

annual report and accounts

for the year ended 31 march 2004

2004-05



RADSTONE
TECHNOLOGY

table of contents

Financial Highlights	2
Financial Summary	3
Directors & Advisers	4-5
Chairman's Statement	6-7
Operations Review	8-11
Financial Review	12-13
Directors' Report	14-16
Report to the Shareholders on Directors' Remuneration	17-22
Corporate Governance Statement	23-24
Statement of Directors' Responsibilities	24
Independent Auditors' Report	25
Consolidated Profit & Loss Account	26
Balance Sheets	27
Consolidated Cash Flow Statement	28
Notes to the Financial Statements	29-55
Shareholder Information	56
Notice of Annual General Meeting	57
Form of Proxy	59

financial highlights

for the year ended 31 March 2004

turnover was effected by the large one-off EMS contract in the prior year and the weak dollar but was boosted by the acquisition.

Turnover (£m)

group profit before tax, goodwill and exceptional items recorded its seventh successive year of improvement, increasing by 17%.

Profit before tax, exceptional item and goodwill (£m)
(see note b on page 3)

normalised earnings per share increased by 9%.

Normalised earnings per share (p)
(see notes c and d on page 3)

financial summary

for the five year period ended 31 March 2004

	2004	2003	2002	2001	2000
Turnover	£43.72m	£48.49m	£41.20m	£41.26m	£30.16m
Operating profit before goodwill (a)	£7.77m	£6.64m	£5.26m	£4.74m	£3.03m
Profit before tax	£3.06m	£6.13m	£4.58m	£4.11m	£2.66m
Profit before tax, exceptional item and goodwill (b)	£7.38m	£6.31m	£4.76m	£4.30m	£2.72m
Basic earnings per share (c)	5.00p	17.98p	13.19p	11.48p	10.89p
Normalised earnings per share (c)(d)	20.50p	18.77p	13.97p	12.28p	11.17p
Dividend per share	3.00p	2.00p	1.00p	-p	-p
Development expenditure	£4.53m	£3.94m	£3.47m	£2.75m	£2.98m
Working capital (e)	£12.02m	£12.28m	£17.02m	£11.63m	£9.78m
Capital employed (f)	£45.63m	£21.20m	£26.55m	£21.13m	£18.95m
Net cash flow from operating activities before exceptional item	£9.06m	£12.68m	£0.79m	£4.25m	£2.41m
Return on average capital employed (f)	23.2%	27.8%	22.1%	23.7%	20.4%
Return on opening equity	20.8%	23.0%	19.7%	21.9%	31.7%
Average working capital/sales (e)	27.8%	30.2%	34.8%	26.0%	28.1%
Average number of employees	441	394	395	377	321

- (a) Operating profit before goodwill (see note to the consolidated cash flow statement on page 28) is indicative of underlying performance.
- (b) Profit before tax of £3.06m (2003: £6.13m) adjusted for exceptional item of £3.51m (2003: £nil) and goodwill of £0.81m (2003: £0.18m).
- (c) Prior years' earnings per share calculation reflects the bonus element of rights issues.
- (d) Normalised earnings per share is the basic earnings per share before exceptional items and amortisation of goodwill as per note 10 to the financial statements.
- (e) Working capital excludes all cash, bank and other borrowings but includes long-term debtors and creditors. Average working capital is a simple average of opening and closing working capital.
- (f) Capital employed is equity plus net debt or less net cash. Average capital employed is the simple average of opening and closing capital employed. Capital employed for 2004 and 2003 has been adjusted to reflect the adoption of UITF abstract 38 Accounting for ESOP trusts.

directors & advisers

Secretary &

Registered Office

B R Shears ACA
Tove Valley Business Park
Towcester
Northants NN12 6PF
Registered Number
2151516

Auditors

Deloitte & Touche LLP
1 Woodborough Road
Nottingham NG1 3FG

Solicitors

Shoosmiths
Lock House
Castle Meadow Road
Nottingham NG2 1AG

Principal Bankers

HSBC Bank plc
3 Wood Hill
Northampton NN1 2QE

M & T Bank
25 South Charles Street
Baltimore
Maryland 21201
USA

HSBC Bank Canada
30 Metcalfe Street
Ottawa
Ontario K1P 5L4
Canada

Rhys Williams, BSc * *(Non-executive Chairman)*

aged 70,
is the non-executive Chairman.
He was appointed to this post in
1992. In 1991 he retired from his
executive role as a main board
director of GEC plc, where his
career included managing the
telecommunications
subsidiaries and the Marconi
Group. He currently holds
directorships of Acal plc,
Comunica Holdings plc and
Filtronic plc.

Jeff Perrin, FCCA *(Chief Executive)*

aged 53,
was appointed as Chief
Executive in September 2003. He
was previously Finance Director
of Radstone, a position he held
since 1989. Between 1977 and
1989 he held financial positions
at Oriflame International SA and
GEC plc, latterly as Finance
Director of GEC Electrical
Projects Limited.

