

## The Year in Brief

	2004	2003
	Total £000	Total £000
Turnover: Group and share of joint venture	32,323	30,666
Profit on ordinary activities before taxation	1,375	643
Profit on ordinary activities after taxation	924	398
Earnings per share	5.0p	2.0p
Dividend per share	1.75p	1.6p

### Financial Calendar Key Dates

Annual Results Announced	June
Annual General Meeting	August
Final Dividend Payable	September
Half-Year Results Announced	December
Interim Dividend Payable	February



## Chairman's Statement

### Results and review

For the year ending 1 May 2004, the Group lifted profit before taxation to £1.38m (2003-£0.64m), on increased sales of £32.32m (2003-£30.67m). Earnings per share were 5.0p (2003-2.0p).

There was a good measure of upturn in the performance of all three operating divisions during the second part of the year, exceeding the pleasing progress that had already been attained at the interim stage.

This improvement stemmed from a closer focus and monitoring of our cost base, which complemented the efficiencies emanating from the recent capital investment in plant, equipment and product development. These gains helped us to confront and counter the negative impact imposed on our global competitiveness by a less favourable sterling/dollar exchange rate, coupled with the escalating run on the price of steel used in our manufacturing processes and its general tightness of supply.

The Group's consolidated net funds advanced to £2.20m (2003-£1.21m).

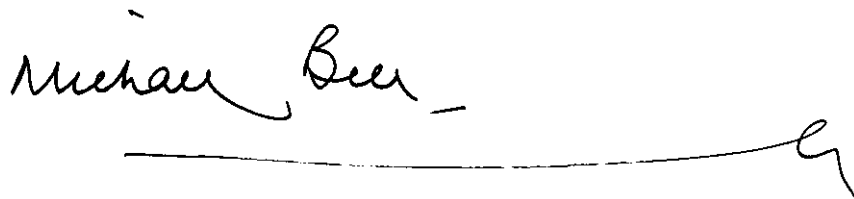
On 30 April 2004, I, together with my two executive board directors, exercised options to purchase a total of 1,000,000 ordinary shares in the Company at a price of 34.9p each. It is our intention to hold these shares as a long-term investment.

### Outlook

We are earning a notable payback from the capital investment programmes of the past three years and propose to commit additional expenditure over the next twelve months to strengthen our trading position and create further opportunities for the business in the markets that we serve.

The Group, presently, has a much healthier and higher value order book than was the case at this time last year.

The Board therefore, believes it appropriate to recommend the payment of an increased final dividend of 1.33p per share (2003-1.20p), making a total for the year of 1.75p (2003-1.60p).

A handwritten signature in black ink that reads "Michael Bell". The signature is written in a cursive style and is positioned above a long horizontal line that extends across the page.

Michael Bell  
Executive Chairman  
21 June 2004

## Directors and Advisers

### Directors

#### Executive

Michael Bell ARICS (Chairman)  
Michael O'Connell FCA (Finance)  
David Pyle (Administration and Secretary)

#### Non Executive

Roger Lane-Smith - Age 58  
Appointed a director on January 21st, 1983. He is senior partner of DLA and is also a non executive director of JJB Sports plc, Timpsons plc and a number of other private companies. He is also a Council member of the CBI.

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### Registered Office

Balby Carr Bank,  
Doncaster,  
DN4 8DH  
England

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### Auditors

Ernst & Young LLP

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### Registrars and Transfer Office

Capita IRG Plc  
Bourne House,  
34 Beckenham Road,  
Beckenham,  
Kent,  
BR3 4TU

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### Solicitors

DLA

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## Report of the Directors

The Directors present their report and Group accounts for the 52 weeks ended May 1st, 2004.

### 1 Principal activities of the Group

The Group is engaged in the design and manufacture of specialist engineering products and the provision of related services.

### 2 Business review

A review of the operations of the Company, subsidiaries and joint venture during the period, and their position at May 1st, 2004, and indications of future developments in the business are provided in the Chairman's Statement.

### 3 Results and dividends

The profit for the period attributable to shareholders amounted to £924,000. It is recommended that a final dividend of 1.33 pence per share be paid (2003 - 1.20 pence per share), making a total of 1.75 pence per share (2003 - 1.60 pence per share).

### 4 Directors

The names of the directors of the Company at May 1st, 2004 are shown on page 3.

In accordance with the Articles of Association Michael O'Connell retires by rotation and, being eligible, offers himself for re-election. In addition, Roger Lane-Smith retires from the Board at the AGM and, being eligible, offers himself for re-election.

### 5 Directors' interests

The interests of the directors in the shares of the Company, according to the register required to be kept under section 325 of the Companies Act 1985, were as follows:

	10p Ordinary shares	
	At May 1st, 2004	At May 3rd, 2003
	Held	Held
	Beneficially	Beneficially
Michael Bell	3,595,019	3,087,334
Roger Lane-Smith	53,000	53,000
Michael O'Connell	927,675	677,675
David Pyle	1,262,275	1,012,275

At May 1st, 2004, Michael Bell held options on 815,507 Ordinary shares (2003 - 1,017,000), Michael O'Connell held options on 548,507 Ordinary shares (2003 - 500,000) and David Pyle held options on 548,507 Ordinary shares (2003 - 500,000) under the Company's Employee and Enterprise Management Incentive share option schemes. Full disclosure of directors' share options is given in the Directors' Remuneration Report on pages 28 to 30.

### 6 Substantial interests in shares

As at May 31st, 2004, the directors had been advised of the following notifiable interests:-

	% of share capital held
Cavendish Asset Management Limited	18.2%
The Trustee of the Group's pension scheme	11.4%
The Trustee of the Group's employee share ownership trust	10.3%
Aberdeen Asset Managers Limited	6.1%
Mrs Patricia Snipe	4.3%

Apart from these, and the holdings of Michael Bell and his family, David Pyle and his family and Michael O'Connell, the directors have not been formally notified of any other notifiable shareholdings in excess of 3% on May 31st, 2004.

## Report of the Directors

Continued

### 7 Employee involvement

The directors have continued their commitment to the development of employee involvement and communication throughout the Group.

Regular meetings are held with employees to provide and discuss information of concern to them as employees, including financial and economic factors affecting the performance of the Company in which they are employed.

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### 8 Employment of disabled persons

The Company and its subsidiaries have continued the policy regarding the employment of disabled persons. Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who may become disabled, to promote their career development within the organisation.

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### 9 Creditor payment policy

It is the Group's policy to abide by the terms of payment agreed with suppliers of all goods and services properly supplied and invoiced to the Group. The terms may be the suppliers' standard terms or such other terms agreed with the supplier for specific transactions as appropriate. The creditor days for 2004 are 89 (2003 - 75).

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### 10 Repurchase of shares

During the year the Company repurchased 998,000 of its own 10p Ordinary shares for a consideration of £354,000.

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### 11 Special business at the Annual General Meeting

Resolution 7, which will be proposed as an Ordinary Resolution, renews the authority contained in the Articles of Association for the directors to issue the authorised but unissued share capital. No issue will be made which will effectively alter control of the Company without consent of shareholders in General Meeting.

Resolution 8, which will be proposed as a Special Resolution, extends the directors' authority to issue shares in the Company for cash. This resolution, in accordance with the Investors Protection Committee Guidelines, is limited to 5% of the issued Ordinary share capital and is for a maximum period of 15 months. There is no intention at the present time to exercise this power if obtained.


Resolution 9, in the Notice of Annual General Meeting, which will be proposed as a Special Resolution, empowers the directors to purchase up to 2,095,621 shares (10% of the issued share capital of the Company) through market purchases on The London Stock Exchange. Before the Board would use its authority to purchase shares in the Company, pursuant to the powers given in this resolution, it undertakes that it will only do so if there will be a resultant increase in the earnings per share. There is no intention at the present time to exercise this power, if obtained.

