

Report and Accounts 2003

TECHNOLOGIES TO SECURE A SAFER WORLD



screen plc

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Directors and Officers

Directors: Mr TR Wightman (Chairman)
Mr IC Taylor (Deputy Chairman)
Dr GP Carswell
Mr D Hayes
Mr CT Langridge
Mr DJ Mills
Mr TJ Sullivan

Company Secretary: Mr CT Langridge

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Co. Reg. Number: 2990108

Auditors: KPMG LLP
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Bankers: Bank of Scotland
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Chairman's Statement

Introduction

In 2003, Screen made significant progress in recovering from its difficulties of the previous year, but we also fell well short of the financial and operating objectives which we had set ourselves. Turnover grew satisfactorily, but because of a change in product mix Gross Profit grew by only £0.5m (6%).

Overheads were reduced by £1.5m (15%) and this contributed to a fall in Operating Loss before exceptional items of £2.2m (61%). However, we did not move into profit in the second half as we had originally projected, and as a result of this and an increase in working capital, borrowings and gearing increased.

As will be clear from the financial results reported below, Screen has now reached a crucial stage in its recovery. The Group operates in attractive growing markets: it has the people, skills and products, and most importantly, the customers to thrive. Our staff, customers, suppliers, bankers – and shareholders – have shown loyalty and patience, often under trying circumstances, and we are extremely grateful.

The Group continues to have the support of its bankers, Bank of Scotland; but our business plans have been hampered by a lack of capital resources. The Directors acknowledge that to achieve all the ambitions set out in this report, additional funding will be required.

Profit and loss account

Group turnover for the year ended 31 December 2003 was £21.3m, an increase of 13% over the figure of £18.7m in the previous year. However, Gross Profit grew by only 6% to £8.7m (2002: £8.2m) because of a change in product mix.

Although the Group continued to make an operating loss before exceptional items in 2003, at £1.4m this was significantly reduced from the loss of £3.7m experienced in 2002. Exceptional items were £0.5m. These consisted of reorganisation costs of £65,000, the impairment of goodwill amounting to £229,000 and executive severance payments of £249,000. The total of exceptional items in 2002 was £10.1m.

The Operating Loss amounted to £1,962,000 (2002: £13,715,000 loss). After a net interest gain of £4,000 the loss before tax was £1,958,000 (2002: £15,149,000 loss). The loss per share was 2.9 pence (2002: 27.8 pence).

Balance sheet

Consolidated Net Assets at 31 December 2003 were £2.2m (31 December 2002: £3.0m).

Borrowings

At 31 December 2003, the Group had total net borrowings of £5.8m. (31 December 2002: £4.3m). The Group has continued to receive support from its bankers and a new medium term loan facility is being finalised.

Cash flow

During the period under review the Group had a net cash outflow from operating activities of £2.7m (2002: £4.1m). Net Capital Expenditure in the period was £317,000 (2002: £366,000). During May and June the Group raised funds of £1.1m before expenses, by means of placings of new shares which were used to reduce the Group's borrowings.

Post balance sheet events

On 12 March 2004 we disposed of the business and assets of Petards Emergency Services Limited ("PESL") for a net cash consideration of £866,000. PESL develops and supplies software used within the Fire Services. In 2003 its turnover was £2.8m on which it made profit before tax of £243,000. PESL's net assets were £109,000. The proceeds were used to reduce the Group's borrowings.

Dividends

The Board is not recommending the payment of a dividend.

The Board

Following the Annual General Meeting in June, having achieved the first stage of the Group's reorganisation, Ian Taylor became non-executive Deputy Chairman and I succeeded him as non-executive Chairman. Adrian Merryman stepped down from the Board and the position of Chief Executive on 25 November 2003 and I became executive Chairman. On 22 January 2004 Chris Langridge was appointed



Screen has now reached a **crucial** stage in its recovery. The Group operates in attractive **growing** markets; it has the **people**, **skills** and **products** and most importantly, the **customers** to thrive.



Finance Director and David Mills a non-executive director. On 15 March 2004 David Hayes was appointed an executive director responsible for the Petards division, which embraces most of the Group's security and surveillance software and hardware products.

The current position

In the past, the Group failed to meet its management responsibilities to integrate, develop and add value to the businesses it had acquired. These businesses progressed as best they could, almost independently, with inexperienced management, incomplete strategies and poor systems.

The Group lacked focus; lost opportunities for synergies; incurred excessive costs and absorbed cash. The time and cost of rectifying these shortcomings have to be met before the eventual benefits can be realised. Already, there are some positive signs, for example, between 2002 and 2003 staff costs and directors' emoluments fell by £2.4m (23%).

Group structure

In future, the Group will focus on the development and supply of security and surveillance solutions. Since the end of last year, we have moved rapidly to consolidate the Group into two divisions which trade as Petards and Joyce-Loebl. Both of these divisions recorded some notable contract gains in 2003, which I refer to in the highlights of our Operations Report.

Petards design, manufacture and supply a range of advanced security and surveillance solutions for customers in the UK and overseas. Four operating locations have been rationalised into two. Petards Emergency Services Ltd was sold, as it did not fit with our core activity. We have introduced experienced management and are currently in the process of strengthening the underlying business systems. We are also investigating opportunities to combine with other businesses in this sector in order to achieve critical mass, synergies and opportunities for rationalisation.

As I reported in November, the cost of developing our *Advantage.NET+* software has been considerable in terms of staff resources and lost sales. This is our core command and control software product and it is an essential part of our future plans. The changes that we have made improve its functionality and importantly its user friendliness. In the second half of the current year, we should see the benefits of this, but significant costs and disruption have been incurred in the current half year.

Joyce-Loebl is a European defence sub-contractor and developer and supplier of passenger information and CCTV systems for use on trains in the UK and Europe. We are currently carrying out a thorough strategic review to decide how best these activities can contribute to the Group's future core business. The outcome of this review will be known during May and I will report further about it to shareholders at the Annual General Meeting in June.

We are also strengthening the underlying business systems at Joyce-Loebl to reduce working capital and improve delivery performance.

Areas for improvement

In his report last year, Ian Taylor identified four areas of emphasis for improvement within the Group:

- Implement appropriate accounting and cash management processes to reflect more accurately our trading position and conserve our working capital resources.
- Tackle in the operational divisions, the cultural change required to inject commercial controls alongside commitment to strong technology development.
- Focus on maximising the significant potential of our current product and service offerings, and those emerging from our product development pipeline.
- Expand our selling efforts in the United States where the homeland security market is embryonic.

Whilst some progress has been made in these aspects, I am disappointed that not more has been achieved. Nevertheless, they remain important and we will continue to concentrate on them.

Balance sheet

We are engaged in steps to strengthen the balance sheet and the Bank of Scotland is being constructive and supportive in this process. Internally, we are continually reviewing cost and cash saving measures, evaluating non-core elements of the business and, if appropriate, we will realise assets. Finally, we are also in discussions with our advisers about the options for increasing the Company's equity capital base.

Staff

I should like to express my thanks to all the Group's employees who have shown their strong commitment during another difficult year. After a period of transition, the strengthened team are beginning to settle down and I am confident that they will soon see the fruits of their labours in the form of a more vibrant and financially successful organisation.

Outlook for 2004

The improvements now being introduced will lead to a leaner, more focussed and more commercial organisation than before. Nevertheless, such improvements do take time to implement and even longer to take effect, especially when they involve changes in long established practices and attitudes. Accordingly, I would not expect the financial benefits until the second half of 2004, but by then I expect the Group to be on a sounder footing. ^A



Tim Wightman
25 May 2004

Management Backgrounds

Tim Wightman - Chairman

Tim Wightman has had extensive business experience in the UK, Germany and North America.

