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ANNUAL REPORT & ACCOUNTS **2003**



INFAST
Group plc

INFAST
Group plc

Contents

# Financial Highlights

| | 2003 £m | 2002 £m |
|---|---|---|
| Turnover | **178.4** | 161.7 |
| Operating profit before goodwill amortisation and exceptional items | **3.2** | 5.5 |
| Exceptional items | **(0.4)** | – |
| Goodwill amortisation | **(1.3)** | (1.3) |
| Operating profit | **1.5** | 4.2 |
| Net interest | **(0.5)** | (1.0) |
| Amount written off fixed asset investment | – | (1.3) |
| Profit before tax | **1.0** | 1.9 |
| EPS | | |
| Basic | **0.7p** | 0.6p |
| Adjusted | **2.1p** | 2.8p |

- Turnover up 10% at £178.4m (2002: £161.7m)
- Operating profit, pre-goodwill and exceptionals, at £3.2m (2002: £5.5m)
- Pre-tax profit at £1.0m (2002: £1.9m)
- Adjusted earnings per share 2.1p (2002: 2.8p)
- Net debt reduced to £12.3m (2002: £16.5m)
- Final dividend unchanged at 1.2p bringing total for the year to 2.0p (2002: 2.0p)
- Long-term contract with Ministry of Defence secured

# Chairman's Statement

Graham Titcombe
Chairman

The year ended 31st December 2003 has been challenging for the Group. After good progress in the first half, the Company was affected by weak underlying sales during the latter part of the year and this, combined with the exceptional difficulties in the management of one particular contract, prompted the trading statement at the end of October. The Board recognises that the trading statement came as a surprise and disappointment to the shareholders.

Unfortunately these second half problems have overshadowed some positive contract successes both in the UK and USA despite underlying difficult trading conditions. We are particularly encouraged with the more recent success of some of our customers' products, including the much reported acclaim with which the new Jaguar XJ was met, and the winning of the long term contract for the Ministry of Defence.

Turnover for the year increased to £178.4m (2002: £161.7m) but due to the problems outlined above operating profit (pre-goodwill amortisation and exceptional items) was £3.2m (2002: £5.5m). Despite disappointing profits, cash flow was strong with net debt reduced to £12.3m (2002: £16.5m). The Board recommends the payment of an unchanged final dividend of 1.2p.

We will continue our drive for efficiency improvements within the Group throughout 2004.

## Current Trading

It is still too early in the year to predict any market trends affecting our business. Turnover for the first two months of 2004 is running marginally below the levels in the same period of 2003. However, I am pleased to report that gross percentage returns are showing improvements as we focus on more profitable areas of our business.

**Graham Titcombe**
Chairman

2nd March 2004

# Chief Executive's Statement

**Robert Sternick**
Chief Executive

Following a promising first half, we experienced substantial disruption and infill costs due to a manufacturing planning error in resourcing for a large industrial contract. Recovery measures were quickly implemented, including new processes and new management, which resulted in costs being contained. This situation, together with a market slowdown commencing in August, impacted our second half earnings. A comprehensive review of the contract, both internally and with our customer, resulted in an agreed exit plan to occur in June 2004. The infill and disruption costs have been expensed in our 2003 results. Lessons learnt have been promulgated throughout the Company and we can advise that this situation is now behind us.

## Operational Highlights

- Infast Industrial has consolidated three Distribution Service Centres (DSCs) into its main facility in Gloucester and introduced a mini-load robotic warehouse system.
- Infast Direct and Premier Automotive have consolidated a total of four DSC sites. This will favourably impact future overheads and service capabilities.
- Adesco's three sites have been merged into one existing site in Sheffield, thus increasing its capability to offer all of its value added services from one facility.
- Infast USA, following new contract awards in November and December of 2002, successfully started up three new DSCs in record time and now operates a total of seven.

It is important to differentiate between the one off problem affecting an industrial contract and the progress the Company is making in reducing its cost base whilst developing its inventory management services.

Turnover of £178.4m included the new Land Rover contract which, after allowing for the anticipated start-up costs, will commence generating earnings in 2004. Operating profits, pre-goodwill amortisation and exceptional items, fell to £3.2m impacted by £1.1m of disruption costs and we were also affected by a slow down in trading which commenced in August. This slow down was a result of delayed demand for some of our customers' products, coupled with fewer new product introductions. It is important to note that, since we service the OEM market, we are in the forefront of production swings.

Transformation of the business and operational cost saving measures continued in 2003 and our programme of optimising our DSCs will benefit 2004. As part of that programme, we have made a major investment in the mini-load robotic warehouse system in our Gloucester facility. These changes are necessary to improve our operating costs, whilst at the same time providing greater synergies, service flexibility and product coverage to our customers.

## Markets and Trends

## Wheel based and Special Markets

**Premier Automotive Division**

We continue to target the heavy equipment market and luxury high end vehicle sector. The heavy construction equipment market witnessed a small growth while the agricultural market remained flat. In the high end vehicle sector, the European market witnessed a shift towards the

# Chief Executive's Statement
**continued**

premium and compact SUV market. Premium brands within Europe tend to fare better than the mass-market year on year.

Demand for these brands continued to be strong in 2003 with the launch of the Jaguar diesel X type serviced by our Liverpool DSC, which recently achieved Ford Q1 status. The new aluminium Jaguar XJ was also very well received and a strong performer during this period. The launch of the diesel variant of the Jaguar S type is also anticipated in 2004.

New business has been secured on the new Aston Martin model, Jaguar sports car and the new Land Rover vehicles in addition to existing vehicles. The Land Rover contract commenced mid year and start-up costs were fully expensed in 2003.

The BMW Mini contract expired on 31st December. Contract related overheads were reduced at the same time and some limited closure costs were taken in 2003.

## Industrial Markets

**Infast Direct**

Infast Direct continued to extend its product offering and service capabilities during 2003, resulting in a good performance.

Highlights were:

- Services provided to Marine and Air markets, primarily through the BAE Systems contract, continued to develop.
- The rail business, from a slow start in 2003, gained substantially in new build orders in Quarter 4. A continued strong build programme is expected during 2004.
- A continued improvement in the supply of Everbright's stainless steel products to a competitive market.
- Adesco continued to successfully increase its position in a flat market for the supply of specialist adhesives, sealants and tapes – resulting in a solid 15% increase in revenue.

**Infast Industrial**

Infast Industrial focused on improving its cost base during the year and consolidated three DSCs into the Gloucester facility. The investment of the mini-load robotic system will provide increased flexibility and stock management benefits to the business.

Following an extensive review, Infast Industrial also won the renewal of a major Ministry of Defence contract for the next 7 years. The contract also includes the additional scope for the supply of aviation parts for the Royal Air Force.

## North American Markets

**Infast USA**

New business awards in 2002 resulted in three new sites being launched in Quarter 4 of that year. These were successful launches which were carried out in record time at the commencement of 2003. Infast USA, now almost 10% of our business, grew turnover by 38% in 2003 in what is a significant market for Infast's development.

**Manufacturing**

Contributing less than 10% of Group turnover, results for the year have been disappointing. New management was introduced to all the facilities during the year, leading to the implementation of new practices, processes, increased training and controls all of which started to show improvement in productivity in the latter part of the year. The coming months will be spent on accelerating these performance improvements to consistent levels, while reducing production costs. The focus continues to be on producing high end quality products.

## Human Resources Development

We continue to focus heavily on training via the Group Leadership Centre and Divisional training programmes, including such areas as Finance, Marketing, Terms and Conditions, IT Systems, HR and Project Management.

A strong Health and Safety programme has shown very good results during the year.

We are proud to once again have had outstanding nominees and divisional winners for the high achiever awards 2003 and congratulate Mrs Ellen Hazelwood from Infast Direct as this year's Group Winner.

I wish to thank all the employees of Infast for their dedication and contribution. I am pleased to see a very high level of motivation, enthusiasm and professionalism throughout the Company.

## Moving Forward

The demand and trend for outsourcing and value added services continues to expand with new and existing customers.

Our supply chain development programme and improved sourcing capabilities are producing the expected results and will be further developed.

The re-alignment of some long-standing contracts has become necessary as we focus on profitability. This is being achieved through amicable discussions with our customers.

Roll-out for the IBS² IT system will continue, having been successfully installed in six sites during the year.

We have faced up to the challenges and, whilst earnings in 2003 were affected by exceptional circumstances, we have come out of the year with substantially lowered debt which has been reduced from £16.5m to £12.3m.

The Group will continue to stay focused on generating cash and on improving its cost base and profitability, while operating in what is still a flat trading environment. At the same time we will develop our business in key profitable markets through increased value added services in the UK, USA and review opportunities in continental Europe.

**Robert Sternick**
Chief Executive

2nd March 2004

INFAST Group plc

# Finance Director's Review

**John Kimber**
Finance Director

## Operating Results

Group turnover for the year increased by 10.3% to £178.4m (2002: £161.7m), benefiting significantly from the new Land Rover contract which commenced in the year. Turnover from our inventory management services activity has increased by one third in the two years since 2001, due to significant new contract awards in what has been a flat industrial market in the UK and US. It is likely that 2004 turnover will show a small decrease as we focus our activity in the most profitable areas.

Operating profit (pre-goodwill amortisation and exceptional items) was £3.2m, (2002: £5.5m). The principal reason for this reduction in profitability relates to the difficulties which were experienced in the management and resourcing process of one large industrial contract in the latter part of the year. These difficulties meant that the Group incurred additional costs in obtaining substantial amounts of parts at short notice, as well as delaying the benefit of extra production volumes into one of our manufacturing facilities. This situation and the related disruption to our facilities impacted the results for the year by £1.1m.

The new Land Rover contract commenced operations in June. This contract, which is our largest, is performing well. As it required the setting up of a dedicated facility, however, it incurred significant start up costs, all of which have been expensed in the year.

Profit on ordinary activities before taxation was £1.0m (2002: £1.9m), whilst the equivalent figure after tax rose to £0.8m (2002: £0.7m).

## Exceptional Items

The contract which sustained the problems, discussed above, has been reviewed with the customer and an exit plan agreed for June 2004. This contract is served from a dedicated facility and certain asset write downs and vacant property costs are likely to be incurred following cessation of the contract. These costs, which are expected to amount to £0.2m, have been provided as an operating exceptional item. The extra one-off trading costs arising from this contract have not been treated as exceptional and have been taken within normal operating costs.

In addition, £0.2m of restructuring costs were incurred in the first half of the year in one of our manufacturing operations.

## Financing

The Group's net debt position reduced over the course of the year to £12.3m from £16.5m, giving rise to gearing of 25% (2002: 32%). This improvement was achieved despite the substantial increase in turnover and disappointing trading results in the year, primarily by the reduction of our working capital levels by £2.9m and the receipt of the deferred sale proceeds of Butterley Engineering Ltd. (£1.8m) following its disposal in 2000.

Whilst stock and trade creditor levels rose in line with the increased turnover, debtor levels actually fell by £4.5m, representing a substantial improvement in our average debt collection period.

INFAST Group plc

# Finance Director's Review
**continued**

Capital expenditure in the year was £4.0m (2002: £3.9m), whilst asset disposals raised £0.1m (2002: £0.7m) and the depreciation charge was £3.1m (2002: £2.7m). Our main spend in the year continued to be in the areas of IT systems, particularly the IBS[2] project, and upgrading of facilities.

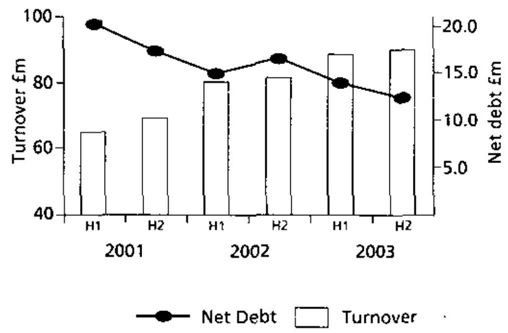
Free cash flow (operating cash flow adjusted for interest, taxation and fixed asset acquisitions and disposals) was £4.4m (2002: £2.9m).

Net interest costs fell substantially in the year to £0.5m, benefiting from lower debt levels, the weaker US dollar affecting the translation of the interest paid in US dollars and the receipt of cash interest in respect of the Haden International Group loan.

A significant proportion of the Group's core debt continues to be provided by a US dollar denominated medium term loan, which bears a fixed rate of interest of 7.37%. This loan had a balance outstanding at the end of the year of $10.7m and is being repaid by equal annual instalments from February 2004 to February 2006.

The balance of the Group's debt was made up of £0.6m of finance leases and short-term bank debt of £5.7m, both of which attract a variable rate of interest. The Group's short term bank facilities totalled £13.5m at the year end and have subsequently been renewed at this level for a further 12 months.