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### 12 Auditors

A resolution to reappoint the auditors, Ernst & Young LLP, will be proposed at the Annual General Meeting.

By order of the Board,  
David Pyle, Secretary  
June 21st, 2004



## Statement of Directors' Responsibilities

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

select suitable accounting policies and apply them consistently;

make judgements and estimates that are reasonable and prudent; and

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

## Independent Auditors' Report to the Members of MS INTERNATIONAL plc

We have audited the Group's accounts for the year ended May 1st, 2004 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement, Statement of Accounting Policies and the related notes 1 to 29. These accounts have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including the accounts which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the accounts.

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, 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 or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Directors' Report, unaudited part of the Directors' Remuneration Report, Chairman's Statement, Internal Control Review and Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

## Independent Auditors' Report to the Members of MS INTERNATIONAL plc

Continued

### Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts 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 accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 accounts and the part of the Directors' Remuneration Report to be audited.

### Opinion

In our opinion:

- the accounts give a true and fair view of the state of affairs of the Company and of the Group as at May 1st, 2004 and of the profit of the Group for the year then ended; and
- the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*

Ernst & Young LLP

Registered Auditor

Leeds

June 21st, 2004

# Statement of Accounting Policies

## 1 Accounting convention

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain freehold property. The accounts comply with applicable UK accounting standards. In preparing these accounts, the Group continues to adopt the disclosures in accordance with the transitional provisions of FRS 17 "Retirement Benefits".

## 2 Basis of consolidation

The Group profit and loss account and balance sheet include the audited accounts of the Company and all its subsidiary undertakings, all of which are companies, made up to the end of the financial period. The Group profit and loss account includes the result of companies and businesses acquired or disposed of during the period from the deemed date of acquisition or up to the effective date of disposal. Intra-Group sales and profits are eliminated on consolidation and all sales and profit figures relate to external transactions only. Goodwill, all of which relates to acquisitions prior to May 1st, 1999, has been set off directly against reserves and has not been reinstated on implementation of FRS 10 "Goodwill and Intangible Assets".

If a subsidiary, joint venture or business is subsequently sold or closed, any goodwill arising on acquisition that was written off to reserves is taken into account in determining the profit or loss on sale or closure.

## 3 Joint venture

The joint venture is accounted for in accordance with FRS 9 "Associates and Joint Ventures". Accordingly the Group's share of operating profit, interest and taxation of the joint venture is included in the consolidated profit and loss account, and the Group's share of gross assets and gross liabilities is included in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the undertaking concerned made up to the end of the financial period.

## 4 Foreign currencies

- (a) Exchange differences arising from normal trading transactions are accounted for in arriving at the operating profit.
- (b) The results of overseas subsidiaries are translated at an average rate for the period for inclusion in the consolidated profit and loss account.
- (c) Assets and liabilities of overseas subsidiaries are translated at the rates of exchange prevailing at the balance sheet date for inclusion in the consolidated balance sheet.
- (d) Exchange differences arising on translation of the Group's net investment in overseas subsidiaries, including loans, and on associated foreign currency borrowings in so far as they are not matched by those of overseas investments are dealt with through reserves.

## 5 Investment in own shares

Investment in own shares is recorded at cost, subject to provisions for permanent diminution in value.

## 6 Depreciation

Depreciation is calculated to write off the cost or valuation of tangible fixed assets over the expected useful lives of the assets concerned in equal annual instalments. The principal annual rates used for this purpose are:

Freehold Buildings, 2% Plant and Equipment, 12.5% Motor Vehicles, 33.3%

Freehold land is not depreciated.

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

## 7 Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value, on a first in, first out basis. In the case of work in progress and finished goods, cost comprises direct expenditure together with production related overheads calculated on the basis of a normal level of activity. Provision is made for obsolescent, slow-moving and defective stocks.

Progress payments received and receivable are deducted from the balance sheet value of stocks and work in progress to which they relate. Any excess progress payments are included in creditors.

## Statement of Accounting Policies

Continued

### 8 Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and released to profit over the expected useful lives of the relevant assets by equal annual instalments. Revenue grants are released to profit over the life of the project to which they relate.

### 9 Research and development expenditure

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future revenues from the related project.

### 10 Contracts

Profit is taken when the manufacture of equipment to be provided under the terms of a short-term contract is completed, and either despatched or held for despatch. Long-term contracts are assessed on a contract by contract basis and reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Turnover is ascertained in a manner appropriate to the stage of completion of the contract. Allowance is made for contract price adjustments to the extent that they can be ascertained and are not in dispute and provision is made on specific contracts for known or expected losses and rectification and maintenance costs where appropriate.

### 11 Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet and are depreciated over their useful lives. The capital element of future obligations under leases and hire purchase contracts is included in liabilities in the balance sheet. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

### 12 Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at the date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### 13 Pension scheme

The Group operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Until April 6th, 1997 the scheme provided defined benefits and these liabilities continue in respect of services prior to April 6th, 1997. The regular annual cost relating to the defined benefits liabilities is assessed in accordance with the advice of a qualified actuary using the projected unit method which calculates the cost of fully providing for members' pension entitlements accruing over the next twelve months. Actuarial variations are amortised using the percentage of pensionable salaries method. Notional interest on the pension prepayment carried forward in debtors is deducted in arriving at the regular annual cost.

### 14 Turnover

Turnover (which excludes VAT and sales between Group companies), comprises the following:-

- (a) sales (other than contract sales) of goods and services at invoice value and;
- (b) contract sales value of work completed in the year determined where appropriate by reference to the total estimated contract sales value.

## Group Profit and Loss Account

For the 52 weeks ended May 1st, 2004

	Note	2004 Total £000	2003 Total £000
Turnover: Group and share of joint venture	1	<b>32,323</b>	30,666
Less: Share of joint venture turnover		<b>(6,083)</b>	(4,211)
<b>Group turnover</b>		<b>26,230</b>	26,455
Operating profit	1/2	<b>1,092</b>	479
Share of operating profit of joint venture		<b>302</b>	193
<b>Profit on ordinary activities before interest</b>		<b>1,394</b>	672
Interest receivable:	3		
Group		<b>19</b>	62
Joint venture		<b>10</b>	8
Interest payable:	4		
Group		<b>(48)</b>	(99)
<b>Profit on ordinary activities before taxation</b>		<b>1,375</b>	643
Tax on profit on ordinary activities	5	<b>(451)</b>	(245)
<b>Profit on ordinary activities after taxation</b>		<b>924</b>	398
Dividends	6	<b>(325)</b>	(318)
<b>Retained profit for the Group and its share of joint venture</b>		<b>599</b>	80
Earnings per share: basic	7	<b>5.0p</b>	2.0p
fully diluted	7	<b>4.2p</b>	1.8p

## Group Statement of Total Recognised Gains and Losses

	2004 £000	2003 £000
Profit for the financial period	<b>924</b>	398
Translation differences on foreign currency net investments	<b>(43)</b>	(14)
<b>Total gains recognised since last annual report</b>	<b>881</b>	384

### Historical cost profits and losses

There is no material difference between the result as disclosed in the profit and loss account and the result which would have been reported had the Group prepared the accounts on an unmodified historical cost basis.