He was previously Chief Executive of Rubicon Group plc, a leading supplier of outsourced manufacturing services to the electronic industry, which was quoted on the London Stock Exchange up to 1998 when it was acquired by Applied Power Inc.

He then served on APW's Executive Board with responsibility for the world-wide development of that company's services to global customers.

He is currently a non-executive Chairman of Asfair Group plc, an AIM listed company and of Digica Group Holdings Limited, an IT outsourcing company backed by private equity company Bridgepoint Capital.

Ian Taylor, M.P. – Deputy Chairman

Ian Taylor is MP for Esher and Walton. He was Minister for Science & Technology at the Department of Trade and Industry in the previous administration between 1994 and 1997, where he was responsible for such areas as Science Research Councils, Telecommunications, Innovation and Technology Transfer and Digital Broadcasting.

He is an executive director of Interregnum plc, an investment and advisory company specialising in the technology sector and is a non-executive director of NextFifteen Communications Group plc and Chairman of Radioscape Limited.

He spent 18 years working in investment and corporate finance, located in both London and Paris prior to becoming an MP in 1987.

Geoff Carswell - Executive Director

Geoff Carswell has been the Chief Executive of Joyce-Loebl Limited since April 1999. He has had almost 24 years involvement in the Refractories industry, in Technical, Strategic Planning, Marketing and Sales roles and latterly as Managing Director of Steetley plc's £66M turnover Magnesia and Refractories Division.

Dr Carswell has extensive experience of turning around and growing businesses operating in mature markets. Prior to joining Joyce-Loebl, he served as Managing Director of Rexam plc's Dispenser Division, a manufacturer of aerosol valves, and Chief Executive of Ridley Quiney Limited, a merchandising business supplying packaging materials to the wholesale trade.

He has a B.Tech (Hons) degree in Materials Science and Technology and a Ph.D. in Magnetic Materials.

David Hayes – Executive Director

David Hayes is the Managing Director of Petards.

He was a founder of FSS Group Limited, a business which developed and sold integrated reservations, administration and accounting software for tour operators, with offices in UK, USA and Australia.

In December 2001 FSS Group was sold to Anite Business Systems, part of Anite Group Plc. Following the acquisition, as Commercial Director, he had responsibility for the integration of the business' sales and supplier relationships.

He left Anite to pursue a new challenge in 2003.

Chris Langridge – Finance Director

Chris Langridge is a qualified accountant who has worked as Finance Director and consultant in the UK, USA and Asia.

Following experience in the Receivership Department of Ernst & Young in London he moved into international operational, manufacturing and project management roles.

He has wide-ranging experience of joint venture, acquisition and disposal management gained in several private equity backed businesses.

In his career he has concentrated on change management and performance improvement with the associated reporting and financial reorganisation issues.

David Mills – Director

David Mills is the founder of Quayside Corporate Services, a business that works closely with banks and financial institutions to provide independent advice to both them and their customers.

Previously a director of a major division of NatWest Bank he has also been involved in the buying and selling of numerous businesses.

He is currently a non-executive director of Clode plc and non-executive chairman of several private equity backed companies.

Tim Sullivan - Director

Tim Sullivan's successful military career included many different domestic and international responsibilities, culminating in a number of key appointments at the Ministry of Defence.

In the commercial sector, Tim Sullivan holds a number of executive positions, including developing business strategy at BCD Modelling Limited, a start-up computer modelling company and working for the RICS.

As Vice President for Customer Relations with General Dynamics (UK) Limited, he is responsible for the company's customer relations with the Ministry of Defence on the £1.7 billion 'Bowman' battlefield communications project.

Operations Report

Introduction

In 2004, Screen will become increasingly focussed on security and surveillance. In terms of its experience, reputation and customer base it will be a leading player in its market niche. I believe that it will be attractive to current and future employees, customers, end-users and technology investors.

Our immediate challenges are nearly all internal, resulting from weak systems and controls, which have caused the lack of profitability. Our priorities in dealing with these issues are referred to in the Chairman's Statement.

Our vision is to:

Create the bench-mark as a world-class developer and supplier of security and surveillance solutions, in terms of product design, service, customer relationships and financial performance.

- We intend to focus on the sophisticated end of the market where our technical expertise and market knowledge will earn us a good financial return, rather than at the simpler, lower cost, more competitive end.
- We want to work closely with the end-user and our channel partners, bringing expertise, experience, professionalism and innovation to define and develop solutions to meet the end-user's security and surveillance requirements.
- Within the area of our focus, we want to be seen as the best developer and supplier of security and surveillance solutions world wide.

Our products and services

The Group uses its technology to address Homeland Security related issues in a variety of ways. Petards are acknowledged as innovators in the design, manufacture and supply of advanced security and surveillance solutions such as the *Advantage* range of CCTV command and control systems and the *Swift* rapid deployment wireless CCTV system. Petards are pioneers in the use of digital video technology and the application of sophisticated software and database technologies to make threat identification and response far more efficient and effective. Petards supplies local and central government, police forces and commercial customers, both in the UK and abroad and counts among its customers HM Prison Service, the British Library, the Metropolitan Police Service, the Inland Revenue and the Port of London Authority.

Our police mobile video evidence systems have helped increase conviction rates and our new *Provida ANPR* solution, a mobile automatic number plate recognition (ANPR) system, is providing police with an important and effective new tool for threat identification.

Joyce-Loebl develops sophisticated on-board CCTV security and surveillance solutions for the rail transportation industry. It also provides the rail industry with passenger information systems. As a defence sub-contractor, it supplies European defence forces with aircraft counter measures against incoming missile threats. It also manufactures sophisticated vehicle electronics and ruggedised communications and IT equipment that can operate in the harshest operating environments.



Create the bench-mark as a world-class developer and supplier of security and surveillance solutions, in terms of product design, service, customer relationships and financial performance.



Markets

The Group's products and services are used by the security services and a wide range of commercial and governmental organisations. Given the current global terrorist threats, the markets we address are growing and critical to our collective future. Although the Group is not involved in the manufacture of conventional CCTV cameras, the CCTV market is important to us because our software is used to integrate and control CCTV networks.

The UK market can be divided into central government, local government and commercial. With the high level of terrorist awareness, central government spending has been strong and high-end projects, which can cost up to £3m, are more resilient to competition. Government organisations are prepared to pay a premium for bespoke systems that can be integrated into their existing security networks. Recently, it was announced by the Home Office that £15m has been allocated to specialist police forces to improve surveillance and intelligence gathering.

Local government spending has been subdued as previous central government funded projects have come to an end and local government budgets have come under pressure. We have noticed a weakness in demand for our *Advantage.Net* software in this market, but sales of our *Swift* rapid-deployment camera have remained strong. These cameras can be easily moved between different locations and used without the requirement for wiring or infrastructure, hence making the most of tight budgets.

In the commercial sector, a return to more positive economic conditions should lead many companies to review their current security infrastructure. A recent report showed that while three out of four companies felt security to be a top priority, most companies have only looked at their IT assets and have done nothing to improve security for their employees or premises. One opportunity to penetrate this sector is the growing convergence of IT and CCTV equipment. The entry of the IT system's integrators provides scope for Petards to introduce its market-leading software expertise to wider end-users by forming partnerships with these companies and leveraging off their marketing power and distribution networks to break into new markets.

There are several technological developments in the market which are expected to strengthen future demand. Networked CCTV systems provide increased features and economies of scale in capital and operating costs. One monitoring centre (or several networked centres) is able to control a large number of surveillance systems, regardless of their distance or location. Around 90% of CCTV systems currently in use are analogue, but there is an increasing shift from analogue to digital, which provides a clearer image that can be further enhanced through the use of imaging software. Petards is currently a partner in the DTI RETRIEVE research project aimed to maximise the effectiveness of the transmission, storage and retrieval of digital CCTV images. Another trend is to the growing use of recognition software, particularly ANPR. The technical expertise required to design and maintain these more complex systems is a particular strength of Petards.