**Turnover & Net Debt**




The Group's liquidity and interest rate risk are managed centrally following guidelines laid down by the Board. The Group's objective is to maintain a balance of continuity of funding and flexibility through the use of borrowings with a range of maturities attracting both fixed and variable interest rates.

## Currency Hedging

The Group aims to minimise the risk associated with foreign currency fluctuations by using a combination of foreign currency borrowings to hedge foreign currency denominated assets and forward contracts to hedge known trading exposures. Forward contracts are used only to manage risk and speculation is not permitted.

The US dollar medium term loan and other US dollar borrowings largely hedge our US dollar net assets and the interest on these loans also provides an effective hedge against our US earnings.

## Taxation

The tax charge for the year was £0.2m, which represents an effective rate of 9% on profits pre-goodwill amortisation. This favourable effective rate was the result of the reversal of prudent provisions in prior years.

Net corporation tax payable at the end of the year was £nil (2002: £0.1m).

## Pensions

The Group continues to adopt the transitional arrangements for reporting under FRS17, details of which are included in Note 28 to the accounts.

The Group's defined benefit scheme, which was closed to new members in 1992, had a deficit after tax at the end of the year calculated in accordance with FRS17, of £1.9m (2002: £2.4m deficit). The reduction in the deficit was largely due to an improved return on the scheme assets although the benefit of this was partially offset by the use of more conservative assumptions to value the scheme's liabilities.

## Dividend

A final dividend of 1.2p is proposed bringing the year's total to 2.0p which is the same as last year. This will have a total cash cost of £2.3m. Although the payment of this is not covered by the profit on ordinary activities after taxation, it is covered by adjusted earnings (pre-goodwill amortisation and exceptional items) and 1.9 times by free cash flow.

**John Kimber**
Finance Director

2nd March 2004

INFAST Group plc

# Board of Directors

**Graham Titcombe**
**Non-Executive Chairman**

Joined the Board in September 2002. He was previously the Group Managing Director of Johnson Matthey plc and resigned as a non-executive director of Wagon plc during the year. Aged 61.

**Robert Sternick**
**Chief Executive**

Joined the Board in May 2001. He was previously the Managing Director of Williams plc's intruder businesses in Europe, the Middle East and Africa; having previously worked with BPB plc and Dresser Industries worldwide. Aged 52.

**Jon Parker**
**Executive Director and Company Secretary**

Joined the Board in April 2000, having acted as Company Secretary since June 1994. He was previously with Johnson Matthey plc and Ferranti International plc. Aged 49.

**John Kimber**
**Finance Director**

Appointed to the Board in October 1997, having previously spent ten years with the Group, the last six of which were as Group Financial Controller. He is a Chartered Accountant. Aged 46.

**Tony Bruce**
**Non-Executive and Senior Independent Director**

Joined the Board in April 1997. He is the Chairman of Airborne Systems Limited. Formerly Marketing Director of John Brown plc. Aged 66.

**Richard Seguin**
**Non-Executive Director**

Joined the Board in January 2003. Currently he is the Chief Executive of Techpak International S.A., a division of Pechiney S.A. Aged 44.

# Report and Accounts

INFAST Group plc

# Directors' Report

The directors present their report together with the audited accounts for the Group for the year ended 31st December 2003.

## Results and Dividends

The results for the year ended 31st December 2003 are set out in the Consolidated Profit and Loss Account on page 28.

The directors recommend the payment of a final dividend of 1.2p per Ordinary Share (2002: 1.2p) payable on 4th June 2004 to shareholders on the register on 7th May 2004, resulting in total dividends paid and proposed for the year of 2.0p per ordinary share (2002: 2.0p).

## Business Review

A review of the Group's operations for the year and its future prospects is set out in the Chief Executive's and Finance Director's Reviews on pages 9 to 11.

## Substantial Shareholdings

At 2nd March 2004 the Company had been notified of the following interests within the meaning of Part VI of the Companies Act 1985 and the Disclosure of Interests in Shares (Amendment) Regulations 1993 comprising 3 per cent. or more of the Company's share capital:

| Name of interested holder | No. of ordinary shares | % of total in issue |
|---|---|---|
| UBS Asset Management | 14,403,713 | 12.59 |
| Mr J P Moulton | 9,750,000 | 8.52 |
| Artemis Investment Management Limited | 8,409,876 | 7.35 |
| Platinum Investment Trust plc | 6,499,300 | 5.68 |
| Invesco English and International Trust plc | 4,250,000 | 3.71 |

## Directors

The directors of the Company are shown on page 12 and their interests in the share capital at 31st December 2003 are shown on page 25. Mr R Seguin was appointed to the Board on 13th January 2003. Messrs A G Bruce and R P Sternick are seeking re-election to the Board at the forthcoming Annual General Meeting.

## Research and Development

The Group's principal subsidiary companies are committed to working with their customers to develop application engineering solutions for their needs including the development of new products where appropriate.

## Donations

Charitable donations in the UK amounted to £1,243 (2002: £3,426).

## Payment to Suppliers

The Group does not follow any published code or standard in respect to payment of its suppliers. Instead, it is the Group's policy to settle the terms of payment when agreeing the terms of each transaction, and to abide by those terms, subject to the terms and conditions being met by the supplier. At 31st December 2003 creditor days for the Company were 58 days (2002: 30 days).

## Employment of Disabled People

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitude of the applicant concerned. In the event of existing employees becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

## Employee Involvement

The Group places considerable value on good relations and communication with its employees. The management of each subsidiary company is encouraged to adopt such employee consultation as appropriate including the provision of Group financial performance information. The Group also encourages the involvement of eligible employees in the Group's performance through employee sharesave schemes.

## Auditors

A resolution to re-appoint Ernst & Young LLP as Auditors will be proposed at the Annual General Meeting.

## Annual General Meeting

The Notice of the Annual General Meeting is set out on pages 53 and 54.

By order of the Board,

**M J F Parker**
Director and Company Secretary
Waterwells Drive
Quedgeley
Gloucester
GL2 2FR
2nd March 2004

# Corporate Governance

The Company is committed to high standards of corporate governance. This statement describes how the principles of corporate governance are applied to the Company. Although the revised Combined Code on Corporate Governance which evolved from the Higgs Report on The Review of the Role and Effectiveness of Non-Executive Directors and Sir Robert Smith's report to the Financial Reporting Council does not currently apply to the Company, since this reporting year began prior to November 2003, the Board has taken steps to comply with those requirements of the Code to the extent that the directors believe that it is appropriate for a company of the size of Infast Group plc. For the purposes of this statement, that Combined Code will be referred to as the revised Code.

## Statement by the Directors on Compliance with the Provisions of the Combined Code

Throughout the year ended 31st December 2003, the Company has been in compliance with the code provisions set out in section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority (the Code which currently applies to the Company).

## The Board

The Board, which meets not less than ten times per annum, comprises six directors, namely a non-executive Chairman, two independent non-executive directors, a Chief Executive officer and two other executive directors. The names of the directors, and the positions they hold, are set out on page 12.

The Board complies with the supporting principles described in the revised Code setting the Company's strategic aims and ensuring that the necessary financial and human resources are in place by holding annual meetings with the Company's senior operational management for this purpose. The goals and objectives agreed at such annual meetings and more specific financial targets which are set out in the annually agreed budgets are monitored on a monthly basis by non-executive directors who will also ensure, through the Audit Committee, that the Company's financial controls and systems for risk management are robust and defensible. The Board, through the Remuneration Committee, takes responsibility for determining the appropriate levels of remuneration of the executive directors and succession planning at senior levels in the Company.

The Board is responsible to shareholders for the proper management of the Group and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. A statement of directors' responsibilities in respect of the accounts is set out on page 21.

There is a clear division of responsibilities between the Chairman and the Chief Executive which has been agreed by the Board.

The Chairman is responsible for ensuring the effectiveness of the Board through regular formal Board meetings as well as individual meetings with the Chief Executive and other directors as appropriate. The Chairman ensures effective communication with shareholders is carried out, primarily, by the Chief Executive and Finance Director.

The size and balance of skills and experience of the directors is commensurate with the requirements of the business with half of the Board being non-executive directors. The Audit, Remuneration and Nomination Committees each comprise the non-executive directors with the executive directors attending where requested by invitation of the relevant Committee.

All three of the non-executive directors have significant commercial and other interests outside the Company and are considered by the Company to be independent. One of those non-executive directors, Mr A G Bruce, has been formally appointed as the Senior Independent Director and is available to shareholders if they have concerns that contact through the normal channels has failed to resolve.

Key areas of the Group's affairs which are dealt with by the Board as a whole include:

- setting and monitoring of overall Group strategy
- examination and approval of all acquisitions and disposals of companies
- examination and approval of all major contracts
- monitoring of financial and operating performance
- review and approval of operating budgets
- ensuring adequate funding
- approval of major capital projects and asset disposals
- management succession and executive development and training.

The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. To enable the Board to discharge its duties, all directors have full and timely access to all relevant information.

## Information and Personal Development

The Board receives accurate, timely and clear information in advance of each meeting and the non-executive directors meet the operational management of the Company as and when required or they so desire. The Company Secretary, under the direction of the Chairman, is responsible for ensuring good information flow from the Board and its Committees and other senior management as and when required.

The Chairman ensures that the non-executive directors update their skills and knowledge and familiarity within the Company by regular meetings with local management and site visits.

On being appointed to the Board, new directors attend an induction course both in respect of the Company itself and to familiarise them with the duties of a public company director. All directors have access to independent professional advice, at the Company's expense, where they judge it necessary to discharge their responsibilities and they have access to the advice and services of the Company Secretary.

The Board carries out an individual evaluation of each of the directors to ensure that he contributes effectively and in a committed way to his roles and responsibilities. The Chairman acts upon the results of that evaluation and, when necessary, imposes changes to the constitution of the Board. The Senior Independent Director assisted by the other non-executive director, who is not also the Chairman, is responsible for the performance evaluation of the Chairman, having taken into account the views of the executive directors.

In accordance with the Company's articles of association, all directors are subject to election by shareholders at the first AGM after appointment and then at intervals of no more than three years. Sufficient information on each director is given to the shareholders to enable them to take an informed decision.

Only one of the non-executive directors, Mr A G Bruce, has been on the Board for a term exceeding six years having been appointed on 1st April 1997. With the full support of the Board, and in line with the process stipulated in the revised Code, Mr Bruce will be standing for re-election at the forthcoming AGM. During 2003, one new independent director, Mr R D Seguin, was appointed.

## Appointments to the Board

Appointments to the Board are made purely on merit and experience against objective criteria using a third party consultancy and upon the recommendation of the Nominations Committee. Appointees are requested to confirm that they would only take on the position if they have sufficient time to devote to the job.

## Board Committees

The Board has established a number of committees, including the Nominations Committee, the Audit Committee and the Remuneration Committee. The Audit and Remuneration committees consist of the Chairman and the other non-executive directors. The Audit Committee is chaired by Mr A G Bruce, who is also the Senior Independent Director, and the Nominations and Remuneration Committees by Mr D G Titcombe.

Certain matters are reserved to the Board in accordance with a detailed paper which sets out the responsibilities of the Board and the Group Management Committee ('GMC'). The GMC meets ten times a year and comprises the executive directors and the senior management namely, Mr R P Sternick, Mr J R Kimber, Mr M J F Parker, Mr R L D Cullen, Mr F Lauriello, Mr J Shore, Mr F Thorpe and Mr C Tyrrell.

A **Nominations Committee** is in place which is responsible for identifying and recommending candidates for Board positions and meets whenever the need arises. The composition of that Committee is the independent non-executive directors under the Chairmanship of Mr D G Titcombe, except in the case of his own replacement. The terms of reference for the Nominations Committee are available on request. Changes to the Chairman's other significant commitments are reported to the Board as they arise and are included on page 12. The terms and conditions of appointment of the non-executive directors are available for inspection and other significant commitments of the non-executive directors are disclosed to the Board before appointment with the Board being informed of subsequent changes. None of the executive directors currently holds a non-executive directorship of any listed company. During the year the Committee met to identify and nominate for the approval of the Board the appointment of Mr R D Seguin as a non-executive director following the identification of suitable candidates by an external agency, Hanson Green.

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# Corporate Governance

**continued**

The **Audit Committee,** which consists of the three independent directors, was established by the Board on 10th November 1992 which also reviewed its terms of reference on 8th December 2003. The Audit Committee is chaired by Mr A G Bruce who is also the Senior Independent Director. None of the non-executive directors are formally qualified in finance. Both Mr Bruce and Mr Titcombe have sat on audit committees for 7 years.