Kevin Boyd, BEng, C Eng, MIEE, ACA *(Group Finance Director)*

aged 39,
is the Group Finance Director
and is responsible for the
Group's financial controls,
treasury and information
technology operations. He
joined the Board in September
2003 having previously been
Finance Director of Siroyan
Limited. Prior to this he held a
number of senior financial
positions with TI Group plc.

Financial Advisers

Close Brothers Corporate
Finance Limited
10 Crown Place
London EC2A 4FT

Stockbrokers

Cazenove & Co. Limited
20 Moorgate
London EC2R 6DA

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Peter Cavill, MSc *(Executive Director)*

aged 57,
is the executive director
responsible for the Embedded
Computing business. He was
appointed a director of
Radstone in 1993. Previously he
was a general manager at
Fairchild Semiconductor Inc, a
director of Immos Limited, the
Chief Executive of Anamartic
Limited and a divisional director
of Spider Systems Limited.

Stephen Day * *(Non-executive Director)*

aged 59,
became the senior non-
executive member of the Board
in May 1998, having spent much
of his career in the electronics
industry. He was Managing
Director of Kam Circuits Limited
between 1985 and 1989 and
Chief Executive of Kode
International plc from 1989 to
1999, and is currently a non-
executive director of Belgravium
Technologies plc.

Sir Alan Thomas, * BSc, CEng, FIEE, FCMA *(Non-executive Director)*

aged 61,
was appointed as a non-
executive director in April 2004.
Formerly President and Chief
Executive Officer of Raytheon
Europe and Head of the British
Government's Defence Sales
Organisation, he is currently
Chairman of Three Valleys Water
plc, Hyder Consulting plc, the
University of Westminster and
Chelverton Asset Management.

* Member of remuneration and audit committees

chairman's statement

for the year ended 31 March 2004

"the long-term order book and the increasing investment in product development, provides an excellent foundation for the next stage of our growth."

Construction of a new purpose built freehold facility was completed on schedule and to budget in early May 2004.

The past twelve months have been a period of substantial change within Radstone and one in which there has been a steep decline in the value of the US dollar, the most important trading currency for the Group. It is an indication of the strength in depth and quality of the employees within the Group that these changes were well managed leading to an improved financial performance.

We made good progress in the year both on the trading front and in the Group's strategic development. Group profit before tax, goodwill and exceptional items (see note (b) on page 3) recorded its seventh successive year of improvement, increasing by 17% to £7.4m from £6.3m last year. The major development in the year was the acquisition of Interactive Circuits and Systems Limited (ICS) based in Ottawa, Canada.

Turnover of £43.7m (2003: £48.5m), reflected the non-recurrence of a significant automotive test equipment contract in the Electronic Manufacturing Services (EMS) business and the effect of the weak US dollar in the Embedded Computing business. These negative factors were partially offset by the inclusion of the ICS acquisition for approximately half the period under review.

During the year the decision was made to close our EMS facility at Hawarden and concentrate resources in our plant at Milton Keynes. This resulted in an exceptional cost in the year of £3.5m. Following the exceptional costs, the post tax profit was £1.3m (2003: £4.3m).

Once again cash flow was strong, with £9.1m generated from operations in the year.

The large exceptional item lowered the basic earnings per share under FRS14 to 5.00p (2003: 17.98p), by contrast normalised earnings per share (see note 10 to the financial statements) increased by 9% to 20.50p (2003: 18.77p).

New orders received during the year to 31 March 2004 totalled £66.7m, a 50% increase over last year.

The order book ended the year at a record level of £79.3m, (2003: £62.7m), up 26% despite the effect of a £7.8m currency devaluation adjustment due to the weak US dollar.

chairman's statement

for the year ended 31 March 2004

Dividend

In light of the underlying performance and prospects of the Group, your board is recommending a final dividend of 2.25p per ordinary share, giving a dividend of 3.0p for the year, which represents an increase of 50%. This will be paid on 29 September to shareholders on the register on 10 September 2004.

New Product Development

With development expenditure of £4.5m at record levels, the period proved to be a strong one for new product introductions, ensuring that Radstone retains its technological leadership in its marketplace.

Acquisition

In September 2003 we completed the acquisition of ICS based in Ottawa, Canada, for a total consideration of £21m. ICS designs and manufactures real-time data acquisition sub-systems for radar, sonar, communications and signal intelligence applications. This is a major step in the Group's strategy and will enable us to provide defence customers with a complete set of system functions from sensor data acquisition through to display controllers.

The business is currently performing in line with our expectations and I would like to welcome the employees of ICS to the Radstone Group.

Facilities

In July 2003 our Towcester based EMS business moved into a specialised and upgraded 31,000 sq. ft. leasehold facility in Milton Keynes, well suited to high added value surface mount assembly. The move was well planned and executed, with just one and a half working days lost to production. Following the closure of the Hawarden facility, manufacturing assembly facilities have been consolidated at our Milton Keynes site.

Construction of a new purpose built 75,000 sq. ft. freehold facility within Towcester commenced in August 2003. This will house the Radstone Group's headquarters and the Embedded Computing business and will replace our Towcester facility at Water Lane, which is being sold for a cash consideration of £4.1m. The new, fully integrated, state-of-the-art facility will greatly enhance our capacity and efficiency. Construction was completed on schedule and to budget in early May 2004. Our own internal fit-out took a further three weeks and we relocated in early June, with minimal disruption to production.