**Balance Sheets**

At May 1st, 2004

	Note	Group		Company	
		2004 £000	2003 £000	2004 £000	2003 £000
<b>Assets employed</b>					
Fixed assets					
Intangible assets	10	280	251	280	251
Tangible assets	11	7,995	8,039	7,866	7,993
Investment in subsidiary undertakings	12	-	-	6,801	6,801
Investment in joint venture	13	-	-	50	50
Joint venture:					
Share of gross assets	13	2,361	1,456	-	-
Share of gross liabilities	13	(1,745)	(894)	-	-
Investment in own shares	14	738	731	738	731
		<b>9,629</b>	9,583	<b>15,735</b>	15,826
Current assets					
Stocks	15	4,143	3,298	3,331	2,681
Debtors	16	6,554	4,381	7,422	5,292
Group pension scheme prepayment - due after more than one year	9	6,368	6,558	6,368	6,558
Cash at bank and in hand		2,919	2,468	2,872	2,300
		<b>19,984</b>	16,705	<b>19,993</b>	16,831
Creditors - amounts falling due within one year	17	12,544	9,011	19,422	16,076
Net current assets		<b>7,440</b>	7,694	<b>571</b>	755
Total assets less current liabilities		<b>17,069</b>	17,277	<b>16,306</b>	16,581
Creditors - amounts falling due after more than one year	18	245	624	245	624
Provisions for liabilities and charges	20	2,925	2,956	2,925	2,956
Total assets less liabilities		<b>13,899</b>	13,697	<b>13,136</b>	13,001
<b>Capital and reserves</b>					
Called up share capital	23	2,096	2,195	2,096	2,195
Capital redemption reserve	24	645	546	645	546
Revaluation reserve	24	1,853	1,853	1,853	1,853
Other reserves	24	3,959	4,136	4,005	4,209
Special reserve	24	1,629	1,629	1,629	1,629
Profit and loss account	24	3,717	3,338	2,908	2,569
Equity shareholders' funds		<b>13,899</b>	13,697	<b>13,136</b>	13,001

These accounts were approved by the Board of Directors on June 21st, 2004

Michael Bell

Directors

Michael O'Connell

*Michael Bell*  
*M. O'Connell*

## Group Cash Flow Statement

For the 52 weeks ended May 1st, 2004

	2004 £000	2004 £000	2003 £000	2003 £000
Operating profit	1,092		479	
Depreciation charge	818		669	
Foreign exchange gains	(22)		-	
RSA grant release	(13)		(17)	
(Increase)/decrease in stocks	(1,104)		1,207	
(Increase)/decrease in debtors	(1,981)		106	
Increase/(decrease) in creditors	1,844		(511)	
Increase/(decrease) in progress payments	1,892		(1,308)	
Increase in provisions	77		65	
Provisions utilised	(65)		(114)	
<b>Cash flow from operating activities</b>		<b>2,538</b>		576
Dividends received from joint venture		125		51
Interest paid		(35)		(61)
Taxation		(136)		(644)
Purchase of tangible fixed assets	(688)		(887)	
Purchase of intangible fixed assets	(29)		(251)	
Sale of tangible fixed assets	13		6	
Shares purchased by ESOT	(356)		-	
Share options exercised	349		28	
Capital expenditure and financial investment		(711)		(1,104)
Dividends paid		(341)		(313)
<b>Cash inflow/(outflow) before financing</b>		<b>1,440</b>		(1,495)
<b>Cash inflow/(outflow) before financing</b>		<b>1,440</b>		(1,495)
Financing				
Purchase of own shares	(354)		(290)	
New grants received	-		100	
Decrease in short term bank loans	-		(952)	
(Decrease)/increase in long term bank loans	(334)		500	
Repayments of capital element of finance leases and hire purchase contracts	(301)		(158)	
		(989)		(800)
<b>Increase/(decrease) in cash (note 27)</b>		<b>451</b>		(2,295)

## Reconciliation of net cash flow to movement in net funds

	Note	2004 £000	2003 £000
Increase/(decrease) in cash		451	(2,295)
Cash outflow from decrease in loans		-	952
Cash outflow/(inflow) from decrease/(increase) in long terms loans		334	(500)
Repayments of capital element of finance leases and hire purchase contracts		301	158
<b>Changes in net funds resulting from cash flow</b>		<b>1,086</b>	(1,685)
New leases		(99)	(156)
<b>Movement in net funds</b>		<b>987</b>	(1,841)
Net funds at May 3rd, 2003	27	1,208	3,049
Net funds at May 1st, 2004	27	2,195	1,208

## Notes on the Accounts

### 1 Turnover and operating profit

	<b>2004</b>	2003
	<b>Total</b>	Total
	<b>£000</b>	£000
(a) Summary		
Turnover	<b>36,137</b>	34,775
Inter company sales	<b>(3,814)</b>	(4,109)
<hr/>		
Turnover: Group and share of joint venture	<b>32,323</b>	30,666
Less: Share of joint venture turnover	<b>(6,093)</b>	(4,211)
<hr/>		
Cost of sales	<b>26,230</b>	26,455
	<b>(19,828)</b>	(20,449)
<hr/>		
Gross profit	<b>6,402</b>	6,006
Net operating expenses		
Distribution costs	<b>(1,242)</b>	(1,404)
Administrative expenses	<b>(4,068)</b>	(4,123)
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	<b>(5,310)</b>	(5,527)
<hr/>		
Operating profit	<b>1,092</b>	479

- (b) The class of business of the Group is engineering. In the opinion of the directors, the disclosure of any analysis of this class of business or any other segmental information would be seriously prejudicial to the interests of the Group.

### 2 Operating profit

	<b>2004</b>	2003
	<b>£000</b>	£000
Operating profit is stated after charging/(crediting):		
Auditors' remuneration		
As auditors - UK	<b>58</b>	55
As auditors - overseas	<b>3</b>	9
Non audit work - UK	<b>45</b>	42
Depreciation	<b>818</b>	669
Foreign exchange losses	<b>107</b>	7
Hire of plant and machinery	<b>66</b>	70
Other operating leases	<b>259</b>	261
Redundancy	<b>27</b>	207
RSA grant release	<b>(13)</b>	(17)

### 3 Interest receivable

	<b>2004</b>	2003
	<b>£000</b>	£000
Group:		
Bank interest	<b>12</b>	59
Other	<b>7</b>	3
<hr/>		
	<b>19</b>	62
Joint venture:		
Bank interest	<b>10</b>	8
<hr/>		
	<b>29</b>	70

## Notes on the Accounts

Continued

### 4 Interest payable

	2004 £000	2003 £000
Group:		
On bank loans and overdrafts	26	52
Finance lease and hire purchase contracts	22	43
Employee share ownership trust	-	4
	<b>48</b>	<b>99</b>

### 5 (a) Tax on profit on ordinary activities

	2004 £000	2003 £000
The charge for taxation comprises:		
<b>Current tax</b>		
United Kingdom corporation tax	451	222
Tax (over)/under provided in previous years	(70)	3
Group current tax	<b>381</b>	225
Share of joint venture's current tax	<b>113</b>	91
Total current tax	<b>494</b>	316
<b>Deferred tax</b>		
Origination and reversal of timing differences	(79)	(40)
Adjustments in respect of prior years	36	(31)
Group deferred tax	<b>(43)</b>	(71)
Tax on profit on ordinary activities	<b>451</b>	245

### (b) Factors affecting the tax charge for the year

The tax assessed for the period differs to the standard rate of corporation tax in the U.K. (30%). The differences are explained below:

	2004 £000	2003 £000
Profit on ordinary activities before tax	<b>1,375</b>	643
Profit on ordinary activities multiplied by standard rate of corporation tax of 30%	<b>412</b>	193
Effects of:		
Expenses not deductible for tax purposes	<b>88</b>	50
Capital allowances in excess of depreciation	(23)	(66)
Other timing differences	<b>93</b>	106
Adjustments in respect of prior periods	(70)	3
Marginal relief	(11)	(1)
Unrelieved tax losses	-	12
Higher taxes on overseas earnings	<b>5</b>	19
Current tax charge for the period including share of joint venture's current tax	<b>494</b>	316

### 6 Dividends

	2004 £000	2003 £000
On Ordinary shares:		
Interim of 0.42p per share - paid (2003 - 0.40p)	<b>75</b>	88
Final of 1.33p per share - proposed (2003 - 1.20p)	<b>250</b>	238
Less receivable by ESOT	-	(8)
	<b>325</b>	318

## Notes on the Accounts

Continued

### 7 Earnings per share

The calculation of basic earnings per share is based on:

- (a) Group profit on ordinary activities after taxation of £924,000 (2003 - £398,000)
- (b) 18,634,558 (2003 - 19,882,992) Ordinary shares, being the weighted average number of Ordinary shares in issue. This represents 21,488,261 (2003 - 22,016,434) Ordinary shares, being the weighted average number of Ordinary shares in issue less 2,853,703 (2003 - 2,133,442) Ordinary shares being the weighted average number of shares held within the ESOT.