The role and responsibilities of the Audit Committee have recently been revised to include the recommendations set out in the Combined Code, namely:

- To monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- To review the Company's internal financial controls and, unless expressly addressed by a separate Board risk committee composed of independent directors, or by the Board itself, to review the Company's internal control and risk management systems;
- To monitor and review the effectiveness of the Company's internal audit arrangements;
- To make recommendations to the Board, for it to put to the shareholders for their approval in general meetings, in relation to the appointment, re-appointment and removal of the external auditor;
- To discuss the nature and scope of the audit;
- To determine the remuneration of the external auditors.

The above terms of reference are available on request. The Audit Committee meets not less than three times a year. At those meetings the external auditors, the Group Financial Controller, who is responsible for internal audit, and the executive directors are present by invitation. Separately, the external auditors are invited by the Audit Committee to advise that Committee of any matters which they feel should be brought to the Committee's attention in the absence of executive management.

There is no separate internal audit function in the Group. The Company relies on a programme of formal periodic reviews which are scheduled by the Audit Committee and carried out by the Group Financial Controller, who in this capacity reports to the Chairman of the Audit Committee. The Chief Executive Officer and Finance Director also perform detailed performance reviews. Action plans are agreed based on these reviews where internal controls require strengthening and then they are monitored by the Audit Committee on an ongoing basis. However, the Board does believe that the internal audit function merits strengthening and a further appointment will be made in this area during the next six months.

The Audit Committee has a primary responsibility for making a recommendation on the appointment, re-appointment or removal of the external auditors and has concluded that, for the time being, no change is needed.

The non-audit services provided by the auditors during the year covered taxation advice. Auditor objectivity and independence is safeguarded by the agreement of a clear fees policy to avoid any perception of the auditors being influenced by work carried out in other parts of the firm; in addition, and again to avoid any perception that there might be a conflict of interests, the auditors of the Company's pension schemes are different from those of the Company itself.

The **Remuneration Committee** is responsible for making recommendations to the Board on the Company's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the executive directors, including performance related bonus schemes, pension rights and compensation payments. It meets at least twice a year. The Board itself determines the remuneration of the non-executive directors.

The Remuneration Committee consults with the Chief Executive about its proposals relating to the remuneration of the other executive directors and, as appropriate, will appoint consultants to advise the Committee. The Chairman of the Board will ensure that the Company maintains contact with its principal shareholders about remuneration as appropriate. The terms of reference of the Remuneration Committee are made available upon request. The Committee has delegated responsibilities from the Board for setting remuneration for all executive directors and the Chairman, including pension rights and any compensation payments. It also monitors and approves the level and structure of remuneration for senior management, being the first layer of management below Board level. The remuneration of the non-executive directors is determined by the Chairman and the executive directors; in the case of the Chairman, the remuneration is determined by the other members of the Board. Shareholders are invited to approve all long term incentive schemes and significant changes to existing schemes as required in the rules of those schemes.

Executive directors are entitled to bonuses up to 70% of their basic salary on objective, performance – related criteria as set out in Schedule A of the Code. The only executive share options which are offered at discount are those which are offered to all employees as part of the Employee Sharesave Scheme. This is permitted by the relevant provisions of the Listing Rules. The levels of remuneration for non-executive directors do reflect the time commitment and responsibilities of the roles they hold and do not include any entitlement to share options. None of the executive directors currently serve as a non-executive director elsewhere; if the situation should arise, whether or not the director would be entitled to retain any earnings as associated with that position would be reported in the Annual Report. All of the executive directors are on notice periods which do not exceed one year.

The Directors' Remuneration Report is set out on pages 21 to 26.

## Relations with Shareholders

Communications with shareholders are given high priority. The main shareholder contact is the Chief Executive and Finance Director. The Chairman and other non-executive directors are available for discussion with the Company's principal shareholders as and when required.

The Chief Executive's Statement on pages 5 to 7 and the Finance Director's Review on pages 9 to 11 include a detailed review of the business and future developments. There is regular dialogue with the Company's main institutional shareholders, including presentations after the Company's preliminary announcement of interim and year end results, and a detailed report of that dialogue is given to the non-executive directors. The Board is always willing to consider the views of the institutional shareholders concerning the Company's governance arrangements, particularly those relating to Board structure and composition.

The Board uses the Annual General Meeting, which is attended by all of the directors, to communicate with private and institutional investors and welcomes their participation. Details of resolutions to be proposed at the Annual General Meeting on 29th April, 2004 can be found in the Notice of the meeting on pages 53 and 54.

The Company does ensure that all shareholders are contacted prior to general meetings and during the course of the meeting indicates the level of proxies lodged on each resolution as required in the Code. Notice of the AGM is given to shareholders at least 20 working days before the relevant meeting and separate resolutions are proposed for each substantially separate issue, including in particular a resolution relating to the Report and Accounts. The Chairmen of the Audit, Remuneration and Nominations Committees are available to answer any questions at the AGM.

The Company strives to ensure that its main institutional shareholders exercise their right to vote on resolutions proposed to the Company shareholders and, as with all shareholders, the major shareholders are very welcome to attend the Company's AGMs.

## Internal Control

The Board is responsible for establishing and maintaining the Group's system of internal control and for review of its effectiveness. Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed. However, shareholders should be mindful that any system can only provide reasonable, not absolute, assurance against material misstatement or loss and is designed to manage but not eliminate the risk of failure to achieve business objectives and by their nature can provide reasonable, but not absolute, assurance of:

- the safeguarding of assets against unauthorised use or disposition, and
- the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

The Group operates an ongoing process for identifying, evaluating and managing risks, in both operating companies and at group level. This is regularly reviewed by the Board and is in accordance with the corporate governance guidelines. This is an ongoing process which has been in place throughout the year and up to the date of approval of the Annual Report and financial statements.

The Board has established a number of key procedures over the years which are intended to provide effective internal control and enable the Board to review the overall effectiveness of the Group's system of internal control.

# Corporate Governance

**continued**

A summary of these procedures is outlined below.

- **Management structure**
  There are clearly defined levels of responsibility and delegation throughout the Group, together with well-structured reporting lines to the Board. There is a formal schedule of matters specifically reserved for decision by the Board.
- **Quality and integrity of personnel**
  The integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses. High quality personnel are seen as an essential part of the control environment.
- **Budgetary process**
  Comprehensive annual budgets are prepared for each subsidiary, including a commentary on key business opportunities and risks. These are reviewed in detail and approved by at least two executive directors and further reviewed by the Board on a consolidated basis. Actual performance against budget is monitored on a monthly basis together with updates of both profit and cash flow expectations for the year.
- **Investment approval**
  Capital expenditure is regulated by the budgetary process and authorisation procedures. For expenditure beyond specified levels, detailed written proposals, incorporating payback calculations, must be submitted to the Board for approval.
- **Group procedures manual**
  A manual has been widely circulated around the Group which clearly defines Group policy on the management of a wide range of business risks. Any deviation from standard trading terms or other Group policy must be reported to the executive members of the Board for approval.
- **Internal audit**
  Internal audits are carried out at least biennially on all trading subsidiaries within the Group. These audits cover management of business risk and compliance with Group procedures, as well as all areas of internal financial control. Actions are agreed based on these audits and progress is monitored by the Audit Committee on behalf of the Board on an ongoing basis.
- **Evaluation of business risks**
  Business risk assessment and evaluation takes place as an integral part of the annual budgeting process. Each business unit is required to document the sensitivities of their budget in terms of risks, the mitigating actions in place or proposed and an allocation of responsibilities for management of those risks. The Board reviews these subsidiary risks and, in addition, considers the overall risks facing the Group. Management of those risks is discussed and actions to mitigate them agreed.
- **Internal control questionnaires**
  Detailed internal control questionnaires are completed by senior divisional management who have to undertake a self certification on an annual basis. These are fully reviewed by the Group Finance function and are used in the planning process of internal audits and form the basis of remedial action as necessary.

## Effectiveness of Internal Controls

The Audit Committee has reviewed the effectiveness of the system of internal control as it operated during the year and reported its conclusions to the Board. The Group management have considered certain weaknesses in controls, which occurred in the year, within the Premier Automotive division. The areas of weakness and the corrective actions taken have been fully reviewed with the Audit Committee.

## Going Concern

After making enquiries, 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.

# Statement of Directors' Responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the state of affairs of the Company and Group and to enable them to ensure that 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.

# Directors' Remuneration Report

The Directors present the Remuneration Report for the year ended 31st December 2003. In accordance with Schedule 7A of the Companies Act the Board will be submitting this Report and the accompanying Notes to a vote of shareholders at the forthcoming Annual General Meeting (see pages 53 and 54).

## Composition and Terms of Reference of Remuneration Committee

The Remuneration Committee is responsible for determining the terms and conditions of appointment of directors, including incentive arrangements for executive directors. It also determines the policy and approves the allocation of share options under the Company's Executive Share Option Schemes. Its members are Mr D G Titcombe, the Group Chairman, Mr A G Bruce, non-executive and Senior Independent Director and Mr R Seguin, non-executive director. Members of the Committee have no personal financial interest, other than as shareholders, in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business. Further information on the Remuneration Committee is set out on page 18.

## Executive Remuneration Policy

It is the policy of the Remuneration Committee to provide competitive packages for the executive directors which reflect the Group's performance against financial objectives, reward above average performance and are designed to attract, retain and motivate high calibre executives. This policy is expected to continue in future years.

The remuneration package which meets the provisions of Schedule A to the Combined Code, consists of base salary, benefits and annual bonus, together with the longer term incentives and pension benefits.

**(i) Base Salary and Benefits**

Base salary reflects job responsibilities and is set by reference to individual performance and comparable market rates. Individual salaries are reviewed annually by the Committee. Benefits include medical insurance, permanent health insurance and a fully expensed company car.

INFAST Group plc

# Directors' Remuneration Report

**continued**

**(ii) Bonus**

Executive directors are eligible for a discretionary annual performance related bonus based on the achievement of target levels for profit before tax and average working capital which in the Committee's view represent good performance taking into account both budget and previous year's results. A maximum of 70% of base salary is payable depending upon the achievement of the targets. For 2003, based on these targets, no bonuses were paid to any of the executive directors.

**(iii) Pensions Benefits**

Pension benefits are provided through tax approved schemes under the same general arrangements as those for other senior executives of the Group.

Mr R P Sternick and Mr M J F Parker participate on a contributory basis in the Infast Group Money Purchase Pension Plan. The rate of company contribution to the scheme in respect of these two individuals is 35% of basic pay.

Mr J R Kimber participates on a contributory basis in the HMH Pension Scheme, a defined benefit scheme which provides $^{1}/_{60}{}^{th}$ of final salary, per year of service, on retirement.

The normal retirement age of executive directors is 60. Life assurance cover is provided by the respective pension schemes at a rate of 4 times salary.

**(iv) Long Term Incentives**

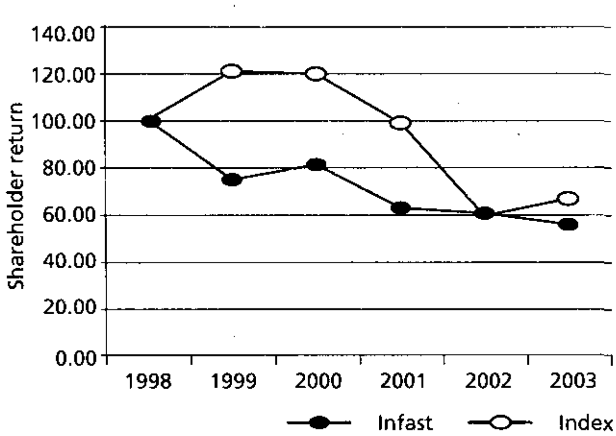
Long term incentive plans are the principal way of aligning the personal reward of the executive directors with the interests of the Company's shareholders. An integral part of the remuneration policy is to incentivise executive directors in this way.

Executive directors have received grants of options under the terms of two executive share option schemes. The Infast Group Executive Share Option Scheme 1996 (as amended) (the '1996 Scheme') is an Inland Revenue approved discretionary share option scheme and under it an executive may receive options at current market value to be exercised, in normal circumstances, between three and ten years after grant. The directors are also able to grant options under the 1996 scheme which are not approved by the Inland Revenue, thus attracting an income tax charge on exercise. The grant of options is subject to the limits set out in the notes of the 1999 Scheme, which include a restriction on the market value of options granted to no more than four times the higher of the total remuneration (excluding benefits in kind) and the total remuneration (excluding benefits in kind) at that time received in any twelve month period within the preceding three years. The full details of the rules are available to shareholders upon request and need to be read in full to obtain a complete understanding of the Scheme. The exercise of options is subject to the achievement of performance conditions established by the Committee at the time options are granted. The performance conditions are summarised in the Notes to this report and were believed to be appropriate at that time. Future awards will be subject to performance criteria that will be determined at the date of the award.