The Group is also involved with mobile surveillance systems and these specialist areas are growing strongly in the European and US markets that we serve. The introduction of ANPR applications into our *Provida* police mobile video evidence systems has proved popular with police forces in the UK and abroad. Our train-based CCTV systems are also in strong demand both for driver and track monitoring and for in-carriage security. The Cullen Report, following the Paddington rail accident, and the recent bombing in Madrid have both served to reinforce the important part that CCTV systems can play within a rail infrastructure. It is unfortunate that delays in new rolling stock programmes and track upgrades meant that in 2003, shipments of CCTV systems in the UK were deferred.

Finally, the sectors of the defence market in which we are involved continued to be strong in 2003, particularly the demand for aircraft counter measure systems associated with the Iraq war. Sub-contract demand for fighting vehicle electronics is healthy with several major projects in hand.

2003 highlights

- Petards, in partnership with NTL's Public Safety Group, was selected by the Metropolitan Police Service to provide CCTV control facilities for its three new C3i control centres. C3i – command, control, communication and information – is the biggest business change programme ever undertaken by the Metropolitan Police Service and has been introduced to develop an improved command and control service for London. These super-centres will have the capability to operate as one unit that will become the largest Operational Command Unit in the United Kingdom. The system will give over 540 control room positions integrated access to 3,500 networked CCTV cameras. The super-centres will use an Integrated Communications Platform (ICP) developed by Petards based on our Advantage software. The value of this contract exceeds £1.6m.
- Work has now been completed on a revised version of the *Advantage.Net* software. As reported last November, this work proved to be more expensive and time-consuming than originally planned. A programme to upgrade existing customer sites is now almost complete.
- Since launching its *Provida ANPR* mobile video evidence system Petards has received orders from 19 UK police forces and abroad. This includes a £1m order from the Metropolitan Police Service where it has become their mobile ANPR standard. The system has successfully supported security and national intelligence, the detection of crime, disqualified drivers and unlicensed and unregistered vehicles.
- Petard's rapidly deployable *Swift* camera and the *Provida 3000* mobile police video evidence and enforcement unit are now being sold in the U.S.A. We see a big opportunity for both these products internationally and we are strengthening our distributor network accordingly.
- Joyce-Loebl's total order book at the year end remained

strong at £15m, as new orders offset deliveries to customers although £1m revenue on Rail Transport projects was deferred into 2004. For example:

1. Joyce-Loebl Defence won a contract to equip the RAF fleet of AWACS aircraft with new computer displays. The contract, worth approximately £1.5m (with potential for a further £0.5m to support the equipment) is for the replacement of all mission data displays on the aircraft. More than 100 displays will be provided under the contract and will be fitted to all aircraft by April 2005.
2. Joyce-Loebl Defence won Phase 3 of a contract from Alvis Vickers to manufacture the VICS engine/transmission integrated control systems for Trojan and Titan vehicles. The order is worth £1.1m.
3. An order, worth £2.7m was received in September from Caminhos de Ferro Portugueses, EP (Portuguese Rail) for the provision of 90 train sets of CCTV equipment for the Lisbon Suburban Line. The order is for delivery between May 2004 and September 2005.

Summary

In 2004, we will be concentrating on getting the basics right, to capitalise on our strong products and market positioning. We shall be placing a strong emphasis on customer service and improved delivery performance.



Tim Wightman
25 May 2004

Financial Review

Trading

The turnover for the Group for the year ended 31 December 2003 totalled £21.3m compared to £18.7m for 2002, an increase of 13.7%. Although gross profits rose £0.5m to £8.7m in 2003, the gross margin decreased from 43.9% in 2002 to 41% in 2003 due to changes in the mix of products sold.

These changes particularly affected our defence division, Joyce-Loebl, where an increase in sales of products containing a higher element of bought-in sub-assemblies significantly reduced the gross margin achieved.

The drive to reduce the costs of running the Group, to the level which could be reasonably expected for an organisation of similar size, achieved some success in 2003. A £1.5m annual saving on administration expenses, to £10.1m in 2003, represents a decrease of 13.1% from the £11.6m incurred in 2002.

Research and development

Expenditure on Research and Development reduced in 2003 to £1.2m (2002: £2m) as major product developments completed.

Exceptional costs

The two elements of Exceptional Costs were; the severance payments to two senior executives amounting to £249,000 and the decision to centralise the operations of Petards Mobile Intelligence (PMI), except for technology development, in Hemel Hempstead in 2004. The costs associated with this consolidation include the closure of the PMI offices in Copenhagen, (£46,000), and Yorkshire (£19,000). The balance of goodwill of £229,000 relating to PMI International A/S, the Danish subsidiary, could not be supported on the basis of trading and the deficiency of net assets and has been eliminated.

Net interest receivable

Net Interest Receivable of £4,000 includes a gain of £288,000 on the disposal of the £450,000 Lloyds TSB plc loan notes. Other net interest payable of £284,000 is comparable with the 2002 charge of £228,000, allowing for the increase in bank borrowings over the course of the year.

Taxation

The taxation rebate for 2003 amounts to £144,000. The two components of this are the receipt of research and development credits amounting to £215,000 offset by unforeseen pre-acquisition corporation tax assessments on Joyce-Loebl Limited.

Balance sheet

The main components of the £816,000 reduction in net assets, were as follows:

Intangible Assets – a reduction of £278,000 which, as noted under Exceptional Costs above, is primarily driven by the writing off of the remaining balance of the goodwill in PMI International A/S.

Fixed Assets – the prudent accounting policy on depreciation, where all fixed assets are written off over 4 years, means that unless there are significant additions to fixed assets every year depreciation charges will result in a net annual reduction of asset value. In 2003, the net reduction amounted to £308,000.

Increases in creditors over one year and provisions of £1,066,000 partially offset by an overall improvement of £836,000 in net current assets, accounted for the remainder of the reduction in net assets.

Borrowings

Borrowings with HBOS, which are all on a fully secured basis, increased by £1.9m, to stand at £5.6m at the end of 2003. Management are in discussions with HBOS to turn £5m of this facility into a Term Debt.

Other borrowings reduced by £0.5m in the year, due, primarily, to the cancellation of the £450,000 debt due to Lloyds TSB plc.

Cash flow

The Group had a net outflow of funds in 2003 of £2.7m (2002 £4.1m). This was mainly attributable to delays in finalising the contractual paperwork for two significant contracts at Joyce-Loebl, which resulted in the collection of trade debts of £2.4m being postponed until after the year-end.

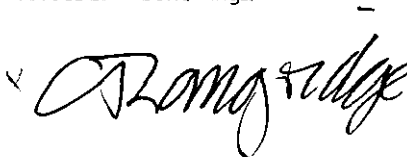
In May 2003, Screen plc issued shares that realised gross proceeds of £1.1m. Net proceeds of the issue were applied to repaying part of the Lloyds TSB debt – management also subscribed to the debt repayment – and the balance utilised for ongoing working capital requirements.

Pension scheme

Prior to acquisition by the Group in 2001, Joyce-Loebl Limited operated a pension scheme providing benefits based on final pensionable pay. The scheme was closed in August 1999 and winding up proceedings commenced. All investments have been liquidated and remaining assets held as cash. The actuaries have confirmed that the scheme is in surplus and there will be no further liability against the Group. Although not included in previous accounts, the Directors consider that disclosure should be made on the grounds of best practice.

Post balance sheet events

In March 2004, the net assets and business of Petards Emergency Services Limited were sold for a gross consideration of £1,250,000. After apportioning pre-invoiced post-sale maintenance contracts, net proceeds of £866,000 were obtained, the substantial part of which was used to reduce bank borrowings.