Board and Management

As previously announced, Dr Charles Paterson retired from the position of Group Managing Director on 10 September 2003, having led the Company with vision and drive for the past 15 years. We wish him a long and healthy retirement.

Jeff Perrin, who was Finance Director of the Group for 14 years, succeeded him.

Kevin Boyd joined the Company in March 2003 and was appointed Group Finance Director on 10 September 2003, succeeding Jeff Perrin.

In April 2004, Sir Alan Thomas joined the board as a non-executive director. His general business experience and specific knowledge of the defence industry will be a great asset to the Group.

Outlook

Our Embedded Computing business is strongly placed to build on its technical leadership in the rugged embedded computing market. Although the precise timing of specific defence programmes cannot be controlled, we believe demand for rugged, high performance embedded computing products continues to grow due to the increased requirement for battlefield digitisation.

The long-term order book and the increasing investment in product development, provides an excellent foundation for the next stage of our growth.

Rhys Williams, Chairman

operations review

for the year ended 31 March 2004

"in our main US market,
sales (excluding ICS)
reached record levels,
showing organic growth in
US Dollars of 22%"

Radstone Group Strategy

Radstone is a technology company dedicated to supporting the needs of system integrators.

The Radstone Group has two core businesses:

The Embedded Computing Business operates internationally as 'Radstone Technology'.

It specialises in the computing subsystem needs of the defence community and, in particular, in the design of subsystems adapted to survive the most extreme stresses of the tactical military environment.

Radstone uses Integrated Product Teams to anticipate the requirements of its customers by creating products that express the full capabilities of the electronic component industry at any given time.

It promotes Open System Standards, both in hardware and software, so that Radstone products may be understood and used world-wide, wherever such standards are recognised.

Radstone's target market is among technically astute, professional system designers who aim to achieve higher performance, lower cost and shorter time-to-market by outsourcing significant elements of their designs from an external specialist.

Radstone appreciates the high degree of trust it enjoys from its customers and recognises the obligation to support them which this implies.

Often, it works with them in long-duration partnerships, in which it expects to provide in-depth technical support. In return, it gains valuable insights into their future needs, which inform the detailed specification of future generations of products.

Radstone has no direct contact with end-users and works exclusively with Original Equipment Manufacturers, (OEMs). It has a strong software development capability, which it maintains solely to support and enhance the functionality of its subsystem products.

It respects the right of its OEM customers to add value through their own special understanding of the end-user application; in no circumstances will it develop, or threaten to develop, end-user application software in competition with its customers.

Radstone operates internationally, wherever there is an industrial economy with a viable system integration capability.

Foundation Technology is Radstone's specialist provider of Electronic Manufacturing Services, (EMS), serving the Embedded Computing business, as well as a growing list of UK-based external customers.

Its focus is on the needs of OEMs who seek to outsource the manufacture of small to medium size batches of complex electronic products, frequently on short lead times. Complete or partial manufacturing solutions are available, including component procurement, assembly and test.

Foundation Technology is accustomed to working closely with its customers during product development, providing manufacturing inputs to their design review processes.

It has direct access to the technology resources of the Radstone Group, enabling it to deploy new processes, materials and test techniques at an early stage in the technology cycle.

With a modern factory location at Milton Keynes, Buckinghamshire, Foundation Technology is now among the best-equipped UK EMS operations in its market sector.

Embedded Computing

	2004 £'000	2003 £'000
Total sales (all external)	33,181	31,969
Gross profit	19,602	17,265
Contribution (see note 2)	10,046	8,481

In September 2003, Radstone acquired ICS Limited, a Canadian company based in Ottawa. The company designs and manufactures real-time data acquisition and analogue to digital conversion products. This acquisition enables Radstone to market a more complete product offering to customers in the radar, sonar, communications and signal intelligence markets.

Sales for the Embedded Computing business included £4.3m attributable to ICS. The continuing weakness of the US dollar, the unit's main trading currency, negated any organic growth in sterling terms. Over the last two financial years the US dollar has declined by almost 30% against sterling.

The phasing of shipments followed a similar pattern to previous years, with a strong delivery performance in Quarter 3 and Quarter 4. Excluding ICS, 58% of shipments occurred in the second half of the year, compared with 60% in 2003.

In our main US market, sales of £20.6m (excluding ICS) reached record levels despite the weak US dollar, showing organic growth in US Dollars of 22%. Including the ICS sales, US deliveries of £23.3m represented 53% of Group sales compared with 38% in 2003. Major US programme deliveries were MLRS (Harris Corporation), Firefinder (Northrop Grumman), ATFLIR (Raytheon Systems), ADCAP (Raytheon Systems) and RAM (Raytheon Systems).

The production programme for tranche 1 of the Eurofighter project was completed by 31 March 2003 and with no further deliveries in 2004, this was the major contributor to a decline in UK sales.

Sales to the Far East were £2.0m less than in 2003, which had the benefit of a \$2.5m contract which did not recur during 2004.