In addition executive directors may participate in the Infast Group Savings Related Share Option Scheme 1997, which is an Inland Revenue approved scheme available to all UK employees. It is based on three or five year savings contracts which provide an option to purchase shares after maturity at a discounted price fixed at the time the contract is taken out. The executive directors will also be eligible to participate in the Share Incentive Plan as approved at last years AGM, although there are no plans to issue shares in the foreseeable future.

## Performance Graph

The following graph contrasts the total shareholder return of the Company (calculated in accordance with the Directors' *Remuneration Report Regulations 2003*) with the FTSE All Share – Support Services Index. This index was selected as a broad equity market index relevant to the Company's activity.




## Service Contracts

It is the policy of the Remuneration Committee that each executive director has a service contract incorporating a rolling notice period of one year. The Committee believes that it is appropriate to continue with these rolling contracts in light of the need to retain and motivate senior executives.

The dates of the executive directors' contracts are:

| | |
|---|---|
| Mr R P Sternick | 25th April 2001 |
| Mr J R Kimber | 7th October 1997 |
| Mr M J F Parker | 26th October 2000 |

Non-executive directors have letters of appointment specifying six months' notice, with an initial period of three years each in the cases of Messrs. Titcombe and Seguin, subject to retirement by rotation. The dates of these letters are as follows:

| | |
|---|---|
| Mr A G Bruce | 12th March 1997 |
| Mr D G Titcombe | 4th July 2002 |
| Mr R Seguin | 7th January 2003. |

Mr Bruce will be standing for re-election at the forthcoming AGM. No executive director held any position, either executive or non-executive, outside the Group in the year.

## Non-executive Remuneration Policy

Non-executive directors are paid fees in respect of their services. These fees are determined by the Board as a whole. *Non-executive remuneration is not performance* related and is not pensionable.

**D G Titcombe**
On behalf of the Board
Chairman of Remuneration Committee
2nd March 2004

The notes to the Directors' Report form part of the Directors' Remuneration Report. The Directors' Remuneration Report is not subject to audit although the notes on the following pages are.

INFAST Group plc

# Notes to the Directors' Remuneration Report (audited)

## Directors' Remuneration for the year ended 31st December 2003

| | Fees £000 | Base salary £000 | Benefits in kind £000 | **2003 Total £000** | 2002 Total £000 | **2003 Money Purchase Scheme contributions £000** | 2002 Money Purchase Scheme contributions £000 |
|---|---|---|---|---|---|---|---|
| **Chairman:** | | | | | | | |
| D G Titcombe | 75 | – | – | **75** | 19 | – | – |
| R F Leverton | – | – | – | – | 44 | – | – |
| **Executives:** | | | | | | | |
| R P Sternick | – | 215 | 22 | **237** | 257 | **75** | 70 |
| J R Kimber | – | 153 | 12 | **165** | 185 | – | – |
| M J F Parker | – | 100 | 17 | **117** | 121 | **35** | 31 |
| **Non Executives:** | | | | | | | |
| A G Bruce | 30 | – | – | **30** | 35 | – | – |
| R Seguin (from 13.01.03) | 24 | – | – | **24** | – | – | – |
| J C Cresswell | – | – | – | – | 22 | – | – |
| | 129 | 468 | 51 | **648** | 683 | **110** | 101 |

| | **2003 £000** | 2002 £000 |
|---|---|---|
| Aggregate emoluments | **648** | 683 |
| Company pension contributions to Money Purchase Scheme | **110** | 101 |
| | **758** | 784 |

## Directors' Pensions

For the year ended 31st December 2003 retirement benefits accrued to 2 (2002:2) directors under money purchase arrangements and to 1 (2002:1) director under the defined benefit scheme.

Pension benefits earned by the director under the defined benefit scheme during the year and the accumulated total accrued pension as at 31st December 2003 and 31st December 2002 were as follows:

| | Increase in accrued pension excluding inflation £000 | Transfer value of increase £000 | **Accrued pension 31st Dec 2003 £000** | Accrued pension 31st Dec 2002 £000 | Increase in accrued pension including inflation £000 | **Transfer value of accrued pension 31st Dec 2003 £000** | Transfer value of accrued pension 31st Dec 2002 £000 | Increase in transfer value over the period £000 |
|---|---|---|---|---|---|---|---|---|
| J R Kimber | 3 | 22 | **50** | 47 | 3 | **358** | 309 | 49 |

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. Members of the scheme have the option to pay Additional Voluntary Contributions. Neither the Additional Voluntary Contributions nor the resulting benefits are included in the above table.

## Directors' Share Interests

The interests of the directors, at the end of the year, in the share capital of the Company were:

**Ordinary shares:**

| | At 1st January 2003 | At 31st December 2003 | At 1st March 2004 |
|---|---|---|---|
| D G Titcombe | 100,000 | 150,000 | 150,000 |
| R P Sternick | 1,492,324 | 1,592,324 | 1,592,324 |
| J R Kimber | 182,294 | 282,294 | 282,294 |
| M J F Parker | 30,000 | 30,000 | 30,000 |
| A G Bruce | 75,028 | 75,028 | 75,028 |

At 31st December 2003 the Company's share price was 27.0p. During 2003 the Company's share price reached a high of 43.75p and a low of 24.75p.

# Notes to the Directors' Remuneration Report (audited)

**continued**

**Share options:**

| | At 1st January 2003 | Granted/ (exercised) in year | At 31st December 2003 | Exercise price† | Exercise period |
|---|---|---|---|---|---|
| R P Sternick | 400,000 (5) | – | 400,000 | 39.8 | May 2004 /May 2010 |
| | 400,000 (7) | – | 400,000 | 31.5 | Apr 2005 / Apr 2012 |
| | | 250,000 (8) | 250,000 | 26.3 | Apr 2006 / Apr 2013 |
| | 800,000 | 250,000 | 1,050,000 | 33.4 * | |
| J R Kimber | 10,000 (1) | – | 10,000 | 61.5 | Apr 1998 / Apr 2005 |
| | 30,000 (2) | – | 30,000 | 117.0 | Apr 2000 / Apr 2007 |
| | 40,000 (3) | – | 40,000 | 139.5 | Apr 2001 / Apr 2008 |
| | 60,000 (4) | – | 60,000 | 37.0 | Apr 2003 / Apr 2010 |
| | 80,000 (5) | – | 80,000 | 36.5 | Apr 2004 / Apr 2011 |
| | 6,458 (6) | – | 6,458 | 30.0 | Feb 2004 / Jul 2004 |
| | 280,000 (7) | – | 280,000 | 31.5 | Apr 2005 / Apr 2012 |
| | – | 160,000 (8) | 160,000 | 26.3 | Apr 2006 / Apr 2013 |
| | 506,458 | 160,000 | 666,458 | 42.1 * | |
| M J F Parker | 20,000 (2) | – | 20,000 | 117.0 | Apr 2000 / Apr 2007 |
| | 20,000 (3) | – | 20,000 | 139.5 | Apr 2001 / Apr 2008 |
| | 40,000 (4) | – | 40,000 | 37.0 | Apr 2003 / Apr 2010 |
| | 50,000 (5) | – | 50,000 | 36.5 | Apr 2004 / Apr 2011 |
| | 6,458 (6) | – | 6,458 | 30.0 | Feb 2004 / Jul 2004 |
| | 120,000 (7) | – | 120,000 | 31.5 | Apr 2005 / Apr 2012 |
| | – | 90,000 (8) | 90,000 | 26.3 | Apr 2006 / Apr 2013 |
| | 256,458 | 90,000 | 346,458 | 42.6 * | |

* weighted average exercise price.

(1) Options may only be exercised if the Company's Share Price exceeds £1.00 at the date of exercise.

(2) Options may only be exercised if the percentage increase in the Company's total shareholder return exceeds the percentage increase of the FTSE All-Share Index for total shareholder return from the period from the date of the grant to the exercise of the options.

(3) Options may only be exercised if the percentage Share Price increase of the Company's ordinary shares is at least an average of 5% above the FT Engineering Sector Share Price increase during the preceding three years to the date of exercise.

(4) Options may only be exercised if the percentage Share Price increase of the Company's ordinary shares is at least an average of 2% above the FT Engineering Sector Share Price increase during the preceding three years to the date of exercise.

(5) Options may only be exercised if the percentage Share Price increase of the Company's ordinary shares is at least 2% above the FT Distributors Sector (Support Services Sector from 1st January 2003) Share Price increase during the preceding three years to the date of exercise.

(6) SAYE option with no performance criteria.

(7) Options may only be exercised if the Company's Share Price has exceeded 45p over a consecutive period of 90 days commencing after the third anniversary of the date of grant, and exceeds 45p at the date of such exercise.

(8) Options may only be exercisable if the Company's Share Price has exceeded 40p over a consecutive period of 90 days commencing after the third anniversary of the date of grant, and exceeds 40p at the date of such exercise.

# Independent Auditors' Report to the members of Infast Group plc

We have audited the group's financial statements for the year ended 31st December 2003, which comprise the Consolidated Profit and Loss Account, Consolidated and Parent Company Balance Sheets, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses and the related notes 1 to 28. These financial statements have been prepared on the basis of the accounting policies set out therein.

We have also audited the information as set out in the notes to the Directors' Remuneration Report on pages 24 to 26.

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 financial statements 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 financial statements.

Our responsibility is to audit the financial statements 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 financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We 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 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 financial statements. This other information comprises the Directors' Report, unaudited part of the Directors' Remuneration Report, Chairman's Statement, Chief Executive's and Finance Director's reviews and Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## 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 financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In the forming of our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and part of the Directors' Remuneration Report to be audited.

## Opinion

**In our opinion:**

- the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31st December 2003 and of the profit of the group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP Registered Auditor
Birmingham
2nd March 2004 Ernst & Young LLP

INFAST Group plc

# Consolidated Profit and Loss Account

**for the year ended 31st December 2003**

| | Notes | 2003 £m | 2002 £m |
|---|---|---|---|
| **Turnover** | | | |
| Continuing operations | 2 | **178.4** | 161.7 |
| **Operating costs** | | | |
| Goodwill amortisation | | **(1.3)** | (1.3) |
| Exceptional operating costs | 4 | **(0.4)** | – |
| Other operating costs | 3 | **(175.2)** | (156.2) |
| | | **(176.9)** | (157.5) |
| **Operating profit** | | | |
| Continuing operations | | **1.5** | 4.2 |
| **Amounts written off fixed asset investment** | 4 | **–** | (1.3) |
| **Profit on ordinary activities before interest** | | **1.5** | 2.9 |
| Net interest | 6 | **(0.5)** | (1.0) |
| **Profit on ordinary activities before taxation** | | **1.0** | 1.9 |
| Taxation on profit on ordinary activities | 7 | **(0.2)** | (1.2) |
| **Profit on ordinary activities after taxation** | | **0.8** | 0.7 |
| *Dividends* | 8 | **(2.3)** | (2.3) |
| **Retained loss for the financial year** | 19 | **(1.5)** | (1.6) |
| ***Basic and diluted earnings per share (p)*** | 9 | **0.7** | 0.6 |
| **Adjusted basic earnings per share (p)** | 9 | **2.1** | 2.8 |

# Consolidated Balance Sheet

**at 31st December 2003**

| | Notes | 2003 £m | 2002 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 10 | **18.1** | 19.9 |
| Tangible assets | 11 | **16.2** | 15.4 |
| Investments | 12 | **0.8** | 1.0 |
| | | **35.1** | 36.3 |
| **Current assets** | | | |
| Stocks | 13 | **28.4** | 25.7 |
| Debtors | 14 | **34.0** | 40.3 |
| | | **62.4** | 66.0 |
| **Creditors** | | | |
| Amounts falling due within one year | 15 | **(42.7)** | (42.6) |
| **Net current assets** | | **19.7** | 23.4 |
| **Total assets less current liabilities** | | **54.8** | 59.7 |
| **Creditors** | | | |
| Amounts falling due after more than one year | 16 | **(4.2)** | (6.8) |
| **Provisions for liabilities and charges** | 17 | **(0.7)** | (1.2) |
| | | **49.9** | 51.7 |
| **Capital and reserves** | | | |
| Called up share capital | 18 | **22.9** | 22.9 |
| Share premium account | 19 | **9.8** | 9.8 |
| Other reserves | 19 | **4.0** | 4.0 |
| Profit and loss account | 19 | **12.9** | 14.7 |
| **Equity shareholders' funds** | 20 | **49.6** | 51.4 |
| Equity minority interest | | **0.3** | 0.3 |
| | | **49.9** | 51.7 |

**Directors**
R P Sternick
J R Kimber

2nd March 2004

INFAST Group plc

# Consolidated Cash Flow Statement

**for the year ended 31st December 2003**

| | Notes | 2003 £m | 2002 £m |
|---|---|---|---|
| **Net cash inflow from operating activities** | 24 | **8.6** | 6.0 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | **0.3** | 0.1 |
| Interest paid | | **(0.7)** | (1.0) |
| Interest element of finance lease rentals | | **(0.1)** | (0.1) |
| **Net cash outflow from returns on investments and servicing of finance** | | **(0.5)** | (1.0) |
| **Tax (paid) / refunded** | | **(0.2)** | 0.4 |
| **Capital expenditure and financial investment** | | | |
| Payments to acquire tangible fixed assets | | **(3.6)** | (3.2) |
| Receipts from the disposal of tangible fixed assets | | **0.1** | 0.7 |
| **Net cash outflow from capital expenditure and financial investment** | | **(3.5)** | (2.5) |
| **Acquisitions and disposals** | | | |
| Deferred consideration from sale of subsidiary | | **1.8** | – |
| **Equity dividends paid** | | **(2.3)** | (2.3) |
| **Net cash inflow before financing** | | **3.9** | 0.6 |
| **Financing** | | | |
| Repayment of finance lease obligations | 22, 23 | **(0.7)** | (1.2) |
| Repayment of medium term loan | 22 | **(2.2)** | (2.5) |
| **Net cash outflow from financing** | | **(2.9)** | (3.7) |
| **Increase / (decrease) in cash*** | 23 | **1.0** | (3.1) |

Under FRS 1 (revised), cash is defined as cash in hand plus deposits less overdrafts, each of which are repayable on demand. Bank deposits which are not repayable on demand are treated as liquid resources, and not cash in the cash flow statement, but are netted off against bank overdrafts in the balance sheet where there is a right of set-off.

