

2293703

FINANCIAL HIGHLIGHTS



	Turnover (£m)		Profit before tax* (£m)
94	7.4	94	0.5
95	18.1	95	1.4
96	38.6	96	3.4
97	69.8	97	5.6
98	128.8	98	9.0

	Earnings per share* (pence)		Number of Contractors (end of financial year)
94	1.8	94	175
95	4.9	95	450
96	12.0	96	850
97	18.5	97	1,350
98	29.0	98	2,180

*before costs of flotation



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CHAIRMAN'S STATEMENT



It gives me great pleasure to report a further record result for MSB. Sales at £128.8 million for the year ended 31 January 1998 represent an increase of 85% compared with the previous year (1997 - £69.8 million). Profit before tax at £9.04 million is up by 61% (1997 - £5.61 million before costs of flotation). Earnings per share has increased by 57% to 29.0p (1997 - 18.5p before charging costs of flotation).

These results have been achieved from purely organic growth. The UK market for IT contract staff is estimated to have grown by 25% during the year. Some 15% of this growth is estimated to arise from the increase in average rates and 10% from volume growth. The 85% increase in sales by MSB, and the 61% increase in our number of contractors working from 1,350 at 31 January 1997 to 2,180 at 31 January 1998, underline our continuing out-performance of the market and increasing market share.

I am also pleased to report that we have been able to maintain our overall gross margins at last year's levels even though there continues to be pressure on margins throughout our industry. Our net operating margin has declined from 8.3% (before flotation costs) to 7.4% reflecting the costs we are incurring to support and sustain our rapid rate of growth. Despite having moved into our current offices less than two years ago we are again short of space and, consequently, will move to new premises at Hanover Place in Bromley during the summer. These premises will accommodate our planned expansion for the foreseeable future and provide an enhanced working environment for all.

In view of these excellent results the directors recommend a net final dividend of 6.0p per share, bringing the total for the year to 9.0p, an increase of 50% on last year.

Towards the end of last year your board undertook a review of the senior management of the company and it was agreed that an experienced Chief Executive should be recruited to lead the company into its next phase of growth.

This would have the additional benefit of allowing Mark Goldberg to devote more time to his other business interests. In March this year Mark Goldberg relinquished his position as Joint Managing Director. Peter Flaherty continues as sole Managing Director until a new Chief Executive is appointed when he will become Deputy Chairman with special responsibility for strategy and business development.

Mark Goldberg has made an enormous contribution to the growth of MSB and leaves a sales team under the able leadership of Peter Browne, Barry Simpson and Christopher Pedder which is undoubtedly the most effective in our industry.

Also at this juncture Peter Somers, our Finance Director, has decided that the time is right for him to seek fresh challenges, having seen the company through its flotation and its development in its first two years as a public company since that time. We have agreed that he will leave the company at the end of June. On behalf of the board I would like to express our appreciation of the contribution that Peter has made to the company during a crucial period of its development and wish him every success in the future. A further announcement will be made on the appointment of a new Finance Director.

The current year has started well and our continued focus on this growing market gives me confidence that this will be another record year for MSB. Continued growth of a business at this relentless pace is never achieved without considerable effort by everyone involved. I am delighted that shareholders supported the new incentive schemes at our Extraordinary General Meeting in January as they make an important contribution to staff motivation and retention. Most importantly, however, they are a tangible expression of gratitude for the success that has been achieved.

David A Sugden
Chairman

28 April 1998

A handwritten signature in black ink, reading 'David A. Sugden', written over a horizontal line.

OPERATING REVIEW



MSB is a leading company in one of the fastest growing sectors of industry. The last five years has seen the value of the IT contractor market treble. Over that same period we have maintained an average compound growth rate of 95% per annum increasing turnover from £4.5 million to £128.8 million purely by organic growth.

All the present indicators tell us that the IT sector is going to maintain its fast rate of growth and is expected to double again by the year 2002. We aim to take maximum advantage of this by hard work, and by continuing to provide the quality service that has come to be expected of us, we can continue to increase market share.

MANAGEMENT AND INCENTIVISATION

The future of this company is dependent upon the ability, drive and ambition of its employees. We have many very able and ambitious people who we have sought to motivate to take us through the next phase of our growth.

Over the last twelve months we have been undergoing some major strategic and operational changes to our management structure. Mark Goldberg and the rest of the management team have worked with me to put in place a new incentive structure to carry us through this next phase of our development.

We have enhanced our management structure to allow the high achievers in our organisation the opportunities to progress rapidly to management positions. They are rewarded, not only with these management opportunities, but also with high earnings and share options in the company.

Existing shareholders will have seen the new share option scheme which was approved at our Extraordinary General Meeting in January. This scheme sets out to offer high rewards to those who achieve exceptional goals. This has always been the

philosophy of this company and it has worked very well, borne out by our performance over the last five years.

IT CONTRACTOR MARKET

Companies are increasingly treating IT as an area of investment for greater efficiency and as a way of achieving a commercial advantage over their competitors. We believe that this shift in emphasis will ensure that such investment will continue.

Two major items of IT expenditure which have been much publicised are the Year 2000 problem and the introduction of the Euro. The costs of updating systems to handle these issues have been, and will continue to be, substantial.

These costs are an overhead and bring no commercial advantage. In many cases organisations have had to postpone other more strategic projects to accommodate this work. Once these issues have been dealt with such strategic work will resume and this further supports confidence in our future growth.

The IT contracting market continues to expand and rates to contractors keep on rising. Over the last twelve months we have seen contractor rates rise by an average of 15%. The number of workers moving from permanent to contract employment has increased the number of contractors by 10%. The combined result, a very healthy 25% growth, indicates a market exceeding £2.5 billion in annual turnover, of which MSB's market share is 5%.

CURRENT TRADING

The pace of growth at MSB continues unabated. The best measure of this has always been the number of contractors which we have working. In the course of the last financial year our contractor numbers increased from 1,350 to 2,180. By 31 March 1998 they had reached 2,360.

OPERATING REVIEW (continued)



We have established ourselves as the largest supplier of IT contractors in several sectors of our market including PC and Network Support, Sybase, Oracle and Ingres. These markets are large and although we have been long established in them we have no more than 10% of the market. These markets continue to expand rapidly and are amongst our fastest growing.

Other areas in which we have a large presence, but only a small market share, include PC Development, IBM Mainframe, AS400, Informix and Communications. The potential here is substantial and we continue to expand and take market share.