Chris Langridge
25 May 2004

Directors' Report

The directors submit their report and Group financial statements for the year ended 31 December 2003.

Principal activities

The Group is principally engaged in the development, provision and maintenance of advanced security and communication systems and related services.

Review of business

The consolidated profit and loss account is set out on page 20.

Further details of the Group's performance during the year and expected future developments are contained in the Chairman's Statement.

A list of the principal subsidiaries of the Company is set out in note 30.

Dividend

The directors do not recommend the payment of a dividend (2002 - nil).

Group research and development

The Group is committed to research and development activities in order to secure competitive advantage in the electronic communications products and services market.

Creditors payment policy

It is the Company's policy to pay all of its creditors within a reasonable period from their due date, in accordance with commercial arrangements negotiated with those suppliers but does not follow any specific code. The number of creditor days at the year end was 91 days (2002 - 66 days) for the Group, calculated in accordance with the requirements of the Companies Act 1985.

Disabled employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Company may continue. It is the policy of the Company that training, career development and promotion opportunities should be available to all employees.

Employee involvement

The Company keeps its employees informed of matters affecting them as employees through regular team briefings throughout the year.

Post balance sheet events

In March 2004, the net assets and business of Petards Emergency Services Limited were sold to AssetCo Data Solutions Limited. The results of the Company have been shown in the accounts under discontinued business.

Substantial interests

The Company is aware of the following interests in three percent or more of the issued share capital.

Name of holder	Number	Percentage held
Unicorn Asset Management	3,587,100	5.48%
TD Waterhouse Investor Services (Europe) Ltd	2,894,829	4.43%
Barclays Personal Investment Management	2,690,830	4.11%
Tilney Investment Management	2,212,500	3.38%

Auditors

During the year Deloitte & Touche LLP resigned as auditors. KPMG LLP were appointed auditors to fill the vacancy arising. In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

International accounting standards

For the year ending 31 December 2005, the Group will be required under EU law to prepare its consolidated accounts in accordance with International Financial Reporting Standards (IFRS). These accounts will include comparative information for 2004 also prepared in accordance with IFRS.

The Group has put in place a timetable to carry out an initial impact assessment of the areas likely to be affected by the adoption of IFRS and a plan for its subsequent convergence with current UK GAAP. At this stage the Group has not yet completed the work necessary to identify with sufficient certainty all the accounting policy differences that may arise from the transition but will provide details to shareholders as the relevant standards become finalised.

Corporate governance

The Board supports the recommendations set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance and believes in applying these in a sensible and pragmatic manner. Companies which are listed on the Alternative Investment Market (AIM) are not required to comment on their compliance with the provisions set out in the Combined Code. However, the following information is provided to demonstrate the Company's application of the Code.

Board of directors

The Board consists of four executive directors and three non-executive directors. It meets monthly to consider the operating and financial performance of the Group and is responsible for approving Company policy and strategy. The Board has appointed two standing committees, which are as follows:

The Audit Committee consists of the non-executive directors and is chaired by Mr I Taylor. It meets at least twice a year and is responsible for ensuring that the financial performance of the Group is properly reported on and monitored, and for meeting the auditors and reviewing their reports in relation to the financial statements and the audit.

The Remuneration Committee consists of the non-executive directors and is chaired by Mr T Sullivan. It meets at least twice a year and is responsible for setting the scale and structure of the executive directors' remuneration. It also recommends the allocation of share options to directors and other employees.

Internal control

In accordance with guidance published in September 1999 by the Institute of Chartered Accountants in England and Wales – "Internal Control: Guidance for Directors on the Combined Code" (the "Turnbull Guidance") – the Board confirms that there has been in place for the year under review, and up to the date of approval of the annual report and accounts, an ongoing process for introducing a system for identifying, evaluating and managing the significant risks faced by the Group.

The Board retains its responsibility for the system of internal control and has reviewed the effectiveness of the Group's systems of internal controls during the year. This review covered all controls, including financial, operational, compliance and risk management.

Directors' responsibilities for the financial statements

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 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.

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Approved by the Board of Directors
And signed on behalf of the Board

Chris Langridge
Company Secretary
25 May 2004

Remuneration Report

Information not subject to audit:

Remuneration committee

The Remuneration Committee comprises the non-executive directors and is chaired by Mr T Sullivan.

Remuneration policy

The Remuneration Committee reviews the performance of each of the executive directors and sets the scale and structure of their remuneration and other benefits. Individual rewards and incentives are aligned with the performance of the Group and the interests of the shareholders and are set at an appropriate level in order to attract, retain and motivate executives who are expected to meet challenging performance criteria. Mr T Wightman has only drawn fees as if he were a non-executive, though the Remuneration Committee has agreed to revise his contract during the current financial year to bring it in line with remuneration, benefits and incentives for Chairmen and Chief Executives of comparable Companies.

The committee also recommends the allocation of share options to directors and other employees.

Service contracts

No directors have contracts of service with notice periods that exceed 12 months.

Information subject to audit:

Directors' emoluments

Details of individual director's emoluments are as follows:

Director	Salaries	Bonus	Other	Severance	Pension		Pension	
	& Fees		benefits	payments	2003	2002	2003	2002
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
T Wightman	12	-	-	-	12	-	-	-
I Taylor	24	-	-	-	24	37	-	-
G Carswell	84	6	1	-	91	38	10	5
A Merryman (1)	138	-	6	164	308	-	23	-
T Sullivan	22	-	-	-	22	20	-	-
M Williams (2)	8	-	-	89	97	180	1	9
C Bergstedt	-	-	-	-	-	169	-	11
R Hill	-	-	-	-	-	183	-	-
C Hughes	-	-	-	-	-	5	-	-
J Shand	-	-	-	-	-	106	-	7
O Williams	-	-	-	-	-	120	-	12
	288	6	7	253	554	858	34	44

(1) Resigned on 25 November 2003. (2) Resigned on 31 January 2003.

Additional amounts paid to companies with which certain directors have interests are described in note 27.

Mr C Langridge and Mr D Mills were appointed to the Board on 22 January 2004.

Mr D Hayes was appointed to the Board on 15 March 2004.

Directors' share interests

The directors at the year end and their beneficial interests in the shares of the Company were as follows:

	Ordinary Shares of 1p each 31 December 2003	Ordinary Shares of 1p each 31 December 2002
Mr T Wightman	1,360,363	-
Mr I Taylor	300,366	9,455
Dr G Carswell	207,057	-
Mr T Sullivan	191,057	4,000

Directors' interest in share options

At 31 December 2003 the following share options were held by directors:

	Number of 1p options at 01.01.2003		Granted	Number of 1p options at 31.12.2003		Exercise Price	Exercise Period
Mr T Wightman	-	-	433,548	433,548	433,548	7.75p	22.04.06–21.03.11
Mr I Taylor	-	-	533,548	533,548	533,548	7.75p	22.04.06–21.03.11
Dr G Carswell	-	-	616,502	616,502	616,502	7.75p	22.04.06–21.03.11
Mr T Sullivan	-	-	215,499	215,499	215,499	7.75p	22.04.06–21.03.11

The share price at 31 December 2003 was 7.75p and the share price has ranged during the year from 5.5p to 22p.

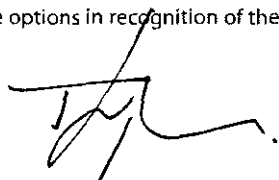
Further information on the changes in the Board of Directors of Screen plc is included in the Chairman's Statement.

Information not subject to audit:

Non-executive directors

Fees for the non-executive directors are determined by the Board as a whole having regard to the time devoted to the Company's affairs. Non-executive directors are not part of any pension or bonus schemes of the Group, but have been granted share options in recognition of their efforts during and since the restructuring of the Group.

x



Tim Sullivan
Director
25 May 2004

Independent Auditors' Report

to the Members of Screen plc

We have audited the financial statements on pages 20 to 42. We have also audited the information in the directors' remuneration report that is described as being 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.

Responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 16, 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 and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and 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.

We read the other information accompanying the financial statements and consider whether it is consistent with those 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. 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.

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 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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the uncertainty as to the adequacy of the Group's cash resources. In view of the significance of this uncertainty we consider that it should be brought to your attention but our opinion is not qualified in this respect.

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 31 December 2003 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants and
Registered Auditor
Reading
25 May 2004

Consolidated Profit and Loss Account

For the year ended 31 December 2003

		Before exceptional items	Exceptional items (note 7)	After exceptional items	Year Ended 31 December 2002
	Note	Year Ended 31 December 2003 £'000	Year Ended 31 December 2003 £'000	Year Ended 31 December 2003 £'000	£'000
Turnover	2				
Continuing operations		18,499	-	18,499	15,973
Discontinued operations		2,754	-	2,754	2,713
		21,253	-	21,253	18,686
Cost of sales	3	(12,535)	-	(12,535)	(10,480)
Gross profit		8,718	-	8,718	8,206
Exceptional items	7	-	(314)	(314)	(4,781)
Goodwill amortisation and impairment	11	(49)	(229)	(278)	(5,531)
Other administrative expenses		(10,088)	-	(10,088)	(11,609)
Total administrative expenses	3	(10,137)	(543)	(10,680)	(21,921)
Operating loss					
Continuing operations		(1,662)	(543)	(2,205)	(12,818)
Discontinued operations		243	-	243	(897)
Total operating loss	2,3	(1,419)	(543)	(1,962)	(13,715)
Loss on disposal of discontinued operations				-	(1,206)
Loss on ordinary activities before interest				(1,962)	(14,921)
Net interest (payable)/receivable	6			4	(228)
Loss on ordinary activities before taxation				(1,958)	(15,149)
Taxation on loss on ordinary activities	8			144	-
Loss on ordinary activities after taxation being loss for the financial year	22			(1,814)	(15,149)
Loss per share					
Basic and diluted	10			(2.9p)	(27.8p)

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year stated above, and their historical cost equivalents.

Consolidated Balance Sheet

For the year ended 31 December 2003

	Note	31 December 2003 £'000	31 December 2002 £'000
Fixed assets			
Intangible assets	11	616	894
Tangible assets	12	942	1,250
		1,558	2,144
Current assets			
Stocks	14	6,490	6,178
Debtors	15	5,927	3,615
Cash at bank and in hand		-	1
		12,417	9,794
Creditors: amounts falling due within one year	16	(11,605)	(8,539)
Net current assets		812	1,255
Total assets less current liabilities		2,370	3,399
Creditors: amounts falling due after more than one year	17	(158)	(175)
Provisions for liabilities and charges	26	-	(196)
Net assets		2,212	3,028
Capital and reserves			
Called up share capital	21	654	563
Share premium account	22	23,660	22,703
Profit and loss account deficit	22	(22,102)	(20,238)
Equity shareholders' funds		2,212	3,028

The financial statements on pages 20 to 42 were approved by the Board of Directors on 25 May 2004 and were signed on its behalf by:



Tim Wightman
Director
25 May 2004

Company Balance Sheet

As at 31 December 2003

	Note	31 December 2003 £'000	31 December 2002 (restated, see note 4) £'000
Fixed assets			
Intangible assets	11	230	243
Tangible assets	12	10	44
Investments	13	5,413	6,163
		5,653	6,450
Current assets			
Debtors	15	956	3,587
Creditors: amounts falling due within one year	16	(3,196)	(4,107)
Net current (liabilities)/assets		(2,240)	(520)
Total assets less current liabilities		3,413	5,930
Creditors: amounts falling due after more than one year	26	(623)	-
Net assets		2,790	5,930
Capital and reserves			
Called up share capital	21	654	563
Share premium account	22	23,660	22,703
Profit and loss account deficit	22	(21,524)	(17,336)
Equity shareholders' funds		2,790	5,930

The financial statements on pages 20 to 42 were approved by the Board of Directors on 25 May 2004 and were signed on its behalf by:



Tim Wightman
Director
25 May 2004

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	Note	Year ended		Year ended	
		31 December 2003		31 December 2002	
		£'000	£'000	£'000	£'000
Net cash outflow from operating activities	23		(2,729)		(4,080)
Returns on investments and servicing of finance					
Interest received		288		81	
Interest paid		(259)		(282)	
Finance lease interest paid		(25)		(27)	
Net cash (outflow)/inflow from returns on investments and servicing of finance			4		(228)
Taxation					
UK corporation tax			144		-
Capital expenditure					
Purchase of intangible fixed assets		-		(51)	
Purchase of tangible fixed assets	12	(333)		(422)	
Sale of tangible fixed assets		16		107	
Net cash outflow from capital expenditure			(317)		(366)
Acquisitions and disposals					
Purchase of businesses		-		(419)	
Net cash outflow from acquisitions and disposals			-		(419)
Net cash outflow before financing			(2,898)		(5,093)
Financing					
Issue of shares		1,048		3,163	
Repayment of principal under finance leases	24	(137)		(229)	
Net cash inflow from financing			911		2,934
Decrease in cash in the year	24		(1,987)		(2,159)

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2003

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Loss for the financial year	(1,814)	(15,149)
Currency translation difference on foreign currency net investments	(50)	(58)
Total recognised gains and losses relating to the year	<u>(1,864)</u>	<u>(15,091)</u>

Reconciliation of Movements in Equity Shareholders' Funds

For the year ended 31 December 2003

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Loss for the financial year	(1,814)	(15,149)
Other recognised gains and losses	(50)	58
New share issues	1,092	3,822
Expenses of share issue	(44)	(253)
Deferred equity consideration	-	(423)
Opening equity shareholders' funds	<u>3,028</u>	<u>14,973</u>
Closing equity shareholders' funds	<u>2,212</u>	<u>3,028</u>

Notes to the Financial Statements

1. Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and on the going-concern basis. A summary of the more important Group accounting policies, which have been consistently applied, is set out below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Going concern

The financial statements have been prepared on a going-concern basis which assumes the Group will continue to operate for the foreseeable future. The appropriateness of the going-concern basis of preparation is dependent upon the Group operating within its cash resources.

The directors have prepared cashflow forecasts for the period ending 30 June 2005. Although currently repayable on demand, the Group's banking arrangements are in the process of being formalised, and the Group's bankers have confirmed their willingness to continue for at least 12 months to provide the level of financial facilities that the directors' forecasts show will enable the Group to continue to operate for the foreseeable future.

Whilst there can be no certainty as to the achievement of financial forecasts, the directors have, at present, no reason to believe that the Group will be unable to continue to trade within the cash resources made available under the present and anticipated banking arrangements.

Accordingly, the financial statements have been prepared on a going-concern basis and do not include any adjustments that would result from the circumstances of the Group's current cash resources not being adequate.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2003. The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Intra-Group sales and profits are eliminated fully on consolidation.

On the acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses, that arise after the Group has gained control of the subsidiary are charged to the post acquisition profit and loss account. Acquisitions are accounted for under the acquisitions method.

Intangible fixed assets - goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill on acquisitions during the year is capitalised and amortised over a 20 year life. Where considered appropriate, goodwill arising on the acquisition of subsidiaries and associates prior to 31 December 1998 was written off immediately against reserves.

Investments

Investments held as fixed assets are stated at cost less provisions for any impairment.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses on acquisition.

Depreciation is calculated to write off the cost of all tangible fixed assets over their expected useful lives. The rate generally applied is 25% straight line.

The main categories of the Group's tangible assets are:

leasehold improvements, plant and machinery, motor vehicles, computer equipment, furniture and fittings.