# Consolidated Statement of Total Recognised Gains and Losses

**for the year ended 31st December 2003**

| | Notes | 2003 £m | 2002 £m |
|---|---|---|---|
| Profit for the financial year | | **0.8** | 0.7 |
| Exchange adjustments | | **(0.3)** | (0.3) |
| **Total recognised gains and losses in the year** | | **0.5** | 0.4 |

# Notes to the Accounts

## 1. Accounting policies

**a. Basis of accounting**

The accounts have been prepared in accordance with applicable accounting standards under the historical cost convention.

***b. Consolidation principles***

The Group accounts include the accounts of the Parent Company and all its subsidiary undertakings, all of which are drawn up to 31st December 2003.

Subsidiaries acquired during the year are accounted for under the acquisition method of accounting, and are consolidated from the date of acquisition. Subsidiaries disposed of during the year are consolidated up to the date of disposal.

Transactions and balances between subsidiary undertakings have been eliminated; no profit is taken on sales between subsidiary undertakings until the products are sold to customers outside the Group.

Goodwill representing the excess of the consideration over the fair value of the separable net assets acquired, arising on the acquisition of subsidiary undertakings prior to 1st January 1998, has been written off against reserves in the year in which it arose. Goodwill eliminated in this way is charged to the Profit and Loss Account on any subsequent disposal of the business to which it is related. Goodwill previously eliminated against reserves has not been reinstated.

Goodwill arising on the acquisition of subsidiary undertakings since 1st January 1998 is capitalised in the Group Balance Sheet and amortised over its useful economic life up to a maximum of twenty years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying amount may not be recoverable.

As permitted by Section 230 of the Companies Act 1985, the Company has not presented its Profit and Loss account. The loss for the financial year dealt with in the accounts of Infast Group plc amounts to £2.1m (2002: profit £1.9m). The Company's balance sheet is presented in Note 21 to the accounts.

**c. Research and development**

Expenditure on research and development is written off as it is incurred.

**d. Tangible fixed assets and depreciation**

i. Land and buildings
Properties are stated at cost to the Group and depreciation is provided on a straight-line basis at the following rates:
Leasehold properties – over the life of the lease for short-term leasehold property and fifty years for long leasehold property.
Freehold buildings – at 2 per cent. per annum.

ii. Plant, equipment and vehicles
These assets are stated at cost to the Group and are depreciated on a straight-line basis over their anticipated useful lives, at annual rates varying between 10 per cent. and 33⅓ per cent. for plant and equipment and 20 per cent. and 50 per cent. for motor vehicles.

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

**e. Leasing**

Assets held under finance leases and hire purchase contracts are capitalised at the fair value of the asset at the inception of the lease, with an equivalent liability categorised as appropriate under creditors due within and after more than one year.

# Notes to the Accounts
**continued**

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 the capital repayments outstanding.

Rentals under operating leases are charged to the Profit and Loss Account on a straight-line basis over the lease term.

**f. Stocks**

Stocks are valued at the lower of cost and net realisable value. Cost consists of direct materials, labour, and where appropriate, production overheads.

**g. Turnover**

Turnover represents the value of goods and services supplied to customers, excluding value added tax and transactions within the Group.

**h. Pensions**

For defined contribution schemes, employers' contributions are written off to the Profit and Loss Account as incurred. In the case of defined benefit schemes, contributions are charged to the Profit and Loss Account so as to spread the costs of pensions over employees' working lives with their employers. Contributions are determined by qualified actuaries on the basis of regular valuations.

**i. Taxation**

Corporation tax is provided on taxable profits at the rate ruling for the accounting year.

Deferred taxation 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 that 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 tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- 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 the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

**j. Foreign currencies**

Assets and liabilities recorded in foreign currencies are translated into sterling at the rates ruling at the end of the year. Exchange movements arising from the retranslation of the net investment in overseas subsidiary undertakings are disclosed as movements on reserves.

Exchange movements relating to borrowings which have been used to finance or provide a hedge against foreign equity investments are taken to reserves to the extent that they are matched by exchange movements on those investments, together with the taxation thereon.

All other profits or losses arising from exchange movements have been dealt with in the profit and loss account.

Trading results of overseas subsidiaries are translated into sterling at average exchange rates for the year.

**k. Financial instruments**

The Group uses a combination of foreign currency borrowings to hedge foreign currency denominated assets and foreign contracts to manage known trading exposures. Forward contracts are accounted for as hedges at the inception of contracts. As a result, gains and losses on foreign exchange contracts are offset against the foreign exchange gains and losses on the related financial assets and liabilities. Gains or losses arising on hedging instruments which are cancelled due to the termination of underlying exposure are taken to the Profit and Loss account immediately. Finance costs associated with debt issuances are charged to the Profit and Loss Account over the life of the instruments.

The Group has taken advantage of the exemption available to exclude short term debtors and creditors from its derivatives and financial instrument disclosures.

## 2. Segmental analyses

**a. Analysis of turnover by geographical destination**

| All continuing operations | 2003 £m | 2002 £m |
|---|---|---|
| United Kingdom | 157.0 | 143.9 |
| Rest of Europe | 4.3 | 3.1 |
| North America | 14.9 | 13.4 |
| South America | 0.2 | – |
| Australasia | 0.1 | 0.1 |
| Asia | 1.9 | 1.2 |
| | 178.4 | 161.7 |

**b. Analysis of turnover and capital employed by geographical origin**

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Turnover £m | Capital employed £m | Turnover £m | Capital Employed £m |
| United Kingdom | 163.9 | 40.3 | 150.3 | 45.0 |
| North America | 14.5 | 3.5 | 11.4 | 3.0 |
| | 178.4 | 43.8 | 161.7 | 48.0 |
| Net debt (Note 22) | – | (12.3) | – | (16.5) |
| Goodwill (Note 10) | – | 18.1 | – | 19.9 |
| | 178.4 | 49.6 | 161.7 | 51.4 |

£4.7m of the Goodwill at the year end relates to a business acquired in the USA (2002: £5.5m). The remainder relates entirely to the acquisition of a business in the UK.

**c. Analysis of operating profit / (loss) by geographical origin**

| All continuing operations | 2003 £m | 2002 £m |
|---|---|---|
| UK | 2.9 | 5.8 |
| North America | 0.3 | (0.3) |
| | 3.2 | 5.5 |
| Goodwill amortisation | (1.3) | (1.3) |
| Operating exceptional items (Note 4a) | (0.4) | – |
| | 1.5 | 4.2 |

£0.3m of goodwill amortised in the year relates to the business acquired in the USA (2002: £0.3m), the remainder relates to the acquisition of a business in the UK. The operating exceptional items relates to businesses in the UK. Therefore operating profit of £1.5m (2002: £4.8m) originated from the UK and £nil (2002: loss of £0.6m) from North America.

# Notes to the Accounts
**continued**

## 2. Segmental analyses (continued)

**d. Analysis of turnover, operating profit and capital employed by class of business**

Turnover, operating profit and capital employed all relate to the Company's sole activity of the provision of inventory management services.

## 3. Operating costs

| | 2003 £m | 2002 £m |
|---|---|---|
| Operating charges comprise the following charges / (credits) | | |
| Changes in stocks | **(2.7)** | 0.5 |
| Other operating income | **(0.3)** | (0.5) |
| Materials and sub-contracts | **128.9** | 110.7 |
| Employee costs (Note 5) | **28.9** | 26.3 |
| Depreciation of tangible fixed assets: | | |
| Owned | **2.6** | 2.1 |
| Held under finance leases | **0.5** | 0.6 |
| Profit on sale of tangible fixed assets | **(0.1)** | (0.1) |
| Goodwill amortisation | **1.3** | 1.3 |
| Operating lease rentals: | | |
| Land and buildings | **2.6** | 2.5 |
| Other | **0.8** | 0.8 |
| Hire of plant and machinery | **0.3** | 0.1 |
| Auditors' remuneration | **0.2** | 0.2 |
| Other operating charges | **13.9** | 13.0 |
| | **176.9** | 157.5 |

The audit fees in 2003 for the Parent Company amounted to £51,850 (2002: £48,610).
Non-audit fees paid to auditors in the UK amounted to £63,816 (2002: £109,562).

## 4. Exceptional items

**a. Operating exceptional items (continuing operations)**

The operating exceptional items of £0.4m incurred in 2003 relates to potential asset write downs and a provision for vacant property costs following the exit from an unprofitable contract (£0.2m) and costs (£0.2m) relating to reorganisation of a manufacturing facility. The cash flow effect was an outflow of £0.2m due to the manufacturing reorganisation and £nil in respect of the provision.

**b. Non-operating exceptional items**

2002 – Amounts written off fixed asset investment

During 2002, an amount of £1.3m was provided against a fixed asset investment which represented an initial loan of $3.4m to Haden International Group, Inc. The loan was made in respect of the disposal of the Process Engineering division in 1999. There was no cash flow effect of this provision.

## 5. Employee costs

| | 2003 £m | 2002 £m |
|---|---|---|
| Employee costs, including directors' remuneration, comprise: | | |
| Wages and salaries | **25.5** | 23.3 |
| Social security costs | **2.3** | 2.0 |
| Other pension costs | **1.1** | 1.0 |
| | **28.9** | 26.3 |

Details of the emoluments, pension entitlements, share options and interests of the directors are shown in the Directors' Remuneration Report on pages 21 to 26.

| | 2003 Number | 2002 Number |
|---|---|---|
| Average number of employees: | **1,274** | 1,277 |

All employees are involved in the provision of inventory management services.

## 6. Net interest

| | 2003 £m | 2002 £m |
|---|---|---|
| Interest payable on: | | |
| Bank loans and overdrafts | **0.2** | 0.3 |
| Other loans | **0.5** | 0.7 |
| Finance leases | **0.1** | 0.1 |
| | **0.8** | 1.1 |
| Less: | | |
| Other interest receivable | **(0.3)** | (0.1) |
| | **0.5** | 1.0 |

# Notes to the Accounts
**continued**

## 7. Taxation on profit on ordinary activities

**a. Charge / (credit):**

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **UK £m** | **Overseas £m** | **Total £m** | UK £m | Overseas £m | Total £m |
| Current tax on profits for the year | **0.6** | – | **0.6** | 1.1 | 0.1 | 1.2 |
| Adjustments in respect of previous years | **(0.5)** | – | **(0.5)** | (0.2) | (0.4) | (0.6) |
| | **0.1** | – | **0.1** | 0.9 | (0.3) | 0.6 |
| Deferred tax | | | | | | |
| Originating and reversal of timing differences | **0.1** | – | **0.1** | 0.4 | – | 0.4 |
| Adjustments in respect of previous years | – | – | – | 0.2 | – | 0.2 |
| | **0.2** | – | **0.2** | 1.5 | (0.3) | 1.2 |

The tax charge of £0.2m (2002: £1.2m) is stated net of a tax credit of £0.1m (2002: £nil) relating to operating exceptional costs incurred during the year of £0.4m (2002: £nil).

The effective tax rate, excluding goodwill amortisation, was 9% (2002: 27%). This low rate benefited from the reversal of over provisions in prior years.