The most exciting aspect is the huge potential we have in areas where we are only just starting to establish our presence. Software sectors such as SAP, Java, Unix and Powerbuilder have large and fast growing demand and we have recently organised teams to start developing these markets.

We have stated previously that our medium term objective is to expand our business overseas. We are still progressing towards this objective.

PEOPLE

The key to maximising our potential in all of these sectors is to develop our management and to recruit and train the right staff. Five years ago we employed 24 staff of whom 15 were sales consultants. By 31 January 1998 we employed 210 staff including 98 consultants and 29 resourcers.

Since the year-end we have stepped up the rate of recruitment and have engaged a further 20 consultants. In our new premises, at Hanover Place, we can accommodate up to 500 consultants and we believe the market will support such numbers.

There is a shortage of contractors. The IT industry as a whole is short of staff. However the situation is beginning to show signs that it will eventually correct itself. Four years ago, the number of workers in IT was increasing at a rate of 12% per annum. This has now improved and the numbers coming in to the industry are now increasing at 16%. This growth rate is only just keeping up with demand, but the trend is moving in the right direction.

All the key indicators for our industry signal continuing growth potential and we are well positioned to capitalise. We always set out to produce exceptional results and we consistently achieve them. We look forward to the coming year with confidence and will strive once again to meet expectations.

Peter P Flaherty
Managing Director

28 April 1998

A handwritten signature in black ink, appearing to read 'P Flaherty'.

FINANCIAL REVIEW



RESULTS FOR THE YEAR

As highlighted in the Chairman's Statement sales for the year ended 31 January 1998 amounted to £128.8 million, a rise of 85% on the £69.8 million last year. At £9.04 million, profit before tax was up 61% on the previous year (1997 – £5.61 million before costs of flotation).

Earnings per share increased by 57% to 29.0p (1997 – 18.5p before costs of flotation).

Overall gross margins have been maintained this year at 18.5%. This is a good performance at a time when margins are under pressure throughout our industry, especially as it is underpinned by an improvement in contract gross margin.

Operating margins have declined from 8.3% last year (before flotation costs) to 7.4% this, reflecting the increased overhead required to support the rapid growth in the business. This growth is expected to continue.

SHARE OPTIONS

At an Extraordinary General Meeting held on 16 January 1998 resolutions were passed approving a new High Performance Incentive share option scheme and an extension to the existing Executive share option scheme. The resolutions allow for a total of 1,940,379 shares to be made available to employees by way of options.

A total of 286,000 share options were granted immediately upon passing the resolutions, details of which are shown in note 15 to the financial statements. As stated in note 10, the dilutive effect of unexercised options on earnings per share is not material.

DIVIDENDS

The directors recommend a net final dividend of 6.0p, making 9.0p for the year in total, in line with the policy set out in the prospectus in April 1996.

WORKING CAPITAL

The working capital cycle continues to be around 32 days. Debtor days were 42 at 31 January 1998, having been 40 at the same time last year.

The company uses confidential invoice discounting to provide working capital on a day to day basis. The flexibility afforded by the facility is very useful to a business growing as quickly as MSB. Under the facility the company can receive up to 80% of the gross value of its invoices, immediately upon acceptance of those invoices by the factoring company.

NET BORROWINGS

The cash flow statement shows a net outflow for the year of £1,151,000 (1997 – inflow of £818,000). Mainly as a result of our working capital requirements and our investment in infrastructure, net borrowings at the year end had risen to £8.5 million against £2.1 million last year. Net borrowings includes a long term loan of £5 million, attracting interest at a fixed rate of 7.85%, repayable in 2002. The loan is with a company in the same group as the factoring company and is also secured against trade debtors, in the same way as the confidential invoice discounting discussed above.

GEARING

Gearing at 31 January 1998 was 85% compared with 38% at 31 January 1997. The calculation of gearing includes amounts owed to the factoring company, in respect of the confidential invoice discounting facility, as a liability rather than netting them from debtors. This follows the substance of the transaction. However, if such amounts were netted the resulting gearing would be 53%.

FINANCIAL REVIEW (continued)



INTEREST

The total interest payable in the year was £498,000 (1997 – £165,000). Interest cover is substantial, being 19 times covered by operating profits for the year (1997 – 34 times). The increase in interest paid is proportionally higher than the increase in turnover and reflects the additional borrowings.

PREMISES

As mentioned by the Chairman the company will move into new premises, Hanover Place, during the summer of 1998. This will allow all departments of the company to be housed under the same roof for the first time since April 1997.

On-going property costs in connection with Hanover Place will be around £1 million per annum. As part of the lease negotiations the company has received a one-off payment of £1 million from the landlord which, in accordance with best accounting practices, will be released to the profit and loss account over the period up to the first rent review, which is due in December 2003.

A handwritten signature in black ink, appearing to read 'P. Somers'.

Peter L Somers
Finance Director

28 April 1998

DIRECTORS, SECRETARY AND ADVISERS



DIRECTORS

David A Sugden *Chairman **
Peter P Flaherty *Managing Director*
Peter J Browne *Sales Director*
Peter L Somers *Finance Director*
Mark Goldberg
Nicholas J A Parker
Robert H Gunlack *
Michael G Harrison *

** Non-Executive*

SECRETARY AND REGISTERED OFFICE

Peter L Somers, Wells House, 15-17 Elmfield Road, Bromley, Kent BR1 1LS

COMPANY REGISTRATION NUMBER

2293703

STOCKBROKERS

Beeson Gregory Limited, The Registry, Royal Mint Court, London EC3N 4EY

SOLICITORS

S J Berwin & Co, 222 Grays Inn Road, London WC1X 8HB

AUDITORS

Price Waterhouse, 32 London Bridge Street, London SE1 9SY

BANKERS

National Westminster Bank plc, 143 High Street, Bromley, Kent BR1 1JH

REGISTRARS AND TRANSFER OFFICE

Independent Registrars Group Limited, Balfour House, 390-398 High Road, Ilford, Essex IG1 1NQ

DIRECTORS' REPORT



The directors present their annual report and the audited financial statements for the year ended 31 January 1998.

RESULTS

The company made a profit before tax for the year of £9,043,000 (1997 – £5,431,000 after charging costs of flotation). After provision for tax of £3,140,000 (1997 – £1,905,000) and dividends paid and proposed of £1,832,000 (1997 – £1,219,000), profit retained for the financial year amounts to £4,071,000 (1997 – £2,307,000) and is transferred to reserves.

PRINCIPAL ACTIVITY

The principal activity of the company continues to be that of a recruitment and employment agency specialising in computer personnel.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

A review of the business and discussion of future developments is included in the operating and financial reviews, contained on pages 3 to 6.

