint KPMG Audit Plc as auditor of the Company and to authorise the directors to determine their remuneration.
7. To consider as special business and, if thought fit, to pass the following resolution, which will be proposed as a special resolution:-

THAT, the Company be and is hereby unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 20p each in the capital of the Company ("ordinary shares") provided that:

- (i) the maximum number of ordinary shares hereby authorised to be purchased is 7,278,854;
- (ii) the maximum price that may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the 10 business days immediately preceding the day on which the ordinary share is purchased;
- (iii) the minimum price which may be paid for an ordinary share shall be 20p;
- (iv) the authority hereby conferred shall expire at the earlier of the conclusion of the annual general meeting to be held in 2005 and 31st December 2005 unless such authority is renewed prior to such time; and
- (v) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which contract will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to such contract.

8. To transact any other business of an annual general meeting.

By order of the Board
A C G Roberts FCA
Secretary



New Mills
Wotton-under-Edge
Gloucestershire
GL12 8JR

13th August 2004

Notes:

The Company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6 pm on 13th October 2004 shall be entitled to attend or vote at the aforesaid annual general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6 pm on 13th October 2004 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company and the appointment of a proxy will not preclude a member from attending and voting at the meeting. A form of proxy is enclosed for this purpose.

The register of directors' shareholdings will be available for inspection at the registered office of the Company during normal business hours until the date of the meeting and at the place of the meeting for 15 minutes prior to, and during, the meeting. No director has a service contract.

10 year financial record

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Results	**									
	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000	1998 £'000	1997 £'000	1996 £'000	1995 £'000
Overseas sales	118,881	100,969	94,769	113,133	94,106	85,958	82,684	72,063	69,633	57,267
UK and Ireland sales	8,820	9,671	9,721	12,215	11,488	10,361	9,665	9,338	7,444	5,395
Total sales	127,701	110,640	104,490	125,348	105,594	96,319	92,349	81,401	77,077	62,662
Operating profit	18,053	15,644	13,448	27,943	25,677	23,339	20,859	14,247	17,636	11,865
Profit on ordinary activities before tax	20,146	17,799	16,062	30,795	28,261	25,829	22,380	18,034	20,115	13,535
Taxation	4,023	3,454	880	6,082	7,065	6,716	6,280	4,653	4,207	3,831
Profit for the financial year	16,123	14,345	15,182	24,713	21,196	19,113	16,100	13,381	15,908	9,704
Dividends	13,100	12,156	11,573	11,020	9,572	8,184	7,242	6,292	5,242	3,880
Retained profit for the year	3,023	2,189	3,609	13,693	11,624	10,929	8,858	7,089	10,666	5,824
Capital employed	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000	1998 £'000	1997 £'000	1996 £'000	1995 £'000
Share capital	14,558	14,558	14,558	14,558	14,558	14,558	14,557	14,548	12,123	10,765
Share premium	42	42	42	42	42	42	40	4	66	145
Revenue reserves	93,110	90,626	93,085	94,722	82,498	70,443	59,712	52,797	52,044	40,273
Shareholders' funds	107,710	105,226	107,685	109,322	97,098	85,043	74,309	67,349	64,233	51,183
Deferred taxation	3,760	3,071	2,548	2,380	4,175	3,775	3,110	3,003	2,209	4,672
Capital employed	111,470	108,297	110,233	111,702	101,273	88,818	77,419	70,352	66,442	55,855
Statistics	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Overseas sales as a percentage of total sales	93.1%	91.3%	90.7%	90.3%	89.1%	89.2%	89.5%	88.5%	90.3%	91.4%
Basic earnings per share *	22.1p	19.7p	20.9p	34.0p	29.1p	26.3p	22.1p	18.4p	21.9p	13.4p
Dividend per share *	18.00p	16.70p	15.90p	15.14p	13.16p	11.44p	9.95p	8.65p	7.21p	5.34p

* Figures for 1996 and 1995 have been amended for the one for five capitalisation issue in November 1996 and previous capitalisation issues.

** The 2000 figures have been restated to reflect the impact of the adoption of FRS 17 – Retirement benefits. Figures for 1995 to 1999 have not been restated.