**b. Reconciliations of current tax charge**

| | **2003 £m** | 2002 £m |
|---|---|---|
| Profit on ordinary activities before tax | 1.0 | 1.9 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%) | 0.3 | 0.6 |
| Effect of: | | |
| Disallowed expenses and non-taxable income | 0.4 | 0.5 |
| Accelerated capital allowances | (0.2) | (0.2) |
| Short term timing differences | 0.1 | (0.1) |
| Non allowable non operating exceptional item | – | 0.4 |
| Adjustment in respect of prior years | (0.5) | (0.6) |
| Current tax charge for the period (Note 7a) | 0.1 | 0.6 |

**c. Factors affecting future tax charges**

Based on current capital investment plans, the Company expects to be able to broadly balance claims of capital allowances to depreciation in future years.

Tax losses with a value of £nil (2002: £0.2m) have not been recognised as their use is not currently anticipated.

## 8. Dividends

| | | 2003 £m | 2002 £m |
|---|---|---|---|
| Interim | 0.8p per share (2002: 0.8p) | 0.9 | 0.9 |
| Proposed Final | 1.2p per share (2002: 1.2p) | 1.4 | 1.4 |
| Total | 2.0p per share (2002: 2.0p) | 2.3 | 2.3 |

## 9. Earnings per share

The calculation of basic earnings per share of 0.7p (2002: 0.6p) is based on the Group profit after tax of £0.8m (2002: £0.7m) and on the weighted average number of 20p ordinary shares in issue during the year of 114.3m (2002: 114.3m).

The calculation of diluted earnings per share of 0.7p (2002: 0.6p) is based on the Group profit after tax of £0.8m (2002: £0.7m) and 114.6m (2002: 114.3m) ordinary shares as shown below:

| | 2003 Number of shares | 2002 Number of shares |
|---|---|---|
| Weighted average number of shares | 114.3 | 114.3 |
| Share Options | 0.3 | – |
| | 114.6 | 114.3 |

Adjusted basic earnings per share is calculated as follows:

| | Earnings | | Earnings per share | |
|---|---|---|---|---|
| | 2003 £m | 2002 £m | 2003 pence | 2002 pence |
| Basic earnings and earnings per share | 0.8 | 0.7 | 0.7 | 0.6 |
| Basic earnings and earnings per share attributable to: | | | | |
| Operating exceptional items | 0.4 | – | 0.4 | – |
| Goodwill amortisation | 1.3 | 1.3 | 1.1 | 1.1 |
| Non operating exceptional items | – | 1.3 | – | 1.1 |
| Tax credit on operating exceptional items | (0.1) | – | (0.1) | – |
| Adjusted basic earnings and earnings per share | 2.4 | 3.3 | 2.1 | 2.8 |

The adjusted basic earnings per share is presented so as to show more clearly the underlying performance of the Group for continuing operations.

INFAST Group plc

# Notes to the Accounts

**continued**

## 10. Intangible fixed assets

| | The Group Goodwill £m |
|---|---|
| **Cost:** | |
| As at 1st January 2003 | 25.3 |
| Exchange movement | (0.5) |
| **As at 31st December 2003** | **24.8** |
| **Amortisation:** | |
| As at 1st January 2003 | 5.4 |
| Charge for the year | 1.3 |
| **As at 31st December 2003** | **6.7** |
| **Net book value:** | |
| **As at 31st December 2003** | **18.1** |
| As at 1st January 2003 | 19.9 |

## 11. Tangible fixed assets

**a. The Group**

| | Land and buildings Freehold £m | Land and buildings Long leasehold £m | Plant, equipment and vehicles £m | Total £m |
|---|---|---|---|---|
| **Cost:** | | | | |
| As at 1st January 2003 | 2.3 | 0.9 | 32.8 | 36.0 |
| Additions | – | 0.1 | 3.9 | 4.0 |
| Disposals | – | – | (1.1) | (1.1) |
| Exchange movement | – | – | (0.1) | (0.1) |
| **As at 31st December 2003** | **2.3** | **1.0** | **35.5** | **38.8** |
| **Depreciation:** | | | | |
| As at 1st January 2003 | 0.4 | 0.2 | 20.0 | 20.6 |
| Charge for the year | 0.1 | 0.1 | 2.9 | 3.1 |
| Disposals | – | – | (1.1) | (1.1) |
| **As at 31st December 2003** | **0.5** | **0.3** | **21.8** | **22.6** |
| **Net book value:** | | | | |
| **As at 31st December 2003** | **1.8** | **0.7** | **13.7** | **16.2** |
| As at 1st January 2003 | 1.9 | 0.7 | 12.8 | 15.4 |
| **Net book value of assets held under finance leases included above:** | | | | |
| **As at 31st December 2003** | **–** | **0.7** | **1.5** | **2.2** |
| As at 1st January 2003 | – | 0.7 | 1.7 | 2.4 |

**b. Parent Company**

| | Plant, equipment and vehicles £m |
|---|---|
| **Cost:** | |
| As at 1st January 2003 | 3.5 |
| Additions | 0.9 |
| **As at 31st December 2003** | **4.4** |
| **Depreciation:** | |
| As at 1st January 2003 | 0.4 |
| Charge for the year | 0.4 |
| **As at 31st December 2003** | **0.8** |
| **Net book value:** | |
| **As at 31st December 2003** | **3.6** |
| As at 1st January 2003 | 3.1 |

INFAST Group plc

# Notes to the Accounts
continued

## 12. Fixed asset investments

**a. The Group**

| | Other investments £m |
|---|---|
| **Cost:** | |
| As at 1st January 2003 | 2.3 |
| Rolled up interest | 0.2 |
| Exchange movement | (0.3) |
| **As at 31st December 2003** | **2.2** |
| **Provision:** | |
| As at 1st January 2003 | 1.3 |
| Increase in provision | 0.2 |
| Exchange movement | (0.1) |
| **As at 31st December 2003** | **1.4** |
| **Net book value:** | |
| **As at 31st December 2003** | **0.8** |
| As at 1st January 2003 | 1.0 |

**b. Parent Company**

| | Other investments £m | Shares in subsidiary undertakings £m | Total £m |
|---|---|---|---|
| **Cost:** | | | |
| As at 1st January 2003 | 2.3 | 45.5 | 47.8 |
| Rolled up interest | 0.2 | – | 0.2 |
| Exchange movement | (0.3) | – | (0.3) |
| **As at 31st December 2003** | **2.2** | **45.5** | **47.7** |
| **Provision:** | | | |
| As at 1st January 2003 | 1.3 | 22.9 | 24.2 |
| Increase in provision | 0.2 | – | 0.2 |
| Exchange movement | (0.1) | – | (0.1) |
| **As at 31st December 2003** | **1.4** | **22.9** | **24.3** |
| **Net book value:** | | | |
| **As at 31st December 2003** | **0.8** | **22.6** | **23.4** |
| As at 1st January 2003 | 1.0 | 22.6 | 23.6 |

The Parent Company's principal subsidiary undertakings, all indirectly held, are shown below. All subsidiary undertakings are wholly owned, either directly or indirectly, with the exception of Ohta-Philidas Limited, which is 75 per cent. owned. All companies are incorporated in their main area of operation unless otherwise stated:

| **Company** | **Main Area of Operation** | **Activity** |
|---|---|---|
| Industrial Fasteners Ltd | UK | Inventory management services |
| Adesco Ltd | UK | Inventory management services |
| Everbright Ltd | UK | Inventory management services |
| Infast Automotive Ltd | UK | Inventory management services |
| Infast USA Inc | USA | Inventory management services |
| Infast Philidas Ltd | UK | Fastener manufacture |
| Ohta-Philidas Ltd | UK | Fastener manufacture |
| GKS Centrepiece Ltd | UK | Fastener manufacture |
| Arnold Wragg Ltd | UK | Fastener manufacture |

**Other investments**

Other investments for both the Group and the Parent Company relate to the advance of a loan of $3.9m (including rolled up interest) to Haden International Group, Inc.

## 13. Stocks

| | The Group | | Parent Company | |
|---|---|---|---|---|
| | **2003** **£m** | 2002 £m | **2003** **£m** | 2002 £m |
| Raw materials and consumables | **1.0** | 0.9 | – | – |
| Work in progress | **0.8** | 0.7 | – | – |
| Finished goods and goods for resale | **26.6** | 24.1 | – | – |
| | **28.4** | 25.7 | – | – |

INFAST Group plc

# Notes to the Accounts
**continued**

## 14. Debtors

| | The Group | | Parent Company | |
|---|---|---|---|---|
| | **2003 £m** | 2002 £m | **2003 £m** | 2002 £m |
| Trade debtors | **29.5** | 34.4 | **–** | – |
| Amounts owed by group undertakings | **–** | – | **101.5** | 108.3 |
| Other debtors: | | | | |
| Corporation tax receivable | **–** | – | **0.6** | – |
| V.A.T. | **0.3** | 0.4 | **–** | – |
| Other | **0.7** | 2.5 | **0.3** | 0.4 |
| Pension cost prepayment | **0.4** | 0.4 | **0.4** | 0.4 |
| Prepayments and accrued income | **3.1** | 2.6 | **0.4** | 0.2 |
| | **34.0** | 40.3 | **103.2** | 109.3 |

The pension cost prepayment of £0.4m (2002: £0.4m) represents the difference between the pension cost and the amount funded on the defined benefit HMH pension scheme, as such it will be utilised over a period greater than one year.

## 15. Creditors: amounts falling due within one year

| | The Group | | Parent Company | |
|---|---|---|---|---|
| | **2003 £m** | 2002 £m | **2003 £m** | 2002 £m |
| Bank loans and overdrafts (Note 22) | **5.7** | 6.7 | **4.4** | 3.1 |
| Medium term loan | **2.0** | 2.4 | **2.0** | 2.4 |
| Obligations under finance leases | **0.4** | 0.7 | **–** | 0.1 |
| Trade creditors | **27.5** | 25.0 | **0.6** | 0.2 |
| Amounts owed to group undertakings | **–** | – | **24.8** | 21.9 |
| Other creditors: | | | | |
| Corporation tax payable | **–** | 0.1 | **–** | 1.9 |
| Social security, P.A.Y.E., and V.A.T. | **0.9** | 0.8 | **0.3** | 0.4 |
| Other | **1.8** | 2.6 | **0.1** | 0.3 |
| Accruals and deferred income | **3.0** | 2.9 | **0.3** | 0.6 |
| Proposed dividend | **1.4** | 1.4 | **1.4** | 1.4 |
| | **42.7** | 42.6 | **33.9** | 32.3 |

## 16. Creditors: amounts falling due after more than one year

| | The Group | | Parent Company | |
|---|---|---|---|---|
| | **2003 £m** | 2002 £m | **2003 £m** | 2002 £m |
| Medium term loan | **4.0** | 6.5 | **4.0** | 6.5 |
| Obligations under finance leases | **0.2** | 0.2 | **–** | – |
| Accruals and deferred income | **–** | 0.1 | **–** | – |
| | **4.2** | 6.8 | **4.0** | 6.5 |

## 17. Provisions for liabilities and charges

**The Group provision for liabilities and charges comprises:**

| | Liabilities in respect of disposals £m | Deferred taxation £m | Total £m |
|---|---|---|---|
| At 1st January 2003 | 0.6 | 0.6 | 1.2 |
| Charge for the year (Note 7) | – | 0.1 | 0.1 |
| Net cash paid in year | (0.6) | – | (0.6) |
| **At 31st December 2003** | – | **0.7** | **0.7** |

The provision brought forward in respect of disposals relates to the final settlement of a claim arising from a disposal in a prior year.