DIVIDENDS

The directors recommend a net final dividend of 6.0p per ordinary share (1997 – 4.0p). The total net dividend for the year will amount to 9.0p (1997 – 6.0p). Subject to approval by shareholders at the Annual General Meeting this will be paid on 29 May 1998 to shareholders on the register at the close of business on 1 May 1998.

Details of share capital are shown in note 15 to the financial statements.

TANGIBLE FIXED ASSETS

Details of tangible fixed assets are shown in note 11 to the financial statements.

THE BOARD OF DIRECTORS

The names of the current directors of the company are shown on page 7.

Mr M G Harrison was appointed a non-executive director on 1 June 1997. He is Managing Director of Cedardata plc, and was previously Managing Director of both Oracle UK and, more recently, Informix. Mr D A Sugden is non-executive Chairman. He was previously group chief executive of Geest PLC. The other non-executive director is Mr R H Gunlack who was previously a partner in Price Waterhouse and holds a number of other non-executive directorships including Chairman of Break for the Border Group Plc.

Having been appointed since the last Annual General Meeting, Mr Harrison retires. Mr P P Flaherty also retires by rotation. Both, being eligible, will seek re-election at the forthcoming Annual General Meeting.

On 9 March 1998 Mr M Goldberg stepped down from his position of Joint Managing Director, remaining on the board as a part-time executive director.

Details of related party transactions, including directors' interests in material contracts, are shown in note 22 to the financial statements.

DIRECTORS' REPORT (continued)



DIRECTORS' INTERESTS

Directors' interests in the share capital of the company at the beginning and the end of the year were as follows:

<i>Ordinary 5p shares</i>	<i>31 January 1998</i>	<i>31 January 1997</i>
P P Flaherty	3,485,213	4,012,800
N J A Parker	1,318,400	1,824,000
M Goldberg	3,851,200	5,472,000
P J Browne	2,325,600	2,736,000
P L Somers	14,000	14,000
D A Sugden	25,000	25,000
R H Gunlack	10,000	10,000
M G Harrison	nil	nil

There has been no change in the directors' interests between 31 January 1998 and 28 April 1998. Details of options granted to directors are shown in note 3 to the financial statements.

PRINCIPAL SHAREHOLDERS

Other than the directors, the board is not aware of any person who is interested in three per cent. or more of the issued share capital of the company at 1 April 1998 apart from the following:

	<i>Number of Ordinary shares</i>	<i>Percentage</i>
RBSTB Nominees Limited	1,052,776	5.17%
MSB Incentive Scheme Trustee Limited	665,000	3.27%

CONTRIBUTIONS FOR CHARITABLE AND POLITICAL PURPOSES

No payments were made for political purposes (1997 - £NIL). Donations for charitable purposes amounted to £250 in the year ended 31 January 1998, having not exceeded £200 in the year ended 31 January 1997.

CLOSE COMPANY STATUS

The company is not a close company as defined in the Income and Corporation Taxes Act 1988.

DIRECTORS' LIABILITY INSURANCE

The company purchases liability insurance covering the directors and officers of the company.

CREST

Since 20 January 1997 settlements in respect of trading in the company's ordinary shares have taken place via the CREST system.

DIRECTORS' REPORT (continued)



CORPORATE GOVERNANCE AND INTERNAL FINANCIAL CONTROLS

The board of directors has reviewed the company's compliance with the Code of Best Practice issued by the Cadbury Committee on the Financial Aspects of Corporate Governance, and the best practice provisions on Remuneration Committees prescribed in section A of the annexure to the Listing Rules of the London Stock Exchange. The review indicates that the company's systems of Corporate Governance are sound for a company of its size and complexity.

In the Annual Report last year it was noted that there were some aspects of the Code with which the company was not fully in compliance, principally in the number of non-executive directors on the board. Since then, as detailed above, a third non-executive director, Mr M G Harrison, has been appointed. The company complies fully with the CISO recommendations on Corporate Governance.

The Remuneration Committee includes N J A Parker who is a part-time executive director. He is not involved in the day to day management of the company but has extensive knowledge of the business. His inclusion on the Remuneration Committee is contrary to the best practice provisions on Remuneration Committees prescribed in section A of the annexure to the Listing Rules of the London Stock Exchange.

The directors acknowledge their ultimate responsibility for ensuring that the company has in place a system of controls, financial and otherwise, appropriate to its business. Such controls are designed to give reasonable assurance with respect to:

- the reliability of financial information used within the business or for publication
- the maintenance of proper accounting records
- the safeguarding of assets against unauthorised use or disposition and
- that the business is being operated efficiently and effectively.

No system can provide absolute assurance in all such respects.

The company's internal financial control and monitoring procedures include:

- clearly laid down systems and procedures, both financial and operational, including maintenance of good financial controls and the production of accurate and timely financial management information;
- the control of key financial risks through clearly laid down authorisation levels and proper segregation of accounting duties;
- detailed budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budgets;
- detailed review of sales and profit performance by management on a weekly basis.

The Cadbury Code requires that directors should report that the company is a going concern. The directors consider that the company has adequate resources to continue in operational existence for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing the financial statements.

The Audit Committee comprises R H Gunlack (chairman), D A Sugden, M G Harrison and P L Somers, and is always chaired by a non-executive director. It

DIRECTORS' REPORT (continued)



meets at least twice a year and at least once with the auditors without executive board members present.

REMUNERATION COMMITTEE REPORT

The Remuneration Committee comprises the non-executive directors, D A Sugden (chairman), R H Gunlack and M G Harrison, together with N J A Parker who is a part time executive director. It is always chaired by a non-executive director. It reviews the performance of executive directors, setting the scale and structure of their remuneration with due regard to the interests of shareholders.

The Remuneration Committee is also responsible for making recommendations to the board concerning the allocation of share options to employees. It is a rule of the Remuneration Committee that no director shall participate in discussions or decisions concerning his own remuneration.

Executive remuneration packages are designed to attract, motivate and retain directors of the high calibre needed to achieve the company's objectives and to reward them for enhancing value to shareholders. Such packages give full consideration to the best practice provisions set out in section B of the annexure to the Listing Rules of the London Stock Exchange.

There are four main elements of the remuneration package for executive directors and senior management:

- Basic annual salary and benefits in kind
- Annual performance bonus payments
- Share option incentives
- Pension contributions, though the company has no pension scheme of its own.