The diluted earnings per share is based on the profit on ordinary activities after taxation of £924,000 (2003 - £398,000) and 21,745,898 (2003 - 22,531,243) Ordinary shares, being the dilutive effect of shares under option.

### 8 Employee information

	2004 Number	2003 Number
The average number of employees, including executive directors, during the period was:		
Production	215	235
Technical	34	35
Distribution	30	26
Administration	47	48
	<b>326</b>	344
	<b>2004</b>	2003
	<b>£000</b>	£000
Their employment costs were as follows:		
Wages and salaries	7,983	7,982
Social Security costs	797	739
Other pension costs (see note 9)	584	525
	<b>9,364</b>	9,246

Details of directors remuneration, pension contributions and share options for each director are included in the Directors' Remuneration Report on pages 28 to 30.

### 9 Pension scheme

The Group operates a defined contribution pension scheme for eligible UK employees. Until April 6th, 1997, the scheme provided defined benefits and these liabilities remain in respect of service prior to April 6th, 1997. The assets of the scheme are held in a separate trustee administered fund.

The latest valuation of the scheme for the purpose of determining pension cost was made as at April 5th, 2002 by a professionally qualified actuary. The major assumption used in the valuation is that the return on the scheme's assets will exceed salary increases by 2% per annum. Pensions once in payment were valued at a rate of 5.5% per annum.

The market value of the scheme's assets at April 5th, 2002 amounted to £20.3 million and the actuarial value of these assets was sufficient to cover 114% of the value of the defined benefits which had accrued at that time, allowing for expected future increases in pensionable earnings for active members. The Company resumed making contributions with effect from May 4th, 2003. As the scheme is closed and the age profile of the active membership is increasing, the current service cost, under the projected unit method, will increase as the members of the scheme approach retirement.

The SSAP 24 pension charge to the profit and loss account in respect of the defined benefit scheme is £360,000 (2003 - £330,000). The prepayment of £6,368,000 (2003 - £6,558,000) continues to be carried forward.

Pension contributions of £5,000 (2003 - £6,000) were paid in respect of employees of the American subsidiary undertaking during the year ended May 1st, 2004.

Details of contributions to personal retirement benefit schemes on behalf of the directors are given in the Directors' Remuneration Report on pages 28 to 30.

## Notes on the Accounts

Continued

### FRS 17 disclosures

Disclosures in accordance with the transitional arrangements for the implementation of FRS 17 are set out below in respect of the UK defined benefits scheme. The information is for disclosure purposes only - pension costs have been recognised in the accounts in line with SSAP 24 as described above. The main assumptions which have been used to calculate the scheme's liabilities under FRS 17 are as follows:

	<b>May 1st, 2004</b>	May 3rd, 2003	April 27th, 2002
	<b>% p.a.</b>	% p.a.	% p.a.
Major assumptions			
Rate of increase in salaries	<b>4.30</b>	4.00	4.25
Rate of increase to pension payments and deferred pensions	<b>0.00</b>	0.00	0.00
Discount rate for scheme liabilities	<b>5.70</b>	5.40	5.80
Inflation	<b>2.80</b>	2.50	2.75

The expected long term rates of return and market value of the assets of the scheme as at May 1st, 2004 were as follows:

	At May 1st, 2004		At May 3rd, 2003		At April 27th, 2002	
	Expected rate of return % p.a.	Fair value £000	Expected rate of return % p.a.	Fair value £000	Expected rate of return % p.a.	Fair value £000
Equities	<b>8.60</b>	<b>13,564</b>	8.80	10,749	8.17	13,407
Government bonds	<b>5.00</b>	<b>2,008</b>	4.60	2,463	5.23	2,515
Non government bonds	<b>5.70</b>	<b>1,764</b>	5.40	2,166	5.80	3,576
Cash	<b>4.00</b>	<b>211</b>	3.75	416	4.00	450
		<b>17,547</b>		15,794		19,948
Present value of scheme liabilities		<b>(22,583)</b>		(22,819)		(19,160)
(Deficit)/surplus and pension (liability)/asset before deferred tax		<b>(5,036)</b>		(7,025)		788
Related deferred tax asset/(liability)		<b>1,510</b>		2,107		(236)
Net pension (liability)/asset		<b>(3,526)</b>		(4,918)		552

The present value of scheme liabilities has been estimated by a qualified independent actuary by updating the assumptions used at the time of the last full triennial valuation

	<b>Year ended May 1st, 2004</b>	Year ended May 3rd, 2003
	<b>£000</b>	£000
<b>Analysis of movement in (deficit)/surplus:</b>		
(Deficit)/surplus at beginning of year	<b>(7,025)</b>	788
Contributions paid by company	<b>166</b>	28
Current service cost	<b>(516)</b>	(575)
Other finance (charge)/income	<b>(63)</b>	317
Gain/(loss) recognised in Statement of Total Recognised Gains and Losses	<b>2,402</b>	(7,583)
Deficit at end of the year	<b>(5,036)</b>	(7,025)

## Notes on the Accounts

Continued

	At May 1st, 2004 £000	At May 3rd, 2003 £000
Net assets:		
Net assets excluding pension liability	9,442	9,106
FRS 17 defined benefit liability	<u>(3,526)</u>	<u>(4,918)</u>
Net assets including pension liability	<u>5,916</u>	<u>4,188</u>

	At May 1st, 2004 £000	At May 3rd, 2003 £000
Profit and loss account reserve		
Profit and loss reserve excluding pension asset	3,717	3,338
FRS 17 defined benefit liability	<u>(3,526)</u>	<u>(4,918)</u>
Profit and loss reserve	<u>191</u>	<u>(1,580)</u>

### Components of pension costs for the year ended May 1st, 2004

	Year ended May 1st, 2004 £000	Year ended May 3rd, 2003 £000
Amounts charged to operating profit:		
Current service cost	516	575
Total charge to operating profit	<u>516</u>	<u>575</u>
Amounts charged to other finance income:		
Interest cost	1,206	1,086
Expected return on assets	<u>(1,143)</u>	<u>(1,403)</u>
Net charge/(credit) to other finance income	<u>63</u>	<u>(317)</u>
Total profit and loss charge before deduction for tax	<u>579</u>	<u>258</u>

### Analysis of amounts recognised in Statement of Total Recognised Gains and Losses:-

(Gain)/loss on assets	(1,949)	4,149
Experience loss on liabilities	182	2,394
(Gain)/loss on change of assumptions	<u>(635)</u>	<u>1,040</u>
Total (gains)/losses recognised in Statement of Total Recognised Gains and Losses before adjustment for tax	<u>(2,402)</u>	<u>7,583</u>

### History of experience gains and losses

	Year ended May 1st, 2004	Year ended May 3rd, 2003
<b>(Gain)/loss on scheme assets:</b>		
Amount (£000)	(1,949)	4,149
% of scheme assets at end of year	(11.1%)	26.3%
<b>Experience loss on scheme liabilities:</b>		
Amount (£000)	182	2,394
% of scheme liabilities at end of year	0.8%	10.5%
<b>Total actuarial (gains)/losses recognised in Statement of Total Recognised Gains and Losses:</b>		
Amount (£000)	(2,402)	7,583
% of scheme liabilities at end of year	(10.6%)	33.2%

## Notes on the Accounts

Continued

### 10 Intangible fixed assets

	Group Development expenditure £000	Company Development expenditure £000
Cost		
At May 3rd, 2003	251	251
Additions	29	29
<b>At May 1st, 2004</b>	<b>280</b>	<b>280</b>

Development expenditure is amortised in line with expected future revenues from the related project. There is no charge in the year ended May 1st, 2004 or May 3rd, 2003.