Gross profit increased to £19.6m compared with £17.3m last year (+14%), largely due to the additional gross profit from ICS of £2.1m. The effect of our currency hedging protected the profits and cash flows of the original embedded computing business from the weakening US dollar. This currency hedging contributed to an increased gross profit margin of 59.1% in 2004 from 54.0% in 2003 and 50.0% in 2002.

Contribution improved to 30.3% of sales (2003: 26.5%), for the same reasons.

We had a record year for new product introductions, with no fewer than seventeen being introduced to the market over the twelve month period. Examples include the new RT-4 rugged computer system targeted at space conscious avionics applications and the G4DSP-X designed for high performance signal processing.

The G4DSP-X delivers a major performance improvement over the existing G4DSP product, which is now in production for the US Navy's ADCAP torpedo programme. The G4DSP-X is the most technologically advanced board that Radstone has developed, with four 1GHz processors interconnected by an 800MByte/sec PCI-X bus. It is ideally suited for demanding applications such as software radio, radar and C4ISR (Command, Control, Communication, Computers, Intelligence, Surveillance and Reconnaissance). It is already designed into two major US Navy programs, one for shipboard radar and the other for laser based mine detection. When coupled with the ICS-572 transmit/receive interface board it also provides an ideal platform for many software radio applications.

operations review

for the year ended 31 March 2004

"the EMS business is now
a more efficient and tightly
focused unit"

Electronic Manufacturing Services (EMS)

	2004 £'000	2003 £'000
Total sales	11,327	17,315
Sales to Embedded Computing	(787)	(790)
External sales	10,540	16,525
Gross profit	1,392	1,555
Contribution (see note 2)	1,114	1,245

In July 2003 the Towcester unit was transferred to a modern 31,000 sq. ft. facility in Milton Keynes. The move was professionally managed, with the minimum of disruption to customers. Production finished on Thursday evening 3 July 2003 at Towcester and by the following Monday the first electronic boards were being assembled at Milton Keynes.

At the time of our interims, we stated that we would be conducting a review of our EMS business, with the objective of

improving its efficiency and contribution to the Group. On 24 November 2003 the results of the review were announced. It was concluded that the Group's entire EMS activity should be consolidated at our new facility in Milton Keynes, which has the capacity to handle significantly increased demand. This resulted in the closure of our Hawarden facility at a cost of £0.6m and a write down of the unamortised goodwill of £2.9m.

The EMS business is now a more efficient and tightly focused unit, targeting customers that require small to medium batch sizes of complex electronic assemblies.

Our Milton Keynes operation was the first manufacturer to be awarded the BSI Kite Mark IPC-A-610C, which is the industry accepted workmanship criteria for electronics assemblies. We were awarded the highest level of approval within this standard.

Sales to the major UK defence system integrators, which represent approximately 10% of deliveries, were a similar proportion to last year. Most of the activity in the year was for commercial customers involved in industrial control, test and measurement, civil surveillance, electronic displays and electronics for motor sports. There are some early indications of a slight improvement in the commercial electronics market that has remained depressed for over two years.

Third party sales at £10.5m were £6.0m below last year, principally reflecting the non-recurrence of the majority of a £7m contract for assembly and test of an automotive diagnostic product. As expected, approximately £5m of this order was not repeated during 2004 and sales to this customer during the year were £2.3m.

The gross profit of £1.4m represented a decrease of £0.2m over last year, principally due to the non-recurrence of the low margin automotive test equipment order. This did, however, result in increased gross margins of 12.3% up from 9.0% in 2003.

Despite a sales reduction of £6.0m, the higher margin deliveries partially compensated for this loss, which resulted in the contribution being just £0.1m below last year. The contribution percentage thereby improved from last year's 7.2% to 9.8%.

Orders

The order book at 31 March 2004 totalled a record £79.3m, an increase of 26% in sterling terms from the £62.7m achieved in 2003.

Since the greater part of the Group order book results from orders originally denominated in US dollars, it has been adversely affected by the decline in the US currency. Over the past two years our order book has been devalued by £14.6m due to the US dollar's decline, £7.8m of this in the year just ended.

New orders received within the year were similarly affected by currency. Gross new orders booked at constant exchange rates totalled £66.7m in 2004, representing a 50% increase over 2003 (2003: £44.4m). Excluding our recent acquisition ICS, gross order intake would show a 38% increase at £61.2m.

UK orders for the Group totalled £30.8m, producing a 60% increase compared with the previous year. This increase is mainly attributable to the receipt within Embedded Computing of a £14m multi-year production contract. Deliveries on this contract will not begin until January 2006 and will cover three financial years.

Orders from mainland Europe of £1.6m and the Far East of £0.9m were at a depressed level declining by £3.4m and £1.2m respectively.

The USA had another excellent year for new orders received with bookings of £32.4m; this excludes the currency adjustment of £7.8m. Excluding US bookings for ICS Ltd, new US orders received grew by 50%.

The largest US order was for \$41m on a multi-year production programme for delivery over the next seven years.