All aspects of the executive directors' packages are reviewed annually by the Remuneration Committee. Some executive directors benefit from certain taxable benefits, including the provision of a company owned motor car. The remuneration of the non-executive directors is determined by the board. The Remuneration Committee consults the Managing Director about its proposals relating to the remuneration of other executive directors and has access to professional advice where appropriate.

Each of the executive directors has a service contract with the company subject to termination by either party giving not less than one year's notice.

Details of the remuneration for each director, together with information relating to share options, are shown in note 3 to the financial statements.

The non-executive Chairman, D A Sugden, has a contract to act in that capacity until after the Annual General Meeting in 1999, unless he ceases to be a director before that date.

EMPLOYEE INCENTIVISATION

Incentivisation of employees continues to be vital to the growth of the company. For this reason division directors and division managers are entitled to participate in share incentive arrangements, the scope of which was widened by the proposals endorsed by shareholders at the Extraordinary General Meeting held on 16 January 1998. Details are given in note 15 to the financial statements.

DIRECTORS' REPORT (continued)



PAYMENT POLICY FOR SUPPLIERS

It is the company's policy to pay its suppliers in accordance with the terms and conditions of business agreed in each case. The overwhelming majority of the company's payments to suppliers are the payments to contractors which are made on a weekly basis on receipt of a timesheet authorised by our client. The average number of days credit taken from suppliers is 12 (1997 - 12).

MILLENNIUM AND EUROPEAN MONETARY UNION

As part of the investment in infrastructure the company is currently reviewing all its business processes with a view to further developing and enhancing its systems. Part of that review is directed at ensuring full Year 2000 compatibility, towards which significant progress has already been made, and will result in replacement of some software or modifications to existing software as appropriate. Most costs involved have already been incurred in producing specialised, bespoke systems over the last two years. These systems are Year 2000 compatible. The costs involved specifically in ensuring Year 2000 compatibility have not been separately identified. The further costs to be incurred will not be significant.

European monetary union is not currently a significant issue in respect of the company's in-house systems. However, its effects will be constantly monitored and action taken as and when appropriate.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the results for the year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then reasonably apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- follow applicable accounting standards, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

AUDITORS

A resolution to re-appoint Price Waterhouse as auditors to the company will be put to the members at the Annual General Meeting.

By order of the Board


Peter L Somers
Secretary

28 April 1998

PROFIT AND LOSS ACCOUNT

for the year ended 31 January 1998

		<i>Year ended 31 January 1998 £'000</i>	<i>Year ended 31 January 1997 £'000</i>
	<i>Note</i>		
Turnover	2	128,793	69,755
Cost of sales		(104,924)	(56,832)
Gross profit		23,869	12,923
Administrative expenses – recurring		(14,329)	(7,151)
Administrative expenses – costs of flotation	7	–	(180)
Operating profit		9,540	5,592
Interest receivable and similar income	5	1	4
Interest payable and similar charges	6	(498)	(165)
Profit on ordinary activities before taxation	7	9,043	5,431
Taxation on profit on ordinary activities	8	(3,140)	(1,905)
Profit on ordinary activities after taxation		5,903	3,526
Dividends payable – equity	9	(1,832)	(1,219)
Retained profit		<u>4,071</u>	<u>2,307</u>
Earnings per share (1997 – after charging costs of flotation)	10	<u>29.0p</u>	<u>17.6p</u>
Earnings per share (1997 – excluding costs of flotation)	10	<u>29.0p</u>	<u>18.5p</u>


STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no gains and losses other than those dealt with in the profit and loss account in either the current or the previous financial year.

BALANCE SHEET
as at 31 January 1998

		31 January 1998 £'000	31 January 1997 £'000
	Note		
Tangible fixed assets	11	1,896	1,442
Current assets			
Debtors	12	32,396	14,905
Cash at bank and in hand		354	82
		32,750	14,987
Creditors: amounts falling due within one year	13	18,591	10,402
Net current assets		14,159	4,585
Total assets less current liabilities		16,055	6,027
Creditors: amounts falling due after more than one year	14	6,042	157
		10,013	5,870
Capital and reserves			
Called up share capital	15	1,018	1,016
Share premium account	16	1,055	985
Profit and loss account	16	7,940	3,869
Equity shareholders' funds		10,013	5,870

Approved by the Board of Directors on 28 April 1998

.....  Peter P Flaherty, Director

CASH FLOW STATEMENT

for the year ended 31 January 1998

		<i>Year ended 31 January 1998 £'000</i>	<i>Year ended 31 January 1997 £'000</i>
	<i>Note</i>		
Net cash (outflow) / inflow from operating activities	19	(1,265)	1,484
Returns on investments and servicing of finance			
Interest received		1	4
Interest paid		(461)	(137)
Interest element of finance lease payments		(37)	(28)
		(497)	(161)
Taxation		(2,113)	(967)
Capital expenditure			
Receipts from sales of tangible fixed assets		130	75
Payments to acquire tangible fixed assets		(592)	(809)
		(462)	(734)
Equity dividends paid		(1,423)	(406)
Financing			
Long term loan		5,000	—
Issue of ordinary share capital		—	1,833
Capital element of finance lease payments		(391)	(231)
		4,609	1,602
(Decrease) / increase in cash	20	(1,151)	818

MOVEMENTS IN SHAREHOLDERS' FUNDS
for the year ended 31 January 1998

		<i>Year ended 31 January 1998 £'000</i>	<i>Year ended 31 January 1997 £'000</i>
	<i>Note</i>		
Profit for the year after taxation		5,903	3,526
Dividends	9	(1,832)	(1,219)
Retained profit for the year		4,071	2,307
New share capital subscribed		72	2,500
Issue costs written off against share premium account		—	(509)
Increase in shareholders' funds		4,143	4,298
Opening shareholders' funds		5,870	1,572
Closing shareholders' funds		<u>10,013</u>	<u>5,870</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 January 1998

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The principal accounting policies adopted are described below.

(a) Accounting convention

The financial statements have been prepared under the historical cost convention.

(b) Depreciation

Depreciation is provided in order to write off the cost of tangible fixed assets, less estimated residual value, over their estimated useful lives at the following rates:

Furniture, fittings and equipment	25% per annum on cost
Motor vehicles	25% per annum on a reducing balance basis
Software development costs	50% per annum on cost

(c) Deferred taxation

Deferred taxation is provided using the liability method to take account of timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

No provision is considered necessary at 31 January 1998 (1997 – nil).

(d) Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Translation differences thus arising are dealt with in the profit and loss account.