### 11 Tangible fixed assets

	Freehold property £000	Plant and equipment £000	Total £000
(a) Group			
Cost or valuation			
At May 3rd, 2003	5,865	7,682	13,547
Additions	92	695	787
Disposals	-	(34)	(34)
<b>At May 1st, 2004</b>	<b>5,957</b>	<b>8,343</b>	<b>14,300</b>
Accumulated depreciation			
At May 3rd, 2003	940	4,568	5,508
Depreciation charge for the period	75	743	818
Disposals	-	(21)	(21)
<b>At May 1st, 2004</b>	<b>1,015</b>	<b>5,290</b>	<b>6,305</b>
<b>Net book value at May 1st, 2004</b>	<b>4,942</b>	<b>3,053</b>	<b>7,995</b>
<b>Net book value at May 3rd, 2003</b>	<b>4,925</b>	<b>3,114</b>	<b>8,039</b>
Analysis of cost or valuation			
At professional valuation 1989	4,965	-	4,965
At cost	992	8,343	9,335
	<b>5,957</b>	<b>8,343</b>	<b>14,300</b>
(b) Company			
Cost or valuation			
At May 3rd, 2003	5,865	7,504	13,369
Additions	92	573	665
Disposals	-	(11)	(11)
<b>At May 1st, 2004</b>	<b>5,957</b>	<b>8,066</b>	<b>14,023</b>
Accumulated depreciation			
At May 3rd, 2003	940	4,436	5,376
Depreciation charge for the period	75	717	792
Disposals	-	(11)	(11)
<b>At May 1st, 2004</b>	<b>1,015</b>	<b>5,142</b>	<b>6,157</b>
<b>Net book value at May 1st, 2004</b>	<b>4,942</b>	<b>2,924</b>	<b>7,866</b>
<b>Net book value at May 3rd, 2003</b>	<b>4,925</b>	<b>3,068</b>	<b>7,993</b>
Analysis of cost or valuation			
At professional valuation 1989	4,965	-	4,965
At cost	992	8,159	9,151
	<b>5,957</b>	<b>8,159</b>	<b>14,116</b>

## Notes on the Accounts

Continued

- (c) Depreciation has not been charged on freehold land which is included at a book value of £2,437,000 (Company £2,437,000) at May 1st, 2004.
- (d) Plant and equipment with a net book value of £647,125 (Company £647,125) is the subject of hire purchase contracts. Depreciation of £149,922 (Company £149,922) was charged on these assets during the period.
- (e) Freehold property has been the subject of a series of professional valuations over the years. The revalued amounts have been included in the accounting records and particulars of historical cost have not been maintained. Accordingly, in the opinion of the directors, it is not practicable to determine what the net book value of these properties would now be if a strict historical cost basis of accounting for these assets had been used.
- (f) In accordance with FRS 15 the transitional provisions have been adopted and as a consequence the valuations of freehold properties have not been updated.

### 12 Investment in subsidiary undertakings

Principal subsidiary undertakings are set out on page 31.

	2004 £000 Gross	2004 £000 Diminution in value	Company 2004 £000 Net	2003 £000 Net
At May 1st, 2004 and May 3rd, 2003	<b>8,874</b>	<b>(2,073)</b>	<b>6,801</b>	6,801

### 13 Investment in joint venture

The Group holds a 50% interest in the issued Ordinary share capital of Global-MSI plc, a Company which is registered in England and Wales and operates throughout Europe.

	2004 £000	2003 £000
The Group's interest in the net assets of the joint venture are:		
Share of fixed assets	220	220
Share of current assets	2,141	1,236
Share of gross assets	<b>2,361</b>	1,456
Share of gross liabilities:		
Amounts falling due within one year	<b>(1,745)</b>	(894)
Share of net assets	<b>616</b>	562
	Group £000	Company £000
At May 3rd, 2003	562	50
Share of profit retained by joint venture	74	-
Share of foreign exchange losses	(20)	-
At May 1st, 2004	616	50

### 14 Investment in own shares

	Group £000	Company £000
At May 3rd, 2003	731	731
Share options exercised during the year	(349)	(349)
Shares purchased during the year	356	356
At May 1st, 2004	738	738



## Notes on the Accounts

Continued

18 Creditors - amounts falling due after more than one year	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Bank loans	166	500	166	500
Obligations under finance leases and hire purchase contracts repayable between one and two years	79	124	79	124
	<b>245</b>	<b>624</b>	<b>245</b>	<b>624</b>

19 Loans	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Amounts falling due:				
Within one year	334	334	334	334
Between one and two years	166	500	166	500
	<b>500</b>	<b>834</b>	<b>500</b>	<b>834</b>

20 Provisions for liabilities and charges	Deferred taxation	Lease provision	Other provisions	Total
	£000	£000	£000	£000
Group and Company				
At May 3rd, 2003	2,576	325	55	2,956
Utilised	-	(65)	-	(65)
Arising during the year	(79)	-	77	(2)
Adjustment in respect of prior years	36	-	-	36
At May 1st, 2004	<b>2,533</b>	<b>260</b>	<b>132</b>	<b>2,925</b>

The lease provision will be utilised over the next four years. Other provisions relate to claims, the timing of which are inherently uncertain.

Full provision is made in respect of deferred taxation as follows:

	2004 Deferred taxation £000	2003 Deferred taxation £000
Group and Company		
Taxation deferred by capital allowances	703	661
Short term timing differences	(81)	(52)
Taxation on Group pension scheme prepayment	1,911	1,967
	<b>2,533</b>	<b>2,576</b>

### 21 Derivatives and other financial instruments

#### Management of financial risks

The major financial risks faced by the Group are funding risks, interest rate risks and currency risks.

#### Funding risk

At the year end the Group had net cash of £2.42m (2003 - £1.63m) (note 27). The Group has available a bank multicurrency overdraft facility of £2.1m which is renewable on October 31st, 2004.

#### Interest rate risk

The bank multicurrency overdraft facility is at a floating rate of interest, based on the base rate of each respective currency. The bank loan is based on a fixed market rate. This position is monitored constantly by the Board to ensure any risk is minimised.

## Notes on the Accounts

Continued

### Foreign currency risk

Exposure to risk is incurred by the Group through overseas sales.

This exposure is minimised by the following:

- (1) invoicing in sterling where practicable.
- (2) using foreign currency received for purchases where appropriate.
- (3) converting future receivables into sterling through the multicurrency overdraft.
- (4) using forward rate transactions.

### Interest rate risk profile

In accordance with FRS 13, the disclosures below exclude short term debtors and creditors, with the exception of the analysis of currency exposures. The interest rate profile of the financial liabilities of the Group, as at May 1st, 2004, was as follows:

	Fixed rate financial liabilities £000	Financial liabilities on which no interest paid £000	Total £000
<b>2004</b>			
<b>Sterling</b>	<b>724</b>	<b>260</b>	<b>984</b>
<b>Total</b>	<b>724</b>	<b>260</b>	<b>984</b>
2003			
Sterling	1,260	325	1,585
Total	1,260	325	1,585

The fixed rate financial liabilities relate to finance leases and loans, details of which are as follows:-

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
<b>2004</b>	<b>5.33</b>	<b>1.92</b>
2003	5.27	2.72

The maturity of financial liabilities is set out in notes 19 and 22.