Order intake for the EMS business, which is all UK and Ireland based, declined by £4.2m due to the reduced requirement from the large automotive test equipment contract mentioned earlier.

Jeff Perrin, Chief Executive

Turnover by class of business

year ended 31 March 2003

year ended 31 March 2004

Geographical analysis

year ended 31 March 2003

year ended 31 March 2004

financial review

for the year ended 31 March 2004

“operating profit before goodwill grew from 13.7% to 17.8% of sales”

Overview

Group sales of £43.7m comprised £33.2m from the Embedded Computing division and £10.5m from EMS. Embedded Computing benefited from sales of £4.3m from ICS, the Canadian subsidiary acquired in September, but suffered a reduction of £2.7m in constant dollar terms due to the fall in the US dollar which averaged 1.75 in the year compared with 1.56 in the prior year. In a difficult market and without the benefit of the one-off automotive test equipment contract described last year, EMS turnover was down 36%.

While turnover suffered from the weak dollar, gross margins were protected due to the Group's hedging policy which secured absolute gross profit and boosted percentage gross margins from 38.8% last year to 48.0%.

The effect of hedging, excluding natural hedges, added approximately £2.1m to the gross profit of Embedded Computing. This helped increase margins from 54.0% last year to 59.1%. Stripping out the effects of currency, the margin in Embedded Computing increased to 55.7% due to lower component prices in the first half of the year and an increasing proportion of sales for rugged products. ICS produced a gross margin of 49.4% in its seven months with the Group.

Within the EMS business, gross margins improved from 9.0% to 12.3% due to the non-recurrence of the low margin automotive test equipment contract.

Gross profits increased by £2.2m. Expenditure on development, sales, marketing and administration increased by £1.1m with the result that operating profit (before goodwill amortisation of £0.8m) increased by £1.1m to £7.8m, a 17% improvement. This represented an operating profit before goodwill of 17.8% of sales, compared to 13.7% last year.

EBITDA (see note to the consolidated cash flow statement) at £9.6m was 14.4% above last year. The first half of the year generated £2.3m and the second half £7.3m; compared to £1.8m and £6.6m respectively.

Exceptional charges in the year relate to the closure of the Group's Hawarden facility that was announced in November. The charge of £3.5m consists of £2.9m for the write off of goodwill and £0.6m for redundancy and closure costs.

Interest costs of £0.4m were just £0.1m more than last year, despite £8.8m spent to date for the freehold land and construction of our new premises in Towcester and increased borrowings taken on to finance the acquisition of ICS of £10.0m.

The tax charge of £1.8m represented 57% of the pre-tax profit compared to 30% in 2003. This percentage has been detrimentally affected by the non deductibility of goodwill. Excluding the effect of goodwill the tax rate was 24% in 2004 and 30% in 2003. The charge benefited in the year from a reduction due to a claim for a Research and Development Tax Credit.

The basic earnings per share (FRS14) were 5.0p (2003:17.98p). The normalised earnings per share (see note 10 to the financial statements) were 20.50p, a 9% increase compared to last year.

Cash flow

Cash flow from operating activities was £9.1m compared to £12.7m last year.

After deducting net interest and tax payments of £0.4m and £2.9m respectively and all forms of capital expenditure (excluding construction of the new property) of £1.7m, free cash flow amounted to £4.1m. From the free cash flow a dividend of £0.7m was paid and stage payments of £8.8m on the construction of the new building. This resulted in a cash outflow of £5.4m before acquisitions and financing.

The payment, net of cash acquired, for the acquisition of ICS, including costs, of £16.8m, was financed by £10.7m from the proceeds of a placing and open offer and the balance by a new medium term loan. Up to a further C\$10.0m is payable, C\$5.0m in January 2005 and C\$5.0m in January 2006 if ICS meets the provisions of an earn out clause, which requires it to grow gross profits by a compound 20% over the two years to September 2005.

In addition, £8.5m was drawn down from a committed facility of £10.5m to finance the construction of the Group's new facility in Towcester.

The combined effects of this additional borrowing resulted in the Group ending the year with net debt of £12.7m compared with a net cash balance of £0.6m at the same time last year.

Investment

The cost of the new facility in Towcester was £8.8m in the year and it is estimated that a further £2.7m will be spent in the coming year to complete and fit-out the building.

Underlying capital expenditure (excluding the new building) was a net £1.7m compared with £1.9m in 2003.

Company funded development expenditure amounted to £4.5m (2003: £3.9m), representing 13.6% of sales for the Embedded Computing business (2003: 12.3%). Consistent with the Group's established policy, all product development was charged directly to the profit and loss account.

Liquidity

Net debt of £12.7m equates to gearing of 39% compared to net cash last year and 20% at the half year. Current and quick ratios were 2.3 and 1.7 respectively, compared to 2.4 and 1.6 last year. Interest was covered 19.8 times compared to 20.0 times last year. The total dividend for the year is covered 1.5 times (5.5 times excluding exceptionals) compared to 8.9 times last year.

The Group seeks to reduce financial risk and to ensure sufficient liquidity is available to meet foreseeable needs. Our policy is to maintain a balance between continuity of funding and flexibility through the cost-effective use of borrowings with a range of maturities.