(e) Leased assets

Where the company enters into a lease or hire purchase agreement under which it assumes substantially all the rewards and risks of ownership, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life.

Further instalments payable, net of finance charges, are included within creditors. Rentals paid in the period are apportioned between the finance element, which is charged to the profit and loss account as interest and the capital element, which reduces the outstanding obligations of future instalments.

Other leases are treated as operating leases and the rental charges are taken to the profit and loss account as incurred.

(f) Turnover

Turnover represents fees invoiced net of Value Added Tax, derived from the principal activity of the company.

(g) Goodwill

Purchased goodwill is written off against reserves in the year in which it arises.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 January 1998 (continued)

2. TURNOVER

Turnover, all of which is generated from the United Kingdom, is attributable to the company's principal activity and arises in the following geographical markets:

	Year ended 31 January 1998 £'000	Year ended 31 January 1997 £'000
Fees Receivable		
United Kingdom	127,318	69,151
Continental Europe	1,475	604
	<u>128,793</u>	<u>69,755</u>

3. DIRECTORS' EMOLUMENTS

	Performance Salary/ fees £'000	related bonus £'000	Benefits in kind £'000	Pension costs £'000	Total 1998 £'000	Total 1997 £'000
<i>Executive</i>						
P P Flaherty	175	-	-	-	175	95
M Goldberg	175	-	-	-	175	95
P J Browne	75	175	15	-	265	85
P L Somers	85	-	7	13	105	81
N J A Parker	25	-	-	1	26	26
<i>Non Executive</i>						
D A Sugden (Chairman)	50	-	-	-	50	44
R H Gunlack	14	-	-	-	14	12
M G Harrison	14	-	-	-	14	-
Total emoluments	<u>613</u>	<u>175</u>	<u>22</u>	<u>14</u>	<u>824</u>	<u>438</u>

The company does not operate a pension scheme of its own. No pension contributions were paid on behalf of the highest paid director or the Chairman in either year.

The bonus scheme for Mr Browne was determined by the Remuneration Committee and based upon targets set for the year ended 31 January 1998.

Details of Executive Share Options are as follows:

	Date of grant	Number	Exercise price
P L Somers	<u>25 April 1996</u>	<u>76,000</u>	<u>190p</u>

Of these options, 38,000 are exercisable between 3 and 5 years after the date on which they were granted. The other 38,000 are exercisable between 4 and 6 years after that date. All options were issued at no cost, the exercise price being the market value at the date of grant. In the latter case the options are only exercisable if certain performance targets have been met, as determined by the Remuneration Committee. No options have been granted to any other directors. Details of options granted to other employees are detailed in note 15 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 January 1998 (continued)

3. DIRECTORS' EMOLUMENTS (continued)

The register of directors' interests, which is open to inspection at the company's registered office, contains full details of directors' shareholdings and options to subscribe for the company's shares.

The market price of the company's shares at 31 January 1998 was 695p. The company's shares have traded at a market price ranging between 312½p and 747½p during the year ended 31 January 1998.

4. EMPLOYEES

Employee costs during the year, including directors' remuneration, were as follows:

	<i>Year ended 31 January 1998 £'000</i>	<i>Year ended 31 January 1997 £'000</i>
Wages and salaries	9,654	4,686
Social security costs	926	464
Pension costs	14	11
	<u>10,594</u>	<u>5,161</u>
The average weekly number of persons employed during the year was as follows:		
	<i>Number</i>	<i>Number</i>
Sales consultants and resourcers	117	68
Administration (including directors)	70	40
	<u>187</u>	<u>108</u>

5. INTEREST RECEIVABLE

	<i>Year ended 31 January 1998 £'000</i>	<i>Year ended 31 January 1997 £'000</i>
Bank interest	<u>1</u>	<u>4</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	<i>Year ended 31 January 1998 £'000</i>	<i>Year ended 31 January 1997 £'000</i>
On borrowings repayable within five years:		
Bank overdraft	8	3
Lease and hire purchase interest	37	28
Confidential Invoice Discounting interest	321	134
Long term loan interest	132	—
	<u>498</u>	<u>165</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 January 1998 (continued)

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<i>Year ended 31 January 1998</i>	<i>Year ended 31 January 1997</i>
	<i>£'000</i>	<i>£'000</i>
Profit on ordinary activities is stated after charging:		
Rentals under operating leases:		
Rent payable	288	164
Other operating leases	41	36
Depreciation:		
Own assets	368	141
Assets held under finance leases and hire purchase contracts	269	178
(Profit)/loss on sale of tangible fixed assets	(19)	3
Auditors' remuneration:		
Audit	38	30
Non-audit	37	142
Factoring company service charges	123	105
Exchange losses	5	13
Costs of the company's flotation on the London Stock Exchange on 2 May 1996	—	180

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<i>Year ended 31 January 1998</i>	<i>Year ended 31 January 1997</i>
	<i>£'000</i>	<i>£'000</i>
<i>The taxation charge is made up as follows:</i>		
United Kingdom Corporation Tax at 33% (1997 – 33%) based on profit for the year	3,139	1,905
Adjustment in respect of prior years	1	—
	<u>3,140</u>	<u>1,905</u>

9. DIVIDENDS

	<i>Year ended 31 January 1998</i>	<i>Year ended 31 January 1997</i>
	<i>£'000</i>	<i>£'000</i>
Ordinary – interim paid 3.0p (1997 – 2.0p)	611	406
Ordinary – final proposed 6.0p (1997 – 4.0p)	1,221	813
	<u>1,832</u>	<u>1,219</u>

10. EARNINGS PER SHARE

The calculation of earnings per share is based upon profits of £9,043,000 (1997 – £5,431,000 after charging costs of flotation) and 20,326,871 shares, being the average number in issue during the year (1997 – 19,986,842 shares).

Details of unexercised options are given in note 15 to the financial statements. The dilutive effect of such unexercised options on earnings per share is not material.

The number of Ordinary shares in issue at 31 January 1998 was 20,353,789.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 January 1998 (continued)

11. TANGIBLE FIXED ASSETS

	<i>Motor vehicles £'000</i>	<i>Furniture, fittings & equipment £'000</i>	<i>Software develop- ment £'000</i>	<i>TOTAL £'000</i>
COST				
At 1 February 1997	962	806	136	1,904
Additions	781	414	28	1,223
Disposals	(217)	—	—	(217)
At 31 January 1998	<u>1,526</u>	<u>1,220</u>	<u>164</u>	<u>2,910</u>
DEPRECIATION				
At 1 February 1997	233	191	38	462
Charge for the year	269	268	100	637
Disposals	(85)	—	—	(85)
At 31 January 1998	<u>417</u>	<u>459</u>	<u>138</u>	<u>1,014</u>
NET BOOK VALUE				
At 31 January 1998	<u>1,109</u>	<u>761</u>	<u>26</u>	<u>1,896</u>
At 31 January 1997	<u>729</u>	<u>615</u>	<u>98</u>	<u>1,442</u>

The net book value of fixed assets above includes £1,066,000 (1996 – £685,000) in respect of assets held under finance leases and hire purchase agreements.