The interest rate profile of the financial assets of the Group as at May 1st, 2004 was as follows:-

	Floating rate financial assets £000	Total £000
<b>2004</b>		
<b>Sterling</b>	<b>4,171</b>	<b>4,171</b>
<b>US Dollar</b>	<b>(463)</b>	<b>(463)</b>
<b>Euro</b>	<b>(789)</b>	<b>(789)</b>
<b>Total</b>	<b>2,919</b>	<b>2,919</b>
2003		
Sterling	3,125	3,125
US Dollar	(365)	(365)
Euro	(292)	(292)
Total	2,468	2,468

## Notes on the Accounts

Continued

### Currency exposures

The table below shows the Group's currency exposures; in other words, those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or "functional") currency of the operating unit involved.

As at May 1st, 2004 these currency exposures are as follows:-

Functional currency of Group operations	Net foreign currency monetary assets/(liabilities)		
	US Dollar £000	Euro £000	Total £000
<b>2004</b>			
<b>Sterling</b>	<b>(510)</b>	<b>(361)</b>	<b>(871)</b>
<b>Total</b>	<b>(510)</b>	<b>(361)</b>	<b>(871)</b>
<b>2003</b>			
Sterling	(333)	(3)	(336)
Total	(333)	(3)	(336)

### Fair values

No significant differences exist between the book value and the fair value of the above financial liabilities as at May 1st, 2004 and May 3rd, 2003.

### 22 Obligations under leases and hire purchase contracts

Amounts due under finance leases and hire purchase contracts:

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Amounts payable:				
Within one year	145	302	145	302
In two to five years	79	124	79	124
	<b>224</b>	<b>426</b>	<b>224</b>	<b>426</b>

Annual commitments under non-cancellable operating leases, none of which relate to land and buildings are as follows:

	2004 £000	2003 £000
Group and Company		
Operating leases which expire:		
Within one year	96	60
In two to five years	144	60
	<b>240</b>	<b>120</b>

### 23 Called up share capital

	2004 £000	2003 £000
Ordinary shares at 10p each		
Authorised - 35,000,000 (2003 - 35,000,000)	3,500	3,500
Allotted, issued and fully paid - 20,956,210 (2003 - 21,954,210)	2,096	2,195

During the year the Company redeemed 998,000 of its own Ordinary shares at market prices as follows:

Date	Number of shares purchased	Price paid per share
October 1st, 2003	910,000	35.5p
October 13th, 2003	88,000	35.5p

## Notes on the Accounts

Continued

These purchases were made in accordance with resolutions empowering the directors to purchase shares passed at the Annual General Meeting held on August 5th, 2003. The prices paid were no greater than 105% of the average market price for the 10 days immediately preceding purchase.

### 24 Movement on reserves and reconciliation of movements in shareholders' funds

Movements in reserves are as follows:

	Share capital £000	Capital redemption reserve £000	Revaluation reserve £000	Other reserves £000	Special reserves £000	Profit and loss account £000	Total £000
(a) Group							
At May 3rd, 2003	2,195	546	1,853	4,136	1,629	3,338	13,697
Profit attributable to members	-	-	-	-	-	924	924
Dividends	-	-	-	-	-	(325)	(325)
Foreign exchange adjustments in retranslation of overseas investments	-	-	-	(43)	-	-	(43)
Transfer in respect of pension scheme	-	-	-	(134)	-	134	-
Repurchase of shares	(99)	99	-	-	-	(354)	(354)
At May 1st, 2004	2,096	645	1,853	3,959	1,629	3,717	13,899

	Share capital £000	Capital redemption reserve £000	Revaluation reserve £000	Other reserves £000	Special reserves £000	Profit and loss account £000	Total £000
(b) Company							
At May 3rd, 2003	2,195	546	1,853	4,209	1,629	2,569	13,001
Profit attributable to members	-	-	-	-	-	884	884
Dividends	-	-	-	-	-	(325)	(325)
Foreign exchange adjustments in retranslation of overseas investments	-	-	-	(70)	-	-	(70)
Transfer in respect of pension scheme	-	-	-	(134)	-	134	-
Repurchase of shares	(99)	99	-	-	-	(354)	(354)
At May 1st, 2004	2,096	645	1,853	4,005	1,629	2,908	13,136

Details of shares redeemed by the Company during the year are set out in note 23.

### 25 Profit and loss account

In accordance with exemptions allowed by section 230(3) of the Companies Act 1985 the Company has not presented its own profit and loss account. The profit for the financial period dealt with in the accounts of the Company was £884,000 (2003 - £392,000).

At May 1st, 2004 the Group's share of post acquisition retained profits of the joint venture amounted to £640,000 (2003 - £566,000).

The total amount of goodwill written off to Group reserves on business acquisitions continuing within the Group, amounts to £2,684,000 (2003 - £2,684,000).

## Notes on the Accounts

Continued

### 26 Capital commitments

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Contracted	-	65	-	65
Authorised but not contracted for	15	105	15	105
	<b>15</b>	<b>170</b>	<b>15</b>	<b>170</b>

### 27 Analysis of net funds

	2003 £000	Cash flows £000	Other non-cash movements £000	2004 £000
Cash at bank and in hand	2,468	451	-	<b>2,919</b>
Bank loans	(834)	334	-	<b>(500)</b>
Finance leases and hire purchase contracts	(426)	301	(99)	<b>(224)</b>
Net funds at May 1st, 2004	<b>1,208</b>	<b>1,086</b>	<b>(99)</b>	<b>2,195</b>

### 28 Contingent liabilities

The Company is contingently liable in respect of guarantees, indemnities and performance bonds given in the ordinary course of business amounting to £898,604 at May 1st, 2004 (2003 - £1,070,335)

In the opinion of the directors, no material loss will arise in connection with the above matters.

The Group and certain of its subsidiary undertakings are parties to legal actions and claims which have arisen in the normal course of business. The results of actions and claims cannot be forecast with certainty, but the directors believe that they will be concluded without any material effect on the net assets of the Group.

### 29 Other director's interests

During the year the Group made payments amounting to £9,000 (2003 - £2,000) in respect of legal services provided by DLA of which Roger Lane-Smith is senior partner.