Performance

Normalised earnings per share, (see note 10), which is indicative of underlying performance, grew by 9% to 20.50p (2003: 18.77p).

The return (being operating profit before goodwill - see note to the cash flow statement) on average capital employed fell from 27.6% to 23.0% due to the effect of the inclusion of stage payments for the new building within net assets. Return (being profit after tax excluding tax affected exceptional costs of £3.2m) on opening equity of 20.8% was below last year's 23.0%.

Treasury

With a substantial percentage of revenue in United States dollars, hedging foreign exchange fluctuations against this currency is recognised by the directors as a key responsibility. While this exposure is naturally hedged by purchases of components in US dollars and the local costs of our US operations, there still remains a net exposure to be hedged. The prudent use of various financial instruments minimises this vulnerability to the volatility of the rate of exchange to the US dollar.

At 31 March 2004 there were £1.8m of unrealised net gains on 79 forward foreign currency contracts and options (2003: £0.3m of net gains) covering US dollars. None of these was recognised at the balance sheet date. All unrealised net gains are expected to be dealt with in the profit and loss accounts for the periods ending 31 March 2005 and 31 March 2006.

Since unrealised gains or losses are calculated by marking to market forward foreign currency contracts and options, that in themselves are used to calculate foreign currency prices for our products, the off-set for these unrealised amounts is the sales which will result from the physical delivery of these products.

Translation exposure arising on the consolidation of the Group's US and Canadian assets is hedged by use of US and Canadian dollar loans in the UK parent company. The net effect of these are taken directly to reserves as allowed under SSAP20, ensuring that only trading transaction gains and losses on foreign exchange are represented in the profit and loss account.

Any differences in the contingent consideration due to the ICS earn-out will be dealt with as an adjustment to Goodwill.

The interest rate exposure on the US dollar, Canadian dollar and Sterling loans are managed by a number of interest rate swaps.

Kevin Boyd, Group Finance Director

directors' report

for the year ended 31 March 2004

Activities and business review

The principal activities of the Group are the design of digital electronic equipment for sale, the design and manufacture of real-time data acquisition and analogue to digital conversion products for the embedded sensor processing market, and the surface-mount assembly of electronic sub-systems.

A detailed review of the Group's trading during the year and of its business outlook is contained within the Chairman's Statement and Operations and Financial Reviews on pages 6 to 13.

Results and dividends

The consolidated trading results and year end financial position are shown in the financial statements on pages 26 to 55. The directors recommend a final dividend of 2.25p per share (2003: 2.0p) to be paid on 29 September 2004 to shareholders on the register as at 10 September 2004. The dividend for the year including the interim dividend of 0.75p per share paid on 19 January 2004 amounts to 3.0p per share (2003: 2.0p). After accounting for this total dividend amounting to £842,000 (2003: £477,000), retained profit of £461,000 (2003: £3,782,000) has been transferred to reserves.

Directors

The current directors are listed on pages 4 and 5. Dr C H Paterson resigned as a director on 10 September 2003 and Mr K J Boyd was appointed as Group Finance Director on that date. Sir Alan Thomas was appointed as a non-executive director on 1 April 2004. All of the other directors held office throughout the year. The interests of the directors in the share capital of the Company are disclosed in the Report to the Shareholders on Directors' Remuneration on pages 17 to 22.

The Company's Articles of Association stipulate that a director appointed to the board since the last annual general meeting may only hold office until the dissolution of the next annual general meeting after their appointment, unless they are re-appointed during the meeting. Sir Alan Thomas, having been appointed since the last annual general meeting retires and, being eligible, offers himself for re-appointment as a non-executive director.

The Company's Articles of Association require one third of directors to retire annually by rotation, rounded down if their number is not a multiple of three. Mr J L Perrin retires and, being eligible, offers himself for re-appointment.

The Company's Articles of Association exclude a new director seeking re-appointment at the annual general meeting from the number of directors who are to retire by rotation at that meeting. As a consequence, five directors are subject to retirement by rotation, and the present wording of the Company's Articles of Association, results in retirement of such number of directors by rotation once every five years. However, provision A.6.2 of the Combined Code states that re-appointment should be at intervals of no more than three years. In order to comply with the additional requirements of the Combined Code, Mr R J Williams retires voluntarily and, being eligible, offers himself for re-appointment as a non-executive director.

Mr J L Perrin has the benefit of a service agreement with the Company that requires twelve months notice of termination by either party. Sir Alan Thomas and Mr R J Williams have the benefit of a contract for services to the Company that requires three months and six months notice of termination by either party respectively.

Appointment of directors

The Company does not have a Nominations Committee as the Board considers it is too small to warrant having a separate committee; however, appointments to the Board are made on merit and against objective criteria.

In relation to the appointment of Sir Alan Thomas, the Board drew up a job specification for a new non-executive director which evaluated the balance of skills, knowledge and experience that was required. An independent recruitment consultant was then appointed by the Company who found suitable applicants in accordance with the job specification and introduced four candidates to the Company for interview. Each candidate was seen separately by the executive and the non-executive directors and the whole Board then re-convened to make the final selection.