12. DEBTORS

	<i>31 January 1998 £'000</i>	<i>31 January 1997 £'000</i>
Trade debtors	26,484	11,422
Other debtors	32	105
Prepayments and accrued income	5,880	3,378
	<u>32,396</u>	<u>14,905</u>

The company uses a confidential invoice discounting facility in respect of its trade debtors. Under this arrangement the company can receive up to 80% of the gross value of its invoices immediately upon acceptance of those invoices by the factoring company.

At 31 January 1998 £11,111,000 of the trade debtors were accepted by the factoring company as being available for the confidential invoice discounting facility (1996 – £ 8,205,000). A further £6,250,000 of the trade debtors were accepted in providing cover for the long term loan of £5,000,000 detailed in note 14 below.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 January 1998 (continued)

13. CREDITORS – Amounts falling due within one year

	31 January 1998	31 January 1997
	£'000	£'000
Bank overdraft (secured)	–	360
Amounts advanced from factoring company	3,211	1,428
Obligations under finance leases and hire purchase agreements (see note 17)	434	269
Trade creditors	3,169	1,732
Other creditors	1,560	898
Corporation tax	2,930	1,905
Other tax and social security payable	2,116	990
Accruals and deferred income	5,171	2,820
	<u>18,591</u>	<u>10,402</u>

The bank overdraft is secured by a fixed and floating charge over all the assets of the company. At the year end the company had at its disposal unused facilities from the factoring company, amounting to £1,789,000 (1997 – £2,171,000).

14. CREDITORS – Amounts falling due after more than one year

	31 January 1998	31 January 1997
	£'000	£'000
Long term loan	5,000	–
Obligations under finance leases and hire purchase agreements (see note 17)	211	157
Accruals and deferred income	831	–
	<u>6,042</u>	<u>157</u>

The long term loan is repayable on 30 September 2002 and attracts interest at a fixed rate of 7.85%. The loan is secured on trade debtors, and affects the level of debtors available for the confidential invoice discounting facility accordingly.

15. CALLED UP SHARE CAPITAL

	31 January 1998	31 January 1997
	£'000	£'000
AUTHORISED		
27,500,000 ordinary shares of 5p each	<u>1,375</u>	<u>1,375</u>
ALLOTTED, CALLED UP AND FULLY PAID		
20,353,789 (1997-20,315,789) ordinary shares of 5p each	<u>1,016</u>	<u>1,018</u>

The movement in share capital relates to the exercise, by MSB Incentive Scheme Trustee Limited, of 38,000 ordinary shares of 5p each. The exercise was in accordance with the division managers' incentive arrangements set out in the placing document of April 1996 and is in respect of one division manager. The options were exercised at the placing price of 190p and the funds to exercise the option were provided by the company, when the conditions for exercise were satisfied. Such costs have, therefore, been charged to the Profit and Loss Account as they are not recoverable from MSB Incentive Scheme Trustee Limited.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 January 1998 (continued)

15. CALLED UP SHARE CAPITAL (continued)

Unexercised options totalling 76,000 ordinary shares were granted to a director on flotation. Details are given in note 3 above.

On 16 January 1998, following an Extraordinary General Meeting of the company, options totalling 286,000 shares were granted to various employees, none being directors, at an exercise price of 649p. None of these options can be exercised before 31 January 2001.

16. RESERVES

	<i>Profit and Loss Account £'000</i>	<i>Share Premium Account £'000</i>	<i>TOTAL £'000</i>
Balance at 1 February 1997	3,869	985	4,854
Retained profit for the year	4,071	—	4,071
New share capital subscribed	—	70	70
Balance at 31 January 1998	<u>7,940</u>	<u>1,055</u>	<u>8,995</u>

17. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE AGREEMENTS

	<i>31 January 1998 £'000</i>	<i>31 January 1997 £'000</i>
Net obligations are shown as follows:		
Repayable within one year	434	269
Repayable between two and five years	211	157
	<u>645</u>	<u>426</u>

18. OPERATING LEASE COMMITMENTS

At 31 January 1998 the company was committed to making the following payments during the next year in respect of operating leases:

	<i>Land and buildings £'000</i>	<i>Other £'000</i>	<i>TOTAL £'000</i>
Leases which expire:			
Within one year	22	—	22
Within two to five years	200	67	267
After five years	637	—	637
TOTAL	<u>859</u>	<u>67</u>	<u>926</u>

In February 1997 the company signed a lease for new premises, Hanover Place, Bromley, which will be available during the summer of 1998. In the interim period, in order to free up space in Wells House for expansion of the sales force, the company has taken space in Leonard House, Bromley, to accommodate the accounts department, including credit control, payroll and associated timesheet processing functions. Leonard House is sub-let from Data Scanning Services Limited which, as disclosed in note 22 below, now occupies the larger space available at Amadeus House.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 January 1998 (continued)

19. RECONCILIATION OF OPERATING PROFIT TO CASH
(OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	Year ended 31 January 1998 £'000	Year ended 31 January 1997 £'000
Operating profit	9,540	5,611
Depreciation	637	319
(Profit)/loss on sale of tangible fixed assets	(19)	3
(Increase) in debtors	(17,491)	(7,101)
Increase in creditors	6,068	2,652
	<u>(1,265)</u>	<u>1,484</u>

20. RECONCILIATION TO NET DEBT

	Year ended 31 January 1998 £'000	Year ended 31 January 1997 £'000
(Decrease)/increase in cash in the period	(1,151)	818
Increase in long term borrowings	(5,000)	-
Cash outflow from lease financing	604	278
Change in net debt resulting from cash flows	<u>(5,547)</u>	<u>1,096</u>
New finance leases in the period	(823)	(299)
Movements in net debt in period	<u>(6,370)</u>	<u>797</u>
Net debt at 1 February 1997	<u>(2,132)</u>	<u>(2,929)</u>
Net debt at 31 January 1998	<u>(8,502)</u>	<u>(2,132)</u>

21. ANALYSIS OF NET DEBT

	At 1 February 1997 £'000	Cash flow £'000	Other non-cash £'000	At 31 January 1998 £'000
Cash at bank and in hand	82	272	-	354
Bank overdraft	(360)	360	-	-
Amounts advanced by factoring company	(1,428)	(1,783)	-	(3,211)
Long term loan (note 14)	-	(5,000)	-	(5,000)
Finance leases	(426)	604	(823)	(645)
	<u>(2,132)</u>	<u>(5,547)</u>	<u>(823)</u>	<u>(8,502)</u>

22. RELATED PARTY TRANSACTIONS

RCMS LIMITED

During the year the company supplied IT personnel on a contract basis to RCMS Limited, a company of which Mr N J A Parker is a director and major shareholder.