## Summary of Group Results 2000 - 2004

	2004	2003	2002	2001	2000
	£000	£000	£000	£000	£000
			As restated		
Turnover	<b>36,137</b>	34,775	39,392	40,091	35,253
Inter company sales	<b>(3,814)</b>	(4,109)	(3,705)	(4,231)	(3,018)
Turnover: Group and share of joint venture	<b>32,323</b>	30,666	35,687	35,860	32,235
Less: Share of joint venture turnover	<b>(6,093)</b>	(4,211)	(5,250)	(5,648)	(3,797)
Group turnover	<b>26,230</b>	26,455	30,437	30,212	28,438
Continuing businesses	<b>26,230</b>	26,455	30,437	27,218	24,833
Discontinued businesses	-	-	-	2,994	3,605
Group turnover	<b>26,230</b>	26,455	30,437	30,212	28,438
<b>PROFIT AND LOSS ACCOUNTS</b>					
Operating profit/(loss)	<b>1,092</b>	479	2,106	(345)	1,212
Share of profit of joint venture	<b>302</b>	193	405	197	10
	<b>1,394</b>	672	2,511	(148)	1,222
Exceptional items	-	-	-	(801)	8
Interest	<b>(19)</b>	(29)	-	15	(16)
Profit/(loss) on ordinary activities before taxation	<b>1,375</b>	643	2,511	(934)	1,214
Tax on profit/(loss) on ordinary activities	<b>(451)</b>	(245)	(818)	68	(371)
Profit/(loss) on ordinary activities after taxation	<b>924</b>	398	1,693	(866)	843
Dividends	<b>(325)</b>	(318)	(298)	(292)	(249)
Retained profit/(loss)	<b>599</b>	80	1,395	(1,158)	594
<b>BALANCE SHEETS</b>					
Assets employed					
Intangible fixed assets	<b>280</b>	251	-	-	-
Tangible fixed assets	<b>7,995</b>	8,039	7,671	6,222	6,358
Investment in joint venture	<b>616</b>	562	516	337	403
Investment in own shares	<b>738</b>	731	759	266	598
Net current (liabilities)/assets (excluding bank balances, loans and overdrafts and group pension scheme prepayment)	<b>(1,513)</b>	(998)	(2,283)	(237)	49
Bank balances	<b>2,585</b>	2,134	3,477	2,789	2,474
	<b>10,701</b>	10,719	10,140	9,377	9,882
Financed by					
Ordinary share capital	<b>2,096</b>	2,195	2,217	2,343	2,343
Reserves	<b>11,803</b>	11,502	11,526	10,648	11,839
Shareholders' funds	<b>13,899</b>	13,697	13,743	12,991	14,182
Group pension scheme prepayment (net of deferred taxation)	<b>(4,457)</b>	(4,591)	(4,822)	(4,858)	(4,893)
	<b>9,442</b>	9,106	8,921	8,133	9,289
Creditors - amounts falling due after more than one year	<b>79</b>	124	209	217	78
Provisions for liabilities and charges	<b>1,014</b>	989	1,010	1,027	515
Bank loans	<b>166</b>	500	-	-	-
	<b>10,701</b>	10,719	10,140	9,377	9,882

2001 includes the closure of the structural steelwork and steel fabrication business. Results for the years prior to 2001 have not been restated to reflect the effects of FRS 19 'Deferred Tax'.

## Corporate Governance Statement

The Group is committed to high standards of corporate governance appropriate to its size and structure. The Board is accountable to the Company's shareholders for good corporate governance and accordingly have given careful consideration to the principles in section one of the Combined Code prepared by the Committee on Corporate Governance.

The Board consists of three executive directors, one of whom is the Chairman, and one non executive director, Roger Lane-Smith, who is senior partner of DLA, the Group's solicitors. Whilst this does not fully comply with the Combined Code's requirements for at least one third of directors to be non executive and for an audit committee to comprise at least three non executive directors with the majority of the committee members being independent non executive directors, having given consideration to the size of the Group, the Board consider the current structure gives adequate corporate governance. Day to day control of subsidiary and joint venture operations is vested in individual Company managing directors, supported by their respective financial managers.

The Board meets regularly throughout the year and has overall responsibility for Group strategy, ensuring adequate funding, acquisitions and divestment policy, approval of major capital expenditure projects and reviews the trading performance and annual budgets of its operating subsidiaries and joint venture.

The Board recognises the importance of communication with all shareholders and is ready, where practicable, to discuss relevant matters with all shareholders. Inter alia, the Board uses the Annual General Meeting to communicate with shareholders and welcomes their constructive participation. Details of the Annual General Meeting to be held on August 2nd, 2004 can be found in the Notice of the Meeting on page 32.

The non executive director, within defined terms of reference, is responsible for Audit and Remuneration Committee matters. The Directors' Remuneration Report is set out on pages 28 to 30. Nomination Committee matters are dealt with by the Board as a whole.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

It is the Board's view that the Company complied with the provisions set out in section one of the Combined Code throughout the year save, where indicated, in the Directors' Remuneration report and above.

The Board notes that the new Combined Code will be effective for the next reporting year. The Company is currently reviewing the implications of the new Code.

## Internal Control Review

The Board is responsible for establishing and maintaining the Group's system of internal control. Internal control systems are designed to meet the particular needs of the Company concerned bearing in mind the resources available and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss. The key procedures which the directors have established with a view to providing effective internal control are as follows:

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. There is a clearly decentralised structure which delegates authority, responsibility and accountability, including responsibility for internal financial control, to management of the operating companies.

Responsibility levels and delegation of authority and authorisation levels throughout the Group are set out in the corporate accounting and procedures manual.

There is a comprehensive system for reporting financial results. Monthly accounts are prepared on a timely basis. They include profit and loss account, balance sheet, cash flow and capital expenditure reporting with comparisons to budget and forecast. The budget is prepared annually and revised forecasts are produced monthly.

There is an investment evaluation process to ensure Board approval for all major capital expenditure commitments.

There is a contract evaluation process to ensure executive director approval for all major sales contracts.

The Board has reviewed the effectiveness of the system of internal controls and together with operational management, has identified and evaluated the critical business and financial risks of the Group. These risks are continually reviewed. Where appropriate, action is taken to manage the risks.

# Directors' Remuneration Report

*Information not subject to audit*

## Policy on remuneration of executive directors

The Remuneration Committee which, currently, comprises the non executive director, Roger Lane-Smith, aims to ensure that remuneration packages and service contracts are competitive and designed to retain/attract and motivate executive directors of the right calibre.

The salary for each director is determined by the Remuneration Committee by reference to a range of factors including experience appropriate to the Group, length of service and salary rates for similar jobs in comparative companies. In view of the size and nature of the Group and the continuing need to optimise subordinate management structures particular emphasis is given to the advantages which flow from long term continuity of the executive directors. All aspects of the executive directors' current remuneration packages were established in June 1996 when revised contracts of service, embracing reduced notice periods, were agreed. The contracts of service are reviewed from time to time and consideration given to whether any amendment is appropriate. The Remuneration Committee has not sought any external advice during the year.

## Service Contracts

The main components of the remuneration package for the executive directors are as follows:-

### 1. Basic Salary

Salaries for executive directors are reviewed annually by the Remuneration Committee.

### 2. Performance related annual bonus

An annual bonus is paid depending on achievement of profitability targets. Bonus payments achieved for 2003/2004 amounted in total to 16.1% (2002/2003 - 6.2%) of total executive basic salaries.

### 3. Share Options

Directors are eligible to participate in the Employee and the Enterprise Management Incentive share option schemes. The Remuneration Committee is responsible for granting options. Options have only been granted at an exercise price of not less than the price paid by the scheme to acquire the shares. Share options are issued without performance criteria.

4. Pension contributions, usually calculated as a percentage of total emoluments, are paid for executive directors to personal retirement benefit schemes.

5. Other benefits are provided in the form of company cars, death in service benefit cover and medical and disability insurance.

## Service Contracts

Prior to June 1996, each of the three executive directors had four year rolling contracts. These notice periods were reduced without compensation in June 1996. In recognition of this Michael Bell has a three year rolling contract. Michael O'Connell and David Pyle each have two year rolling contracts. The contracts are terminable by the directors, in the case of Michael Bell at three years notice and in the case of Michael O'Connell and David Pyle at two years notice and by the Company with three years notice in the case of Michael Bell and two years notice in the case of Michael O'Connell and David Pyle. Directors are entitled to termination payments equivalent to the unexpired portion of the contract based on basic salary and benefits including bonus payments.

## Non executive director

The level of the non executive director's remuneration has been determined by the Board as an annual fee and is paid bi-annually.

## Directors' Remuneration Report

*Information not subject to audit*

Continued

### Performance Graph

The performance graph shows the value, by May 1st, 2004, of £100 invested in MS INTERNATIONAL plc on April 30th, 1999 compared with the value invested in the FTSE Small Cap Index. The other points plotted are the values at intervening year ends. The FTSE Small Cap Index is considered by the Directors to be the most relevant index for comparison.