Stocks and work-in-progress, excluding long-term contracts

Stocks and work-in-progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in, first out basis and includes transport and handling costs. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Turnover

Turnover is the total amount receivable for goods supplied and services provided, excluding VAT and trade discounts. All turnover is derived from the Group's core activity of the development, provision and maintenance of advanced security and communication systems and related services.

Short term contracts

Turnover is recognised on customer acceptance.

Long-term contracts

Turnover on long-term contracts is recognised according to the stage reached in the contract by reference to the value of work completed. A prudent estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty.

The amount by which turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts. The costs on long-term contracts not yet taken to the profit and loss account less related foreseeable losses and payments on account are shown in stocks as work in progress.

Foreign exchange

Transactions denominated in foreign currencies are translated into the functional currency at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

The balance sheet assets and liabilities of foreign subsidiaries are translated into sterling at the closing rates of exchange, and the profit and loss account is translated at the average rate, with the differences arising from the translation of the opening net investment in subsidiaries at the closing rate and matched long-term foreign currency borrowings taken to the consolidated statement of total recognised gains and losses.

Derivative financial instruments

The Group uses forward foreign exchange contracts to reduce exposure to foreign exchange risk. The Group does not hold or issue derivative financial instruments for speculative purposes. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account only when the hedged transaction has itself been reflected in the financial statements.

Finance and operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements, which transfer to the Group substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright.

The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases.

The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at the end of each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Research and development

Research and development expenditure is written off to the profit and loss account as incurred.

Post-retirement benefits

The Group operates a pension scheme for certain employees, providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. Other contributions to personal pension plans are charged to the profit and loss account when paid.

2. Analysis of turnover, operating loss and net assets

Turnover, operating loss, and net assets are attributable to the principal activities of the Group.

Geographical analysis by origin:

	Turnover		Operating loss		Net assets	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	2002 £'000
United Kingdom	18,257	17,416	(1,224)	(8,291)	2,212	3,804
Rest of Europe	2,996	1,270	(738)	(5,424)	-	(776)
	<u>21,253</u>	<u>18,686</u>	<u>(1,962)</u>	<u>(13,715)</u>	<u>2,212</u>	<u>3,028</u>

Geographical analysis by destination:

	2003 £'000	2002 £'000
United Kingdom	20,566	16,089
Rest of Europe	571	2,189
Rest of World	116	408
	<u>21,253</u>	<u>18,686</u>

3. Operating loss

	2003		Total £'000	2002		Total £'000
	Continuing operations £'000	Discontinued operations £'000		Continuing operations £'000	Discontinued operations £'000	
Cost of Sales	10,920	1,615	12,535	8,848	1,632	10,480
Administrative expenses	9,784	896	10,680	19,943	1,978	21,921

Operating loss is stated after charging/(crediting):

	2003 £'000	2002 £'000
Auditors' remuneration, audit fees - Group	95	115
Auditors' remuneration, audit fees - Company	50	69
Auditors' remuneration, non audit services	58	100
Research and development	1,195	1,982
Government grants	(79)	(60)

Depreciation and amortisation:

	2003	2002
Goodwill amortisation and impairment	278	5,531
Tangible fixed assets, owned	534	474
Tangible fixed assets, held under finance leases	79	136
Loss on disposal of fixed assets	16	21

Operating leases:

	2003	2002
Hire of plant and machinery	42	12
Hire of other assets	200	515

4. Prior year adjustment

The Company 2002 balance sheet has been restated to reflect the late imposition of intra-group management charges across subsidiary companies. The effect of this adjustment is to increase the closing 2002 debtors and reduce the retained losses by £570,000. There is no net effect on the Group's results for either 2002 or 2003.

5. Staff costs and directors' emoluments

Staff costs, including director's costs, during the year were as follows:

	2003	2002
	£'000	£'000
Wages and salaries	6,947	9,212
Social security costs	693	771
Other pension costs	328	380
	7,968	10,363

The average number of employees during the year (including executive directors) was as follows:

	2003	2002
	Number	Number
Direct labour	129	118
Development	36	52
Sales	31	32
Administration	43	60
	239	262

6. Net interest (receivable)/payable

	2003	2002
	£'000	£'000
Bank loan and overdrafts	259	282
Finance charges in respect of finance leases	25	27
	284	309
Gain on disposal of loan notes	(288)	-
Other interest receivable and similar income	-	(81)
	(4)	228

7. Exceptional costs

	2003	2002
	£'000	£'000
Goodwill impairment (note 11)	229	5,283
Inventory provisions	-	2,333
Debtor provisions	-	1,526
Reorganisation costs	314	783
Other provisions	-	139
	543	10,064

The exceptional charges were incurred following the review of the business in 2003 as described in the Chairman's Statement. Rationalisation of the Group has resulted in the closure of two offices and the associated costs of this and other restructuring are included in reorganisation costs. The director's annual review of valuations carried in the Group's Balance Sheet has resulted in an exceptional write-down of goodwill because of reduced market valuations of net worth.

8. Taxation

	2003	2002
	£'000	£'000
Corporation taxation relating to a prior year	(71)	-
Research and development credits	215	-
Tax credit for the year	144	-

Factors affecting tax credit for the current period

The tax assessed for the period is different to that resulting from applying the standard rate of corporation tax in the UK of 30% (2002: 30%). These differences are shown below.

	2003	2002
	£'000	£'000
Loss on ordinary activities before tax	(1,962)	(15,149)
Tax at 30% thereon	(589)	(4,545)
Effects of:		
Expenses not deductible for tax purposes, including goodwill	357	1,055
Depreciation in excess of capital allowances	186	965
Utilisation of tax losses	(19)	(48)
Movement in short term timing differences	17	415
Foreign exchange	-	(69)
Prior year adjustment – other timing differences	-	233
Research and development costs	(52)	-
Losses generated in the year, unused on subsidiary liquidation	-	250
Losses generated in the year, not provided for in deferred tax	100	1,744
Current tax credit for the year	-	-

9. Loss for the financial year – parent company

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss for the financial year was £4,188,000 (2002 restated: £13,589,000).

10. Loss per share

The calculation of the basic loss per share for is based on the loss for the year on ordinary activities after taxation of £1,814,000 (2002: loss £15,149,000) divided by the weighted average number of ordinary 1p shares of 61,777,457 (2002 – 54,511,705).

Due to the Group's loss for the year the diluted loss per share is the same as the basic loss per share.

11. Intangible fixed assets

Group	Goodwill £'000
Cost	
At 1 January 2003 and 31 December 2003	6,778
Amortisation	
At 1 January 2003	5,884
Charge for the year	49
Provision for impairment (note 7)	229
At 31 December 2003	6,162
Net book value	
At 31 December 2003	616
At 31 December 2002	894
Company	Goodwill £'000
Cost	
At 1 January 2003 and 31 December 2003	1,119
Amortisation	
At 1 January 2003	876
Charge for the year	13
At 31 December 2003	889
Net book value	
At 31 December 2003	230
At 31 December 2002	243

12. Tangible fixed assets

	Leasehold improvements £'000	Plant and machinery £'000	Motor vehicles £'000	Computer equipment £'000	Furniture and fittings £'000	Total £'000
Group						
Cost						
At 1 January 2003	415	1,999	511	602	201	3,728
Additions	16	251	30	34	2	333
Disposals	(7)	(11)	(79)	(10)	(4)	(111)
Exchange adjustment	1	-	1	3	3	8
At 31 December 2003	425	2,239	463	629	202	3,958
Depreciation						
At 1 January 2003	157	1,518	319	353	131	2,478
Charge for the year	55	245	78	155	35	568
Impairment	8	-	17	3	17	45
Disposals	(5)	(11)	(54)	(7)	(2)	(79)
Exchange adjustments	-	-	1	2	1	4
At 31 December 2003	215	1,752	361	506	182	3,016
Net book value						
At 31 December 2003	210	487	102	123	20	942
At 31 December 2002	258	481	192	249	70	1,250

The net book value of tangible fixed assets includes an amount of £291,000 (2002: £327,000) in respect of assets held under finance leases. Depreciation charged on those assets during the year was £79,000 (2002: £136,000).