The transactions were carried out on an arm's length basis and a gross margin achieved in line with similar business with other clients. The total turnover for the company during the year, net of Value Added Tax, was £195,861 (1996 - £35,989).

Included in trade debtors at 31 January 1998 was a total of £87,726, inclusive of Value Added Tax, owed to the company by RCMS Limited.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 January 1998 (continued)

15. CALLED UP SHARE CAPITAL (continued)

Unexercised options totalling 76,000 ordinary shares were granted to a director on flotation. Details are given in note 3 above.

On 16 January 1998, following an Extraordinary General Meeting of the company, options totalling 286,000 shares were granted to various employees, none being directors, at an exercise price of 649p. None of these options can be exercised before 31 January 2001.

16. RESERVES

	<i>Profit and Loss Account</i>	<i>Share Premium Account</i>	<i>TOTAL</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Balance at 1 February 1997	3,869	985	4,854
Retained profit for the year	4,071	—	4,071
New share capital subscribed	—	70	70
Balance at 31 January 1998	<u>7,940</u>	<u>1,055</u>	<u>8,995</u>

17. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE AGREEMENTS

	<i>31 January 1998</i>	<i>31 January 1997</i>
	<i>£'000</i>	<i>£'000</i>
Net obligations are shown as follows:		
Repayable within one year	434	269
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	<u>645</u>	<u>426</u>

18. OPERATING LEASE COMMITMENTS

At 31 January 1998 the company was committed to making the following payments during the next year in respect of operating leases:

	<i>Land and buildings</i>	<i>Other</i>	<i>TOTAL</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Leases which expire:			
Within one year	22	—	22
Within two to five years	200	67	267
After five years	637	—	637
TOTAL	<u>859</u>	<u>67</u>	<u>926</u>

In February 1997 the company signed a lease for new premises, Hanover Place, Bromley, which will be available during the summer of 1998. In the interim period, in order to free up space in Wells House for expansion of the sales force, the company has taken space in Leonard House, Bromley, to accommodate the accounts department, including credit control, payroll and associated timesheet processing functions. Leonard House is sub-let from Data Scanning Services Limited which, as disclosed in note 22 below, now occupies the larger space available at Amadeus House.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 January 1998 (continued)

19. RECONCILIATION OF OPERATING PROFIT TO CASH
(OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	Year ended 31 January 1998 £'000	Year ended 31 January 1997 £'000
Operating profit	9,540	5,611
Depreciation	637	319
(Profit)/loss on sale of tangible fixed assets	(19)	3
(Increase) in debtors	(17,491)	(7,101)
Increase in creditors	6,068	2,652
	<u>(1,265)</u>	<u>1,484</u>

20. RECONCILIATION TO NET DEBT

	Year ended 31 January 1998 £'000	Year ended 31 January 1997 £'000
(Decrease)/increase in cash in the period	(1,151)	818
Increase in long term borrowings	(5,000)	–
Cash outflow from lease financing	604	278
Change in net debt resulting from cash flows	<u>(5,547)</u>	<u>1,096</u>
New finance leases in the period	(823)	(299)
Movements in net debt in period	<u>(6,370)</u>	<u>797</u>
Net debt at 1 February 1997	<u>(2,132)</u>	<u>(2,929)</u>
Net debt at 31 January 1998	<u>(8,502)</u>	<u>(2,132)</u>

21. ANALYSIS OF NET DEBT

	At 1 February 1997 £'000	Cash flow £'000	Other non-cash £'000	At 31 January 1998 £'000
Cash at bank and in hand	82	272	–	354
Bank overdraft	(360)	360	–	–
Amounts advanced by factoring company	(1,428)	(1,783)	–	(3,211)
Long term loan (note 14)	–	(5,000)	–	(5,000)
Finance leases	(426)	604	(823)	(645)
	<u>(2,132)</u>	<u>(5,547)</u>	<u>(823)</u>	<u>(8,502)</u>

22. RELATED PARTY TRANSACTIONS

RCMS LIMITED

During the year the company supplied IT personnel on a contract basis to RCMS Limited, a company of which Mr N J A Parker is a director and major shareholder.

The transactions were carried out on an arm's length basis and a gross margin achieved in line with similar business with other clients. The total turnover for the company during the year, net of Value Added Tax, was £195,861 (1996 – £35,989).

Included in trade debtors at 31 January 1998 was a total of £87,726, inclusive of Value Added Tax, owed to the company by RCMS Limited.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 January 1998 (continued)

22. RELATED PARTY TRANSACTIONS (continued)

DATA SCANNING SERVICES LIMITED

The company sub-lets its former premises, Amadeus House, to Data Scanning Services Limited, a company whose directors include Messrs M Goldberg, N J A Parker and P J Browne. The transaction is conducted at arm's length with full rent, rates and other property costs being recharged by the company to Data Scanning Services Limited.

In addition the company rents part of the smaller premises vacated by Data Scanning Services Limited, Leonard House, for additional office space needed before the company's move to new premises, Hanover Place, during the summer of 1998.

The total amounts charged by the company to Data Scanning Services Limited during the year, net of rent payable on Leonard House and Value Added Tax, were £197,859 (1996 – £17,389) of which £23,326 represents rent prepaid for February and March 1998. All amounts payable were settled by Data Scanning Services Limited prior to the year end.

On 17 April 1997 the company acquired a call option to acquire the whole of the share capital of Data Scanning Services Limited, the ownership of which is referred to above. The consideration for the granting of the option was £1. The option is available for three years, expiring on 16 April 2000. Being a call option the company at no time has an obligation to purchase Data Scanning Services Limited, but may do if its trading performance and potential for future profitability make it an attractive investment for the company. The directors have no intention of exercising the option at the present time.