### Emoluments of Directors

*Information subject to audit*

Directors remuneration in respect of the period to May 1st, 2004 was as follows:

	<b>2004</b>	2003	<b>2004</b>	2003	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Basic salary</b>	Basic salary	<b>Other</b>	Other	<b>Bonus</b>	Bonus	<b>Total</b>	Total
	<b>and fees</b>	and fees	<b>benefits</b>	benefits	<b>Bonus</b>	Bonus	<b>Total</b>	Total
	<b>£</b>	£	<b>£</b>	£	<b>£</b>	£	<b>£</b>	£
Michael Bell	<b>215,000</b>	203,300	<b>38,902</b>	32,499	<b>37,540</b>	13,614	<b>292,442</b>	249,413
Michael O'Connell	<b>125,000</b>	116,500	<b>21,979</b>	19,750	<b>18,770</b>	6,807	<b>165,749</b>	143,057
David Pyle	<b>125,000</b>	116,500	<b>18,399</b>	18,888	<b>18,770</b>	6,807	<b>162,169</b>	142,195
Roger Lane-Smith	<b>20,000</b>	13,800	-	-	-	-	<b>20,000</b>	13,800

### Pension Contributions

	<b>2004</b>	2003
	<b>Total</b>	Total
	<b>£</b>	£
Michael Bell	<b>102,355</b>	87,295
Michael O'Connell	<b>59,725</b>	52,917
David Pyle	<b>56,759</b>	49,768
Roger Lane-Smith	-	-

The pension contributions are paid to personal retirement benefit schemes.

## Directors' Remuneration Report

Information subject to audit

Continued

### Directors' share options

No options under the Employee Share Option scheme were granted to main board directors during the year ended May 1st, 2004.

Details of directors' options at May 1st, 2004 and May 3rd, 2003 granted under the Employee Share Option scheme and those granted under the Enterprise Management Incentive scheme during the year are set out below. The market price of the Company's shares at May 1st, 2004 was 36.0p and the range during the period was 30.0p to 46.5p.

	Exercise price	Michael Bell	Michael O'Connell	David Pyle	Total
Employee share ownership trust					
Total share options May 3rd, 2003					
Exercisable between:					
August 6th, 2003 to August 5th, 2008	34.9p	1,017,000	500,000	500,000	2,017,000
Options exercised during the year	34.9p	(500,000)	(250,000)	(250,000)	(1,000,000)
		517,000	250,000	250,000	1,017,000
Options granted during the year					
Exercisable between:					
August 19th, 2004 to August 18th, 2013	33.5p	298,507	298,507	298,507	895,521
Total share options at May 1st, 2004					
		815,507	548,507	548,507	1,912,521
Market price at date of exercise					
		36.0p	36.0p	36.0p	
Gain on exercise					
		£5,500	£2,750	£2,750	

On behalf of the Board  
David Pyle, Secretary  
June 21st, 2004



## Principal Operating Subsidiaries

MSI-Defence Systems Ltd.	Salhouse Road, Norwich, NR7 9AY England	Design, manufacture and service of defence equipment.
MSI-Mechforge Ltd.	Balby Carr Bank, Doncaster, DN4 8DH England	Manufacture of fork-arms for the fork lift truck, construction and agricultural equipment industries.
MSI-Mechforge Inc.	280 Mount Gallant Road, Rock Hill SC 29730 USA	Sale and part manufacture of fork-arms to the fork lift truck, construction and agricultural equipment industries.
MSI-Quality Forgings Ltd.	Balby Carr Bank, Doncaster, DN4 8DH England	Open die forgings.

## Joint Venture

Global-MSI plc	Balby Carr Bank, Doncaster, DN4 8DH England	Design and construction of petrol station forecourt canopies and infrastructure products.
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### NOTES

- 100% of the equity is held in all cases, except for the joint venture Global-MSI plc, where only 50% is held. The equity is held by MS INTERNATIONAL plc in all cases.
- All companies are registered in England and Wales with the exception of MSI-Mechforge Inc. which is registered in America and all operate principally in the United Kingdom except for MSI-Mechforge Inc. which operates principally in America.

All companies have been included in the Group consolidated accounts.

## Notice of Meeting

**NOTICE IS HEREBY GIVEN** that the forty-fourth Annual General Meeting of the members of MS INTERNATIONAL plc will be held at Doncaster Moat House, Warmsworth, Doncaster at 12.00 noon on August 2nd, 2004 to transact the following business:

### As Ordinary business

1. To receive and adopt the directors' report and the audited accounts for the 52 weeks ended May 1st, 2004.
2. To approve the Directors' Remuneration Report for the 52 weeks ended May 1st, 2004.
3. To declare a final dividend.
4. To re-elect as a director of the Company, Michael O'Connell, a director retiring by rotation.
5. To re-elect as a non executive director of the Company, Roger Lane-Smith.
6. To reappoint Ernst & Young LLP as auditors and to authorise the directors to fix their remuneration.

### As Special business

7. To consider as an Ordinary Resolution:

That the directors be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £1,404,379 during the period commencing on the date of the passing of this Resolution for a period expiring (unless previously renewed, varied or revoked by the Company in General Meeting) five years after the passing of this Resolution but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require securities to be allotted after such expiry and the directors may allot relevant securities pursuant to any such offer or agreement. Words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this Resolution.

8. To consider as a Special Resolution:

That subject to the passing of Resolution 7, the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of Section 94 of the Act) for cash as if sub-section (1) of Section 89 of the Act did not apply to such allotment provided that this power shall be limited:

- (a) to any allotment of equity securities in connection with a rights issue to holders of equity securities in proportion (as nearly as may be) to their then holdings subject only to the directors having a right to make such arrangements in connection with such rights issue as they deem necessary or expedient:
  - (i) to deal with equity securities representing fractional entitlements; and
  - (ii) to deal with equity securities which the directors consider it necessary or expedient to exclude from the offer on account of either legal problems under law of any territory or the requirements of any recognised regulatory body or any other Stock Exchange.
- (b) to the allotment (other than pursuant to sub-paragraph (a) of this Resolution) of equity securities up to an aggregate nominal value of £104,781.05

and shall expire fifteen months after the passing of this Resolution or on the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution, whichever first occurs, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power hereby conferred had not expired.

9. To consider as a Special Resolution:

That the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163 of the Companies Act 1985) of Ordinary Shares of 10p in the capital of the Company ("Ordinary Shares") provided that:

- (a) the maximum number of Ordinary Shares hereby authorised to be purchased is 2,095,621 (representing 10% of the Company's issued share capital);
- (b) the minimum price which may be paid for Ordinary Shares is 10p per Ordinary Share;
- (c) the maximum price which may be paid for Ordinary Shares is an amount equal to 105% of the average of the middle market prices shown in the quotations for Ordinary Shares in the London Stock Exchange Daily Official List for the ten business days immediately preceding the day on which the Ordinary Shares are purchased;
- (d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company, unless such authority is renewed prior to such time; and
- (e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract.

By order of the Board  
David Pyle  
Secretary  
July 9th, 2004



Balby Carr Bank  
Doncaster  
DN4 8DH  
England

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. The appointment of a proxy will not preclude a member from attending the meeting and voting in person if he/she wishes.
2. Dividends warrants will be posted on September 3rd, 2004 to those members registered on the books of the Company on August 6th, 2004.
3. In accordance with the requirements of the London Stock Exchange, there will be available for inspection at the registered office of the Company during the usual hours of business from the date of this notice and at Doncaster Moat House, Warmsworth, Doncaster, for fifteen minutes prior to and until the conclusion of the Annual General Meeting:
  - (a) Particulars of transactions of directors in the shares of the Company, and
  - (b) copies of all contracts of service whereunder directors of the Company are employed by the Company or any subsidiary (other than contracts expiring or determinable by the employing company without payment of compensation within one year).