	Leasehold improvements £'000	Plant and machinery £'000	Motor vehicles £'000	Computer equipment £'000	Furniture and fittings £'000	Total £'000
Company						
Cost						
At 1 January 2003	7	11	30	133	12	193
Disposals	(7)	(11)	(30)	(10)	(4)	(62)
At 31 December 2003	-	-	-	123	8	131
Depreciation						
At 1 January 2003	5	10	15	112	7	149
Charge for the year	1	1	6	10	1	19
Disposals	(6)	(11)	(21)	(7)	(2)	(47)
At 31 December 2003	-	-	-	115	6	121
Net book value						
At 31 December 2003	-	-	-	8	2	10
At 31 December 2002	2	1	15	21	5	44

The net book value of tangible fixed assets includes an amount of £nil (2002: £nil) in respect of assets held under finance leases. Depreciation charged on those assets during the year was £nil (2002: £nil).

13. Investments

Investments in subsidiaries

	Share Capital £'000	Loans £'000	Total £'000
Cost			
At 1 January 2003 and 31 December 2003	11,799	606	12,405
Provisions for impairment in value			
At 1 January 2003	5,636	606	6,242
Provisions made in the year	750	-	750
At 31 December 2003	6,386	606	6,992
Net book value at 31 December 2003	5,413	-	5,413
Net book value at 31 December 2002	6,163	-	6,163

Goodwill

The cumulative amount of goodwill resulting from acquisitions prior to 31 December 1998 and the introduction of FRS 10, which has been written off to reserves, after deducting goodwill attributable to the businesses disposed of was £401,000, (2002: £401,000).

14. Stocks

	Group	
	2003 £'000	2003 £'000
Raw materials	2,493	2,100
Work-in-progress	3,221	3,290
Finished goods and goods for resale	776	788
	6,490	6,178

In the opinion of the directors, there is no material difference between the carrying value and the replacement cost of stocks and work-in-progress.

15. Debtors

Amounts falling due within one year:

	Group		Company	
	2003	2002	2003	2002 (Restated)
	£'000	£'000	£'000	£'000
Trade debtors	5,321	2,842	1	-
Amounts recoverable on contracts	350	80	-	-
Amounts owed by subsidiary undertakings	-	-	919	3,476
Other debtors	76	500	31	86
Prepayments and accrued income	180	193	5	25
	5,927	3,615	956	3,587

16. Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (note 19)	5,569	3,630	1,657	2,145
Obligations under finance leases	24	68	-	-
Other loans	-	450	-	450
Trade creditors	3,546	2,537	86	316
Amounts due to subsidiary undertakings	-	-	375	390
Amounts due to related parties	-	112	-	112
Taxation and social security	700	550	36	23
Other creditors	-	12	-	-
Accruals and deferred income	1,766	1,180	1,042	671
	11,605	8,539	3,196	4,107

The bank loan and overdraft with the Bank of Scotland are secured by a fixed and floating charge over the assets of Screen plc Group.

17. Creditors: amounts falling due after more than one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Obligations under finance leases	158	175	-	-

18. Derivatives and other financial instruments

The Group enters into foreign exchange contracts to eliminate currency exposures that arise on sales denominated in foreign currencies. Changes in the fair value of the forward currency contracts are not recognised in the financial statements until the exposure that is being hedged is itself recognised. An analysis of these unrecognised gains and losses is as follows:

	2003 £'000s	2002 £'000s
Group:		
Unrecognised gain in the year	264	-
Gain expected to be recognised in the year ending 31 December 2004	258	-

19. Borrowings

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank overdrafts	4,360	2,421	448	936
Bank loans	1,209	1,209	1,209	1,209
Other loans	-	450	-	450
	5,569	4,080	1,657	2,595
Obligations under finance leases and hire purchase contracts	182	243	-	-
	5,751	4,323	1,657	2,595
Due within one year	5,593	4,148	1,657	2,595
Due after more than one year	158	175	-	-
	5,751	4,323	1,657	2,595

The finance leases are repayable as follows:

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
In one year or less	24	68	-	-
Between one and two years	143	160	-	-
Between two and five years	15	15	-	-
	182	243	-	-

The bank loan is repayable as follows:

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
In one year or less	1,209	1,209	1,209	1,209
Between one and two years	-	-	-	-
	1,209	1,209	1,209	1,209

Interest on the bank loan is chargeable at 1¼% over base rate.

19. Borrowings continued.

The other loan is repayable as follows:

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
In one year or less	-	450	-	450

The other loan relates to unsecured loan notes where interest was chargeable at 3% over base rate from 21 January 2003 (note 27).

20. Operating leases

	Land and buildings		Other	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Group				
Operating leases which expire:				
Within one year	-	-	43	90
In two to five years	176	291	66	105
In over five years	226	146	53	-
	402	437	162	195

21. Share capital

Authorised	2003		2002	
	Number 000's	£'000	Number 000's	£'000
Ordinary shares of 1p each	80,000	800	70,000	700

Following the Annual General Meeting on 12 June 2003, the authorised share capital increased to 80,000,000 ordinary shares of 1p each (£800,000).

Allotted, called up and fully paid share capital

	Number of Shares	2003 Nominal Capital £'000	Number of Shares	2002 Nominal Capital £'000
	Ordinary shares of 1p each	65,420,479	654	56,325,737

21. Share capital continued.

During the year the Company issued shares as follows:

	Number of Shares	Nominal Value £'000	Consideration £'000
21 May 2003	7,740,805	77	929
25 June 2003	1,354,167	14	163
	<u>9,094,972</u>	<u>91</u>	<u>1,092</u>

The issue on 25 June 2003 was in relation to the conversion of the £450,000 loan notes acquired from Lloyds TSB plc by Messrs Taylor, Merryman, Carswell, Sullivan, Wightman, all directors of Screen plc, and certain key management. The issue on 21 May 2003 was for cash.

Share options and warrants

As at 31 December 2003 options under the Company's unapproved share option scheme were outstanding as follows:

Number of shares	Subscription price – pence per share	Period of option	Date of Grant
90,000	15	1.1.01 to 12.5.06	12.5.99
180,000	10	1.9.00 to 16.5.06	17.5.99
52,500	30	1.1.04 to 30.11.06	1.12.99
4,773,355	7.75	22.4.06 to 21.3.11	22.4.03
841,000	13.25	23.3.06 to 21.3.11	23.9.03
<u>5,936,855</u>			

22. Reserves

	Share premium account £'000	Profit and loss account £'000
Group		
At 1 January 2003	22,703	(20,238)
Loss for the financial year	-	(1,814)
Currency translation difference	-	(50)
Arising on share issues	1,001	-
Share issue costs	(44)	-
At 31 December 2003	<u>23,660</u>	<u>(22,102)</u>
Company		
At 1 January 2003 (As restated)	22,703	(17,336)
Loss for the financial year	-	(4,188)
Arising on share issues	1,001	-
Share issue costs	(44)	-
At 31 December 2003	<u>23,660</u>	<u>(21,524)</u>

23. Net cash outflow from operating activities

	2003 £'000	2002 £'000
Operating loss	(1,962)	(13,715)
Goodwill amortisation and provision for impairment	278	5,531
Depreciation of tangible fixed assets	613	610
Loss on sale of tangible fixed assets	16	21
Increase in stocks and work in progress	(312)	(875)
(Increase)/decrease in debtors	(2,312)	5,619
Increase/(decrease) in creditors	950	(1,271)
Net cash outflow from operating activities	(2,729)	(4,080)