23. POST BALANCE SHEET EVENTS

On 9 March 1998 Mr M Goldberg stepped down from his position as Joint managing Director, remaining on the board as a part-time executive director. It was announced that Mr P P Flaherty would continue as Managing Director while the company sought a new Chief Executive, on appointment of whom Mr Flaherty would become Executive Deputy Chairman with specific responsibility for strategy and business development.

AUDITORS' REPORT TO THE MEMBERS OF MSB INTERNATIONAL PLC

We have audited the financial statements on pages 13 to 25 which have been prepared under the historical cost convention and the accounting policies set out on page 17.

Respective responsibilities of directors and auditors

As described on page 12 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 January 1998 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Price Waterhouse

Chartered Accountants and Registered Auditors

32 London Bridge Street
London SE1 9SY

28 April 1998

**REPORT BY THE AUDITORS TO THE DIRECTORS OF
MSB INTERNATIONAL PLC ON CORPORATE GOVERNANCE MATTERS**

In addition to our audit of the financial statements we have reviewed your statements on pages 10 and 11 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express an opinion on the effectiveness of either the company's system of internal financial control or corporate governance procedures nor on the ability of the company to continue in operational existence.

Opinion

In our opinion, your statements on internal financial controls on page 10 and on going concern on page 10, have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the company and examination of relevant documents, your statement on page 10 appropriately reflects the company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).


Price Waterhouse

Chartered Accountants

28 April 1998

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Second Annual General Meeting of MSB International PLC ("the Company") will be held at 222 Grays Inn Road, London WC1X 8HB on the 22nd day of May 1998 at 10.00 am for the following purposes:

Ordinary Business

1. To consider and, if thought fit, adopt the accounts of the Company for the year ended 31 January 1998 and the Reports of the Directors and Auditors thereon.
2. To declare a final dividend of six pence per Ordinary Share.
3. To re-elect as director Michael Geoffrey Harrison who was appointed since the last Annual General Meeting.
4. To re-elect as director Peter Paul Flaherty who retires by rotation.
5. To elect Price Waterhouse as auditors to hold office until the conclusion of the next General Meeting of the Company before which accounts are laid.
6. To authorise the Directors to determine the remuneration of the Auditors.

Special Business

To consider and, if thought fit, pass the following resolutions, of which number 7 will be proposed as an Ordinary Resolution and number 8 as a Special Resolution:

Ordinary Resolution

7. That the Directors be and are hereby generally and unconditionally authorised and empowered, for the purposes of section 80 of the Companies Act 1985, to exercise all powers of the Company to allot relevant securities (as defined in the said section 80) up to an aggregate nominal amount of £339,230 provided that this authority shall expire on the earlier of fifteen months from the date of this resolution and the conclusion of the next Annual General Meeting of the Company, to be held in 1999, save that the Company may, before such expiry, 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 such offer or agreement as if the authority conferred hereby had not expired (see note (a) overleaf).

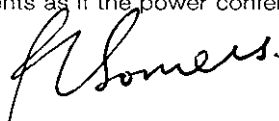
Special Resolution

8. That, subject to the passing of resolution 7 set out in the Notice of this meeting the Directors be and are hereby empowered pursuant to section 95 (1) of the Companies Act 1985 to allot equity securities (within the meaning of section 94 of the Companies Act 1985) for cash pursuant to the authority conferred by the said resolution 7 as if section 89 (1) of the Companies Act 1985 did not apply to any such allotment provided that this power shall be limited:
 - (i) to the allotment of equity securities in connection with a rights issue or in connection with any other form of issue of equity securities in which such holders are offered the right to participate, in proportion (as nearly as may be) to their respective holdings, and if the terms of any other equity securities so provide in favour of the holders of the equity securities in accordance with the terms thereof (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with either legal or practical problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or shares represented by depository receipts or otherwise howsoever); and
 - (ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities but up to an aggregate nominal value of £50,884 to expire on the earlier of fifteen months from the date of this resolution and the conclusion of the next Annual General Meeting of the Company, to be held in 1999, save that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired (see note (b) overleaf).

By Order of the Board

Peter L Somers
Secretary

28 April 1998



Notes

- (1) A member entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. A proxy need not be a member of the Company.
- (2) Forms of proxy are provided and to be valid must be lodged with the Company's registrars, Independent Registrars Group, not less than 48 hours before the time appointed for the holding of the meeting.
- (3) There will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excepted) from the date of this notice until the date of the Annual General Meeting, and at the place of the meeting for 15 minutes prior to and during the meeting:
 - (a) the register of Directors' interests in shares of the Company kept in accordance with Section 325 of the Companies Act 1985; and
 - (b) copies of the contracts of service between the Directors and the Company or any of its subsidiaries (other than contracts expiring or determinable by the Company without compensation within one year).

Explanatory Notes

- (a) Section 80 of the Companies Act 1985 ("the Act") requires shareholders' authority for the Directors to allot the unissued share capital of the Company or convertible securities, other than shares which may be allotted under the employee share schemes previously approved by shareholders. Such authority may be granted for a period of no more than five years. The existing authority under Section 80, given by shareholders to the Directors at the Annual General Meeting held on 23 May 1997, is in respect of unissued Ordinary Shares having a nominal value of £338,596, representing one third of the nominal amount of the issued share capital at that time, and is due for renewal at the Annual General Meeting. The Directors consider that this authority should be renewed in respect of unissued Ordinary Shares. The corresponding figure for this resolution is £339,230.
- (b) In the case of a new allotment of shares or convertible securities for cash, Section 89 of the Act grants pre-emption rights to existing shareholders. The London Stock Exchange does not require the consent of shareholders to each specific allotment (made other than to existing shareholders on a proportional basis) provided that the authority of shareholders, which may be given under Section 95 of the Act, to disapply generally the provisions of Section 89 is obtained. Accordingly, the Directors consider that it is in the best interests of the Company for the existing Section 95 authority granted by shareholders on 23 May 1997 to be renewed for a period expiring at the next Annual General Meeting or on 21 August 1999, whichever is earlier. It is proposed that the waiver will be limited by value to 5 per cent. of the issued ordinary share capital and will apply to equity securities having a nominal value of £50,884. This proposal is consistent with the guidelines approved in October 1987 by the Investment Committees of the Association of British Insurers and the National Association of Pension Funds. If this approval is granted your Directors would, in implementing it, have regard to the additional guidelines which indicate that issues of equity securities for cash (other than by way of rights) should not, in any rolling three-year period, exceed 7½ per cent. of the issued ordinary share capital.