**The Group deferred taxation liability consists of the following:**

| | Provided | | Unprovided | |
|---|---|---|---|---|
| | **2003 £m** | 2002 £m | **2003 £m** | 2002 £m |
| Accelerated capital allowances | **0.8** | 0.6 | – | – |
| Short term timing differences | **(0.1)** | – | – | – |
| Capital gain deferred by re-investment | – | – | **0.5** | 0.5 |
| Capital losses | – | – | **(0.5)** | (0.5) |
| | **0.7** | 0.6 | – | – |

**The Parent Company provision for liabilities and charges comprises:**

| | Liabilities in respect of disposals £m | Deferred taxation £m | Total £m |
|---|---|---|---|
| At 1st January 2003 | 0.6 | 0.4 | 1.0 |
| Charge for the year | – | 0.1 | 0.1 |
| Net cash paid in year | (0.6) | – | (0.6) |
| **At 31st December 2003** | – | **0.5** | **0.5** |

INFAST Group plc

# Notes to the Accounts
continued

## 17. Provisions for liabilities and charges (continued)

**The Parent Company deferred taxation liability consists of the following:**

| | Provided | | Unprovided | |
|---|---|---|---|---|
| | **2003 £m** | 2002 £m | **2003 £m** | 2002 £m |
| Accelerated capital allowances | **0.4** | 0.3 | – | – |
| Short term timing differences | **0.1** | 0.1 | – | – |
| Capital gain deferred by re-investment | – | – | **0.2** | 0.2 |
| | **0.5** | 0.4 | **0.2** | 0.2 |

## 18. Share capital

Share capital of Infast Group plc:

| | **Number of shares** | **2003 £m** | Number shares | 2002 £m |
|---|---|---|---|---|
| Authorised ordinary shares of 20p each | **150,000,000** | **30.0** | 150,000,000 | 30.0 |
| Called up, allotted and fully paid | **114,342,400** | **22.9** | 114,332,514 | 22.9 |

During the year 1,330,000 options were granted at an exercise price of 26.3p and 9,886 options were exercised as noted below.

| Shares issued in the year were: | Number | Nominal Value £ | Consideration £ |
|---|---|---|---|
| Employee Share Option Scheme at 30.0p | 9,886 | 1,977 | 2,965 |

Options have been granted to subscribe for Ordinary Shares of Infast Group plc and those outstanding at 31st December, 2003 were as follows:

| Date granted | Number | Subscription Price | Exercisable |
|---|---|---|---|
| 1st April 1995 | 10,000 | 61.5p | Apr 1998 to Apr 2005 |
| 14th April 1997 | 58,500 | 117.0p | Apr 2000 to Apr 2007 |
| 6th April 1998 | 21,000 | 135.5p | Apr 2001 to Apr 2008 |
| 17th April 1998 | 60,000 | 139.5p | Apr 2001 to Apr 2008 |
| 20th April 2000 | 265,000 | 37.0p | Apr 2003 to Apr 2010 |
| 1st February 2001 | 220,215 | 30.0p | Feb 2004 to Jul 2004 |
| 4th April 2001 | 330,000 | 36.5p | Apr 2004 to Apr 2011 |
| 1st May 2001 | 400,000 | 39.8p | May 2004 to May 2011 |
| 19th April 2002 | 1,637,500 | 31.5p | Apr 2005 to Apr 2012 |
| 9th October 2002 | 25,000 | 25.0p | Oct 2005 to Oct 2012 |
| 7th April 2003 | 1,215,000 | 26.3p | Apr 2006 to Apr 2013 |

The Company has authority to purchase up to 15% of its own issued Ordinary Shares, no such purchases have yet taken place.

## 19. Reserves

### a. Group

| | Share premium account £m | Capital redemption reserve £m | Profit and loss account £m |
|---|---|---|---|
| As at 1st January 2003 | 9.8 | 4.0 | 14.7 |
| Retained loss for year | – | – | (1.5) |
| Exchange adjustments to net investment in overseas companies | – | – | (0.8) |
| Exchange adjustments to matched net borrowings | – | – | 0.5 |
| **As at 31st December 2003** | **9.8** | **4.0** | **12.9** |

The cumulative amount of goodwill written off resulting from acquisitions (adjusted for disposals and other goodwill adjustments) between 1st January 1987 and 31st December 1997 is approximately £29.8m (2002: £29.8m). The amount of goodwill written off prior to this date is not readily determinable but is not considered material.

Goodwill arising on acquisitions since 1st January 1998 has been capitalised in the Group balance sheet (Note 10).

### b. Parent Company

| | Share premium account £m | Capital redemption reserve £m | Merger Reserve £m | Profit and loss account £m |
|---|---|---|---|---|
| As at 1st January 2003 | 9.8 | 4.0 | 28.5 | 31.0 |
| Retained loss for year | – | – | – | (4.4) |
| **As at 31st December 2003** | **9.8** | **4.0** | **28.5** | **26.6** |

## 20. Reconciliation of movements in equity shareholders' funds

### The Group

| | 2003 £m | 2002 £m |
|---|---|---|
| Profit for the financial year | **0.8** | 0.7 |
| Dividends | **(2.3)** | (2.3) |
| Retained loss for year | **(1.5)** | (1.6) |
| Exchange adjustments | **(0.3)** | (0.3) |
| Movement in year | **(1.8)** | (1.9) |
| Opening equity shareholders' funds | **51.4** | 53.3 |
| **Closing equity shareholders' funds** | **49.6** | 51.4 |

INFAST Group plc

# Notes to the Accounts

continued

## 21. Parent Company Balance Sheet

| | Notes | 2003 £m | 2002 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 11 | **3.6** | 3.1 |
| Investments | 12 | **23.4** | 23.6 |
| | | **27.0** | 26.7 |
| **Current assets** | | | |
| Debtors | 14 | **103.2** | 109.3 |
| **Creditors** | | | |
| Amounts falling due within one year | 15 | **(33.9)** | (32.3) |
| **Net current assets** | | **69.3** | 77.0 |
| **Total assets less current liabilities** | | **96.3** | 103.3 |
| **Creditors** | | | |
| Amounts falling due after more than one year | 16 | **(4.0)** | (6.5) |
| **Provisions for liabilities and charges** | 17 | **(0.5)** | (1.0) |
| | | **91.8** | 96.2 |
| **Capital and reserves** | | | |
| Called up share capital | 18 | **22.9** | 22.9 |
| Share premium account | 19 | **9.8** | 9.8 |
| Other reserves | 19 | **32.5** | 32.5 |
| Profit and loss account | 19 | **26.6** | 31.0 |
| **Equity shareholders' funds** | | **91.8** | 96.2 |

**Directors**
R P Sternick
J R Kimber

2nd March 2004

## 22. Analysis of net debt

| | As at 1st January 2003 £m | Cash flows £m | Other non cash movements £m | Exchange movements £m | As at 31st December 2003 £m |
|---|---|---|---|---|---|
| Bank overdraft | 6.7 | (1.0) | – | – | 5.7 |
| Medium term loan | 8.9 | (2.2) | – | (0.7) | 6.0 |
| Finance leases | 0.9 | (0.7) | 0.4 | – | 0.6 |
| **Net debt** | **16.5** | **(3.9)** | **0.4** | **(0.7)** | **12.3** |

The non cash movement represents the inception of finance leases.

Debt falls due as shown in the table below:

| | Within one year £m | Within one to two years £m | Within two to five years £m | Total £m |
|---|---|---|---|---|
| Bank overdraft | **5.7** | – | – | **5.7** |
| Medium term loan | **2.0** | **2.0** | **2.0** | **6.0** |
| Finance leases | **0.4** | **0.1** | **0.1** | **0.6** |
| **Gross debt at 31st December 2003** | **8.1** | **2.1** | **2.1** | **12.3** |
| Gross debt at 31st December 2002 | 9.8 | 2.6 | 4.1 | 16.5 |

All of the Group's borrowings, excluding hire purchase debt, are on an unsecured basis. The finance lease debt is secured on the assets to which it relates (Note 11).

All of the financial liabilities detailed above are sterling denominated and bear a variable rate of interest, based on the bank's base rate, except for:

(i) The medium term loan of £6.0m which is US dollar denominated and bears interest at a fixed rate of 7.37% (2002: 7.37%). It is repayable in equal annual instalments from February 2004 to February 2006. The medium term loan is included within the table of total available facilities on page 48.

(ii) £0.2m of the bank overdraft was denominated in Euros and bears a variable rate of interest, based on the bank's base rate.

(iii) £2.9m of the bank overdraft was denominated in US dollars and bears a variable rate of interest, based on the bank's base rate.

The Group's only financial asset, at the end of the year, which was non-sterling denominated was a US dollar denominated loan to Haden International Group, Inc., which is repayable over the period January 2005 to July 2008. The carrying value of the loan at 31st December 2003 was £0.8m (2002: £1.0m). During 2002 £1.3m was provided against the loan; this provision was increased by a further £0.2m in 2003. The gross value of the loan bears interest at a weighted average fixed rate of 14%.

As permitted under FRS 13 short term debtors and creditors have been excluded from the above analysis.

The Group's US dollar denominated net assets are broadly matched by the US dollar denominated loan and bank overdraft. The Euro denominated bank overdraft provides a hedge against contracted future Euro income. Consequently, the Group's exposure to foreign exchange risk as at 31st December 2003 is considered immaterial.

INFAST Group plc

# Notes to the Accounts
**continued**

## 22. Analysis of net debt (continued)

As at 31st December 2003 the market values of the financial assets and liabilities referred to above were not materially different to book value based on prevailing interest rates and the security offered. A 1% movement in interest rates would have an immaterial effect on the aggregate fair values of these financial assets and liabilities.

Details of the Group's treasury management policies are given in the Finance Directors' review on page 9 to 11.

The Group's borrowing facilities available as at 31st December 2003 in respect of which all conditions precedent had been met were as follows:

| | Committed | | Uncommitted | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | **£m** | £m | **£m** | £m |
| Expiring in less than one year | **2.0** | 2.4 | **13.5** | 11.0 |
| Expiring in 1 – 2 years | **2.0** | 2.4 | **–** | – |
| Expiring in > 2 years | **2.0** | 4.3 | **–** | – |
| | **6.0** | 9.1 | **13.5** | 11.0 |

Of the available facilities £7.8m was undrawn at 31st December 2003 (2002: £4.3m) all expiring within one year. The analysis of borrowing facilities above does not include finance lease debt, the maturity of which is given in the gross debt table on page 47.

## 23. Reconciliation of net cash flow to movement in net debt

| | **2003**<br>**£m** | 2002<br>£m |
|---|---|---|
| Increase / (decrease) in cash as shown in cash flow statement | **1.0** | (3.1) |
| Adjust for: | | |
| Repayment of medium term loan | **2.2** | 2.5 |
| Finance lease repayments | **0.7** | 1.2 |
| Change in net debt resulting from cash flow | **3.9** | 0.6 |
| New finance leases | **(0.4)** | (0.7) |
| Exchange movements | **0.7** | 0.8 |
| Movement in net debt in the year | **4.2** | 0.7 |
| Net debt at as at 1st January 2003 | **(16.5)** | (17.2) |
| **Net debt as at 31st December 2003** | **(12.3)** | (16.5) |

## 24. Reconciliation of operating profit to net cash inflow from operating activities

| | 2003 £m | 2002 £m |
|---|---|---|
| Operating profit | 1.5 | 4.2 |
| Depreciation | 3.1 | 2.7 |
| Amortisation of goodwill | 1.3 | 1.3 |
| Profit on sale of tangible fixed assets | (0.1) | (0.1) |
| Increase in stocks | (2.7) | (0.7) |
| Decrease / (increase) in debtors | 4.5 | (4.6) |
| Increase in creditors | 1.7 | 3.6 |
| Movement on provisions (Note 17) | (0.6) | (0.2) |
| Exchange adjustments | (0.1) | (0.2) |
| Net cash inflow from operating activities | 8.6 | 6.0 |

## 25. Major non cash transactions

During the year the Group entered into finance lease purchase arrangements in respect of assets with a total value at the inception of the leases of £0.4m (2002: £0.7m).

## 26. Commitments

**Capital Commitments**

| | 2003 £m | 2002 £m |
|---|---|---|
| Contracted for but not provided | 0.8 | – |

**Operating Lease Commitments**

The Group leases a number of properties and certain items of plant and equipment under operating leases. The minimum annual rentals under these leases are as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Land and buildings £m | Other £m | Land and Buildings £m | Other £m |
| Operating leases which expire: | | | | |
| Within one year | 0.1 | 0.1 | 0.1 | 0.1 |
| In two to five years | 0.4 | 0.5 | 0.6 | 0.4 |
| Over five years | 2.2 | – | 2.0 | – |
| | 2.7 | 0.6 | 2.7 | 0.5 |

There are no other contracted capital commitments and there are no capital commitments in respect of the Parent Company.

# Notes to the Accounts
**continued**

## 27. Contingent Liabilities

The Company has guaranteed certain facilities, including those of HSBC Bank plc, granted to subsidiary undertakings in the normal course of trade.

The Company has guaranteed the liabilities of Haden International Group, Inc. (HIG), the purchaser of the Group's Process Engineering division in 1999, under the terms of the lease of its main operating facility. The annual rentals payable under the lease are approximately $1.4m. Should HIG not meet its liabilities under the lease, based on independent advice the directors are of the opinion that the property would be capable of being re-let, within a reasonable period at an amount equal or in excess of the current rent. HIG had previously provided a bond in favour of the Company in respect of this guarantee.

## 28. Pensions

The total pension cost for the Group was £1.1m (2002: £1.0m) comprising of £0.1m (2002: £0.1m) in respect of the HMH Pension Scheme and £1.0m (2002: £0.9) in respect of the Infast Money Purchase Pension Scheme. Variations from regular costs have been spread over the estimated average remaining service lives of the scheme members. The assets of all schemes are held in separate trustee administered funds managed by independent professional investment advisers.

As at 31st December 2003, the main schemes operated by the Group were the Infast Money Purchase Pension Scheme and the HMH Pension Scheme, both UK based.