24. Reconciliation of net cash flow to movement in net debt

	2003		2002	
	£'000	£'000	£'000	£'000
Decrease in cash in the year	(1,987)		(2,159)	
Cash outflow from debt	137		229	
Change in net debt resulting from cash flows		(1,850)		(1,930)
Other movements/non cash items:				
- new finance leases		(76)		(183)
- other loans		450		300
Translation difference		47		(169)
Movement in net cash in the year		(1,429)		(1,982)
Net debt at 1 January 2003		(4,322)		(2,340)
Net debt at 31 December 2003		(5,751)		(4,322)

25. Analysis of net cash

	At 1 January 2003 £'000	Cash flow £'000	Other non cash changes £'000	Exchange movement £'000	At 31 December 2003 £'000
Cash at bank and in hand	1	(1)	-	-	-
Overdrafts	(2,421)	(1,986)	-	47	(4,360)
	(2,420)	(1,987)	-	47	(4,360)
Debt due within 1 year	(1,659)	-	450	-	(1,209)
Debt due after 1 year	-	-	-	-	-
Finance leases	(243)	137	(76)	-	(182)
		137			
Total	(4,322)	(1,850)	374	47	5,751

26. Provision for liabilities and charges

	Net assets deficiency £'000	Purchase commitments £'000	Total £'000
Group			
Balance at 1 January 2003	-	196	196
Settled in year	-	(196)	(196)
Balance at 31 December 2003	-	-	-
Company			
Balance at 1 January 2003	-	-	-
Provided in year	623	-	623
Balance at 31 December 2003	623	-	623

The Group provision at 1 January 2003 was for certain purchase commitments which crystallised during 2003. The charge for 2004 in the Company books is to provide for the net assets deficiency in a subsidiary. This provision has no net effect on the Group's results.

Deferred taxation

A deferred tax asset has not been recognised in respect of timing differences relating to trading losses and depreciation in excess of capital allowances as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £3,414,000 (2002: £3,945,000).

The asset would be recovered if sufficient profits were achieved in future years.

	2003 £'000	2002 £'000
Breakdown of deferred tax asset:		
Tax losses and excess management expenses	2,798	3,172
Depreciation in excess of capital allowances	595	646
Short term timing differences	21	127
	3,414	3,945

27. Related party transactions

Related party	Nature of related party	Type of transaction	Value of transaction (net of VAT)		Amounts unpaid at the year end	
			2003 £'000	2002 £'000	2003 £'000	2002 £'000
Fentiman Consultants Limited	Company controlled by Mr I Taylor	Provision of consultancy services by Fentiman Consultants Limited	10	-	10	-
Taosam Limited	Company controlled by Mr T Wightman	Provision of consultancy services by Taosam Limited	85	-	10	-
Interregnum plc	Mr I Taylor was a director of this Company in 2003	Provision of consultancy services by Interregnum plc	100	110	7	110
Expertreview Limited	Company controlled by Mr O Williams	Provision of motor vehicles and mobile phones to directors, consultancy, property rental & accountancy services	-	51	-	2

On 28 March 2003 Messrs Taylor, Merryman, Carswell, Sullivan, Wightman, all current directors of Screen plc, and certain key management acquired the £450,000 loan notes from Lloyds TSB plc.

The above are arm's length transactions.

There is no ultimate controlling party of Screen plc.

28. Pension scheme

Prior to acquisition by the Group, a subsidiary, Joyce-Loebl Limited, operated until 31 August 1999, a pension scheme providing benefits based on final pensionable pay with contributions being charged to the profit and loss account, so as to spread the cost of pensions over employees' working lives with the company. The contributions were determined by a qualified actuary on the basis of triennial valuations. The most recent valuation was at 5 April 1997. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increases in salaries and pensions. It was assumed that the investment return would be 8.5% per annum and salary increases would average 6.5% per annum.

The most recent actuarial valuation showed that the market value of the scheme's assets was £2.2m at 5 April 1997 and that the actuarial value of those assets represented 110% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company up to August 1999 were at 9% of pensionable earnings. The scheme was closed in August 1999 and winding up proceedings commenced. All investments have been liquidated and remaining assets held as cash.

From September 1999, the Group has contributed to individual Group personal pension plans for a number of employees and the pension cost charge for the year under these schemes represents contributions payable to the funds.

The total pension cost of £328,000 (2002: £380,000) is in respect of the Group personal pension schemes.

There were no outstanding or prepaid contributions at the end of the year (2002: £nil).

28. Pension scheme continued.

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are required:

The valuation was updated by the actuary on an FRS 17 basis as at 31 December 2003, 31 December 2002 and 31 December 2001.

The major assumptions used in this valuation were:

	2003	2002	2001
Rate of increase in pensions in payment and deferred pensions	2.5%	2.5%	2.5%
Discount rate applied to scheme liabilities	5.5%	5.5%	5.8%
Inflation assumption	2.5%	2.5%	2.5%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long term rate of return 2003	Value at 2003	Long term rate of of return 2002	Value at 2002 £000	Long term rate of of return 2001	Value at 2001 £000
Cash	3.5%	3,687	3.5%	3,750	3.5%	3,625
Present value of scheme liabilities		(3,281)		(3,119)		(2,860)
Surplus in the scheme – Pension asset		406		631		765
Surplus unavailable to Group		(406)		(631)		(765)
		-		-		-

It is the intention of the Group and the scheme that the surplus in the scheme be applied for the benefit of members and will not therefore be available to the Group.

Movement in surplus during the year

	2003 £'000s	2002 £'000s
Surplus in scheme at beginning of year	-	-
Other finance cost	(40)	(39)
Actuarial gain	40	39
Surplus in the scheme at end of year	-	-

If FRS 17 had been fully adopted in these financial statements the pension costs for defined benefit schemes would have been:

Analysis of amounts included in other finance costs

	2003 £'000s	2002 £'000s
Expected return on pension scheme assets	130	126
Interest on pension scheme liabilities	(170)	(165)
	(40)	(39)

29. Post balance sheet events

In March 2004, the net assets and business of Petards Emergency Services Limited (PESL) were sold to AssetCo Data Solutions Limited for a cash consideration of £866,000. PESL's net assets less net cash balances at 31 December 2003 were £109,000.

30. Principal subsidiaries

A list of the principal subsidiaries and the proportion of their share capital and voting rights held is set out below:

Name of Company	Country of operations and registration	Nature of business	Holding	Proportion held
Petards Limited	England and Wales	Integrated Security Systems	Ordinary shares Preference shares	100% 100%
Petards International Limited	England and Wales	Mobile Data and in-car video	Ordinary shares	100%
PMI International A/S	Denmark	Mobile Data and in-car video	Ordinary shares	100%
Joyce-Loebl Limited	England and Wales	Transport & defence electronics	Ordinary shares	100%
Joyce-Loebl Group Limited	England and Wales	Holding Company	Ordinary shares	100%
Joyce-Loebl Holdings Limited	England and Wales	Holding Company	Ordinary shares	100%
Pentyre Limited	England and Wales	Specialist software solutions	Ordinary shares	100%
Petards Emergency Services Limited	England and Wales	Specialist system integration and design	Ordinary shares	100%
Petards Datax Limited	England and Wales	CCTV design, installation and maintenance	Ordinary shares	100%
Subsidiaries which have ceased trading				
PMI International Limited	England and Wales		Ordinary shares	100%
Lux Computer Services Limited	England and Wales		Ordinary shares	100%
Petards Corporate Knowledge Limited (in liquidation)	England and Wales		Ordinary shares	100%

All the above subsidiaries have been included in the accounts.

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