In relation to the appointment of Mr K J Boyd as the new Group Finance Director of the Company, a different procedure was followed. The Company appointed a recruitment consultant who liaised with Mr J L Perrin, the then Finance Director and Chief Executive designate, and Mr P J Cavill, the executive director responsible for the Embedded Computing Business, to produce a job specification for the role. After agreeing the job specification the recruitment consultant advertised the vacancy. The Company received in the region of 200 responses to the advertisement and the recruitment consultant interviewed 12 of the candidates. Six candidates were presented to the Company after this filtering process, all of whom were seen and interviewed by Mr J L Perrin and Mr P J Cavill and underwent psychometric testing. Following this a short list of three made presentations to, and were interviewed by, the whole Board who then made the final decision.

Substantial interests

The directors are aware of the following disclosable interests of 3% or more of the issued share capital of the Company as at 11 June 2004.

Shareholder	Ordinary shares of 12½p each	
	Number	%
Prudential plc and Subsidiary Companies	3,570,826	12.74
Deutsche Bank AG and Subsidiary Companies	3,348,213	11.95
Standard Life Investments Limited	2,730,272	9.74
FMR Corp, Fidelity International Limited and Subsidiary Companies	1,705,648	6.09
Legal and General Group plc	1,413,091	5.04
Barclays PLC	842,014	3.00

Donations

The Group made charitable donations during the year amounting to £1,508 (2003: £1,193). No political donations were made.

Employment policies

The Group informs and consults regularly with employees on matters affecting their interests with a view to achieving a common awareness of the financial and economic factors affecting its performance. The views expressed by employees have been taken into account when making decisions where appropriate.

A substantial number of employees have shareholding interests in the Company either directly or under Approved and Unapproved Executive Share Option Schemes. Further details of these schemes and options granted during the year are included in note 22 to the financial statements.

The Company has established a Share Incentive Plan (SIP) under which employees can subscribe up to a maximum of the lower of £125 or 10% of salary per month to purchase shares in the Company. For every two partnership shares that the employee buys the Company contributes a further matching share at no cost to the employee.

All shares purchased are held in trust on behalf of the employee whose interest in the matching shares is forfeited should the partnership shares be withdrawn before the expiry of three years from the date of purchase.

Details of transactions in own shares during the year are disclosed in note 14 to the financial statements.

The Group is an equal opportunities employer and its policies for the recruitment, training, career development and promotion of employees are based on the relevant merits and abilities of the individuals concerned. It recognises its responsibilities towards the disabled and gives full and fair consideration to applications for employment from them and, so far as particular disabilities permit, will give continued employment to any existing employee who becomes disabled. The Group will ensure the relevant training, career development and promotion of disabled employees where appropriate.

Research and development

The Group invested £4,525,000 (2003: £3,942,000) during the year in the research and development of its products in order to maintain technical and commercial competitiveness.

Creditor payment policy

The Group does not follow a code or standard payment practice. Payment terms are agreed on an individual supplier basis and suppliers are made aware of these terms at the time that contracts or agreements are signed. This policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

The Group's average creditor payment period at 31 March 2004 was 42 days (2003: 77 days) and the Company's 5 days (2003: 43 days).

directors' report

for the year ended 31 March 2004

Annual general meeting

The notice convening the annual general meeting is set out on page 57. It includes a resolution to increase the authorised share capital of the Company.

The increase in the share capital is to enable the Company to have the flexibility to issue shares in appropriate circumstances up to the maximum authority granted to the directors pursuant to section 80 of the Companies Act 1985. The authorised but unissued share capital of the Company following the passing of the resolution to increase the Company's authorised share capital will represent 36.3% of the ordinary share capital in issue as at 11 June 2004.

A special resolution will be proposed at the annual general meeting to authorise the directors for a period ending on the date of the next annual general meeting, or 9 December 2004 if earlier, to allot shares pursuant to section 80 of the Companies Act 1985. The number of shares over which the Board will have such authority following the passing of resolution 9 relating to the section 80 amount will represent 33.3% of the ordinary share capital in issue as at 11 June 2004.

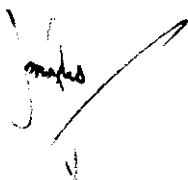
The number of shares which the Board will be able to allot for cash other than on a pre-emptive basis to existing shareholders pro rata to their holdings following the passing at the AGM of resolution 9 relating to the section 89 amount represents 5% of the ordinary share capital of the Company in issue on 11 June 2004.

Auditors

Deloitte & Touche LLP has expressed its willingness to continue in office and a resolution proposing its re-appointment, at a rate of remuneration to be fixed by the directors, will be submitted to the annual general meeting.

By order of the Board

Brian Shears ACA
Secretary
11 June 2004



report to the shareholders on directors' remuneration

for the year ended 31 March 2004

The following report by the remuneration committee has been approved by the board of directors for submission to shareholders for approval at the forthcoming annual general meeting.

Unaudited information

Remuneration committee

The remuneration committee comprises Mr R J Williams, Mr S J Day and Sir Alan Thomas, all of whom are non-executive directors of the Company. Mr R J Williams and Mr S J Day were the sole members of the committee during the year ended 31 March 2004. It is chaired by Mr R J Williams.