Included in the balance sheet is a prepayment of £0.4m (2002: £0.4m) representing the difference between the pension cost and the amounts funded.

The members contribution rate to the Infast Money Purchase Pension Scheme in 2003 ranged between 1.5% to 6.0% (2002: 1.5% to 6.0%). The contribution rate by the Company ranged between 6.5% and 35.0% (2002: 6.5% to 35.0%). These rates are expected to continue for the foreseeable future. Contributions totalling £0.1m (2002: £0.1m) were payable to the fund at the year end and are included in Other Creditors.

The HMH Pension Scheme is a funded pension scheme providing defined benefits based on final pensionable earnings. Pension costs are assessed in accordance with the advice of qualified actuaries on the basis of triennial valuations. This Scheme was closed to new members in 1992. For closed schemes where the age profile of the active membership is rising significantly, under the projected unit method the current service costs will increase as the members of the scheme approach retirement. The members contribution rate in 2003 ranged from 1.7% to 5.5% (2002: 1.7% to 5.5%). The Company's contribution ranged from 3.8% to 17.5% (2002: £nil), these rates are expected to continue until the results of the triennial valuation, due as at 5th April 2004, are known when they will be reviewed taking into account the results of that valuation.

An actuarial valuation was carried out for the HMH Pension Scheme as at 6 April 2001, using the attained age method. The main assumptions were: a discount rate of 7.0% per annum before retirement and a discount rate of 5.5% per annum after retirement, increases in pensionable earnings of 4.5% per annum and increases in present and future pensions at the rates guaranteed by the Scheme. Assets were taken at the market value of £31.5m and the funding level was 103%.

The transitional disclosure under FRS17 is as follows:

The Company operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 6th April 2001 and updated to 31st December 2003 by a qualified independent actuary under the projected unit method.

**The major assumptions used by the actuary were:**

| **Valuation at 31st December** | **2003** | 2002 | 2001 |
|---|---|---|---|
| Rate of increase in salaries | **4.25%** | 4.00% | 4.00% |
| Rate of increase in pensions in payment | **2.75%** | 2.50% | 2.50% |
| Discount rate | **5.50%** | 5.50% | 6.00% |
| Inflation assumption | **2.75%** | 2.50% | 2.50% |

**The assets in the scheme and the expected rate of return were:**

| **Valuation at 31st December** | **2003** | | 2002 | | 2001 | |
|---|---|---|---|---|---|---|
| | **Long term rate of return** | **Value £m** | Long term rate of return | Value £m | Long term rate of return | Value £m |
| Equities | **7.00%** | **9.4** | 7.00% | 10.5 | 7.25% | 15.2 |
| Bonds | **5.50%** | **17.0** | 5.50% | 13.5 | 6.00% | 13.4 |
| Cash | **4.00%** | **–** | 4.00% | 0.2 | 4.00% | 0.6 |
| Property | **6.00%** | **–** | 6.00% | 0.1 | – | – |
| **Total market value of assets** | | **26.4** | | 24.3 | | 29.2 |
| **Present value of scheme liabilities** | | **29.1** | | 27.8 | | 28.2 |
| **(Deficit) / surplus in the scheme** | | **(2.7)** | | (3.5) | | 1.0 |
| Related deferred tax asset / (liability) | | **0.8** | | 1.1 | | (0.3) |
| **Net pension (deficit) / surplus** | | **(1.9)** | | (2.4) | | 0.7 |

**FRS 17 profit and loss reconciliation for the year:**

| | **2003 £m** | 2002 £m |
|---|---|---|
| **Profit and loss reserve** (Note 19) | **12.9** | 14.7 |
| SSAP 24 prepayment | **(0.4)** | (0.4) |
| **Adjusted profit and loss reserve** | **12.5** | 14.3 |
| FRS 17 deficit | **(1.9)** | (2.4) |
| **FRS 17 adjusted profit and loss reserve** | **10.6** | 11.9 |

**FRS17 movement in (deficit) / surplus during the year:**

| | **2003 £m** | 2002 £m |
|---|---|---|
| **(Deficit) / surplus in scheme at 1st January** | **(3.5)** | 1.0 |
| Current service cost | **(0.1)** | (0.2) |
| Contributions | **0.1** | – |
| Other finance income | **–** | 0.2 |
| Actuarial gain / (loss) | **0.8** | (4.5) |
| **Deficit in scheme at 31st December** | **(2.7)** | (3.5) |

INFAST Group plc

# Notes to the Accounts
continued

## 28. Pensions (continued)

**FRS17 analysis of amount charged to operating profit for the year:**

| | 2003 £m | 2002 £m |
|---|---|---|
| **Current service cost** | **(0.1)** | (0.2) |

**FRS17 analysis of amount credited to other operating income for the year:**

| | 2003 £m | 2002 £m |
|---|---|---|
| Expected return on pension assets | **1.4** | 1.8 |
| Interest on pension scheme liabilities | **(1.4)** | (1.6) |
| **Net return** | **–** | 0.2 |

**FRS17 analysis of amount recognised in statement of total recognised gains and losses (STRGL) for the year:**

| | 2003 £m | 2002 £m |
|---|---|---|
| Actual less expected return on pension scheme assets | **2.1** | (5.0) |
| Experience gain and losses arising on scheme liabilities | **–** | 1.9 |
| Changes in assumptions underlying present value of the schemes liabilities | **(1.3)** | (1.4) |
| **Actuarial gain / (loss) recognised in the STRGL** | **0.8** | (4.5) |

**FRS17 history of experience gains and losses for the year:**

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Difference between the expected and actual return of scheme assets: | | | | |
| Amount and percentage of scheme assets | **2.1** | **7.9** | (5.0) | (20.7) |
| Experience gains and losses on scheme liabilities: | | | | |
| Amount and percentage of the present value of the scheme liabilities | **–** | **–** | 1.9 | 6.7 |
| Total amount recognised in statement of total recognised gains and losses: | | | | |
| Amount and percentage of the present value of the scheme liabilities | **0.8** | **2.8** | (4.5) | (16.1) |

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 114th Annual General Meeting of the Company will be held at Stonehouse Court Hotel, Stonehouse, Gloucestershire, GL10 3RA on Thursday 29th April 2004 at 2.00p.m. for the transaction of the following business:

1. To receive the annual Accounts for the financial year ended 31st December 2003 together with the Directors' and Auditors' reports thereon.
2. To declare a final dividend on the Ordinary Shares for the financial year ended 31st December 2003.
3. To re-elect Mr A G Bruce (retiring by rotation) as a director.
4. To re-elect Mr R P Sternick (retiring by rotation) as a director.
5. To re-appoint Ernst & Young LLP as Registered Auditor of the Company from the conclusion of this meeting until the conclusion of the next general meeting of the Company at which the Accounts are laid and authorise the Directors to determine their remuneration.
6. To approve the Directors' Remuneration Report.

As special business, to consider and, if thought fit, pass the following resolutions, of which numbers 7 and 9 will be proposed as ordinary resolutions and number 8 as a special resolution:

7. That the directors be and they are generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot securities (as defined in Section 80(2) of the Act) of the Company provided that this authority shall:

   (a) be in substitution for any authority in accordance with Section 80 which may have been given to the directors before the date hereof;

   (b) be limited to the allotment of such relevant securities up to an aggregate nominal value of £7,615,376 (representing 33.3 per cent. of the issued share capital); and

   (c) unless previously revoked or varied, expire on the date of the next Annual General Meeting of the Company following the passing of this Resolution, or at the end of fifteen months, whichever is the earlier, but so that the Company may at any time before the authority shall expire make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of that offer or agreement.

8. That, subject to the passing of Resolution 7 above, in substitution for all existing authorities the directors be and they are hereby empowered pursuant to Section 95 of the Act and pursuant to the authority conferred by Resolution 7 above to allot equity securities (as defined in Section 94(2) of the Act) of the Company as if Section 89(1) of the Act did not apply to such allotment, provided that this authority shall be limited:

   (a) to the allotment (otherwise than pursuant to sub-paragraph (b) below) of equity securities which are, or are to be, wholly paid in cash up to an aggregate nominal value of £1,143,449 (representing 5.0 per cent. of the issued share capital); and

   (b) to the allotment of equity securities in connection with a rights issue, open offer or otherwise to holders of shares in the capital of the Company in proportion (as nearly as may be) to their existing holdings of shares but subject to such exclusions or other arrangements as the directors deem necessary or expedient to deal with equity securities representing fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory;

   and unless previously revoked, or varied, shall expire on the date of the next Annual General Meeting of the Company following the passing of this Resolution, or at the end of fifteen months, whichever is the earlier, but so that the Company may at any time before the authority shall expire 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 that offer or agreement.

9. That the Company be and is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 20p each in the capital of the Company ("Ordinary Shares") provided that:

   (a) the maximum number of Ordinary Shares hereby authorised to be purchased is 17,151,747 (representing 15 per cent. of the issued share capital);

   (b) the minimum price which may be paid for each Ordinary Share is 20p (exclusive of expenses);

# Notice of Annual General Meeting
**continued**

(c) the maximum price which may be paid for each Ordinary Share is an amount (exclusive of expenses) equal to 105 per cent. of the average of the middle market quotations for an Ordinary Share as derived from The London Stock Exchange Daily Official List for the ten business days immediately preceding the day on which the Ordinary Share in question is purchased;

(d) unless previously revoked or varied, this authority shall expire at the conclusion of the next Annual General Meeting of the Company following the passing of this Resolution or within twelve months from the date of the passing of this Resolution, whichever is the earlier, unless such authority is renewed prior to that time; and

(e) the Company may make a contract to purchase Ordinary Shares under this authority before the expiry of such authority which will or may be executed wholly or partly after the expiry of this authority, and may make a purchase of Ordinary Shares pursuant to any such contract.

By Order of the Board,

**M J F PARKER**
Secretary
Waterwells Drive
Quedgeley
Gloucester
GL2 2FR

2nd March, 2004

**Notes**

1. Any member entitled to attend and vote at this Meeting may appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

2. Forms of proxy, to be valid, must be received by the Company's registrars, Capita Registrars, not less than forty-eight hours before the time appointed for the holding of the Meeting or any adjournment thereof.

3. The Register of Directors' interests in the Company and the Executive Directors' Service Agreements are available for inspection at the offices of Eversheds, Senator House, 85 Queen Victoria Street, London, EC4V 4JL during normal business hours on each business day (Saturdays, Sundays and Public Holidays excepted) from the date of this Notice until the conclusion of the Meeting and also at the place of the Meeting for fifteen minutes prior to and throughout the Meeting.

**Explanation of Resolutions**

4. Resolution 6 complies with the requirements of The Directors' Remuneration Report Regulations 2002 which came into effect on 1st August 2002. The vote on this Resolution is advisory only and if it is not passed there will be no obligation on the Company to amend any of the remuneration arrangements. Nevertheless, in such a case the Board will have regard to the concerns of the shareholders and will seek to satisfy those concerns to the extent that it is legally able to do so.

5. Resolutions 7 & 8 simply extend for a year the limited authority previously given to the directors to issue shares in accordance with the provisions of sections 80 and 95 of the Act, and conform to the usual requirements for such resolutions.

6. Resolution 9 provides authority for the Company to purchase up to 15 per cent. of the Company's own issued Ordinary Shares. No purchases have yet taken place. The directors believe that the ability of the Company to buy its own Ordinary Shares is advantageous to both the Company and its shareholders. Any such exercise would take place only after careful consideration and to the extent that the directors believe that a purchase would be in the best interests of the Company and would result in an expected increase in earnings per Ordinary Share.

# Advisers

**Auditors**
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**Solicitors**
Eversheds LLP
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**Registrars**
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The Registry
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**Secretary**
M J F Parker

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Registered Number: 30847

**Bankers**
HSBC Bank plc

INFAST
Group plc

# Five Year Summary

| | | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|
| Turnover | £m | **178.4** | 161.7 | 142.6 | 169.0 | 437.4 |
| Operating profit / (loss) | £m | **1.5** | 4.2 | 0.2 | 3.5 | (2.2) |
| Profit / (loss) before taxation | £m | **1.0** | 1.9 | (1.7) | (6.0) | (48.6) |
| Basic earnings / (loss) per share | Pence | **0.7** | 0.6 | (1.6) | (6.4) | (43.4) |
| Dividend per share | Pence | **2.0** | 2.0 | 2.0 | 2.0 | 1.9 |
| Equity shareholders' funds | £m | **49.6** | 51.4 | 53.3 | 57.3 | 58.3 |
| Net assets per Ordinary Share | Pence | **43.4** | 45.0 | 46.9 | 50.4 | 51.3 |
| Average number of employees | | **1,274** | 1,277 | 1,522 | 2,385 | 5,164 |

**Infast Industrial Division**
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