The remuneration committee has access to independent advice on remuneration issues where it considers it appropriate. No such advice was sought during the year ended 31 March 2004.

The Chief Executive and Group Finance Director advise the committee but are not permitted to participate in discussions or decisions relating to their own remuneration.

The committee members are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The constitution and operation of the committee comply with the Best Practice Provisions on Directors' Remuneration contained within the Listing Rules published by the Financial Services Authority.

Remuneration policy

The remuneration committee decides the remuneration policy that applies to executive directors and the Group's other senior management.

In setting the policy it considers a number of factors including:

- (a) The basic salaries and benefits available to executive directors of comparable companies.
- (b) The need to attract and retain executive directors of an appropriate calibre.
- (c) The need to ensure executive directors' commitment to the success of the Company by means of incentive schemes.

The remuneration committee considers that the performance related elements of the remuneration packages give the executive directors the potential to receive annual benefits only if significant value has been delivered to shareholders thereby aligning the interests of shareholders and senior executives. In terms of providing motivation to the executive directors to improve shareholder value, the remuneration committee considers that the performance-related elements are the most important.

Remuneration of non-executive directors

The non-executive directors each receive a fee for their services. The amount is agreed in advance by the Board following recommendation by the Chief Executive with the assistance of independent advice, where appropriate, concerning comparable organisations and appointments. No such advice was sought during the year ended 31 March 2004.

The non-executive directors do not receive any pension or other benefits from the Company, nor do they participate in any bonus, incentive or share option schemes.

Remuneration policy for executive directors

The Company's remuneration policy for executive directors is to:

- (a) Have regard to the directors' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality.
- (b) Link individual remuneration packages to the Group's long-term performance through the award of share options and performance related incentive plans.
- (c) Provide post retirement benefits through the Group's pension schemes.
- (d) Provide employment-related benefits including the provision of a Company car or allowance, life assurance where entitled, insurance relating to the director's duties and medical insurance.

report to the shareholders on directors' remuneration

for the year ended 31 March 2004

Components of remuneration

Base salary

The remuneration committee meets at least once a year in order to consider and set the annual salaries for executive directors.

Performance related incentive plan

An incentive scheme was in operation for the year. Bonuses earned are shown in the directors' detailed emoluments and are dependent upon an improvement in normalised earnings per share as follows:

- (a) a bonus is payable if the normalised Earnings Per Share ("EPS") is greater than the prior years figure;
- (b) the bonus percentage for each participant is given by the expression:
$$\text{Bonus (\% of salary)} = [(\text{normalised EPS/prior year normalised EPS}) - 1] \times 150;$$
- (c) the bonus is based on the participant's basic salary at the close of the financial year on 31 March 2004. The bonus is paid as 50% in cash and 50% in shares in the Company. These shares are held in trust for three years and if a director leaves the Company during this period the right of ownership is lost;
- (d) no payment is made until publication of the Company's audited Report and Accounts for the financial year; and
- (e) bonus payments are made through the payroll and are subject to the normal statutory deductions.

Bonuses for the year ending 31 March 2004 were 13.8% of base salary (2003: 51.5%).

The performance condition set is considered appropriate as it aligns the interests of the executive directors with those of the shareholders by encouraging growth of the Company's earnings.

Senior Executive Share Option Schemes

The committee oversees the operation of the Company's Approved and Unapproved Senior Executive Share Option Schemes. Options are granted to senior management at the discretion of the committee.

Details of options granted to the executive directors during the year are detailed on pages 21 and 22. Options are not exercisable unless the percentage increase in the Company's basic earnings per share is greater than or equal to a specified percentage per annum above the percentage increase in the RPI over the relevant period in which the option may be exercised. The specified percentage for the approved scheme is 2% and for the unapproved scheme 5%. The RPI is the "All Items" Index of Retail Prices as published by the Central Statistics Office.

Pensions

Mr J L Perrin is currently a member of one of the Group's defined benefit schemes. Subject to Inland Revenue limits he is eligible for a pension of up to two thirds of salary upon retirement at the age of 62, provided that the minimum service requirement of 17 years has been met. Dr C H Paterson also participated in this scheme until his retirement on 10 September 2003. Mr K J Boyd currently participates in the Group's defined contribution Stakeholder Pension Plan. Mr P J Cavill is not a member of any of the Group's pension schemes.

Pensionable salary is the member's basic salary for both schemes.

report to the shareholders on directors' remuneration

for the year ended 31 March 2004

Service contracts

The executive directors have contracts of service and the non-executive directors have contracts for services to the Company all of which require notice of termination by either party, as detailed in the table below.

	Letter of appointment	Date of Contract	Notice period
R J Williams	19/10/92	-	6 months rolling
J L Perrin	-	30/08/89	12 months rolling
K J Boyd	-	24/12/02	6 months rolling
P J Cavill	-	21/02/94	6 months rolling
S J Day	20/07/98	-	3 months rolling
Sir Alan Thomas	06/04/04	-	3 months rolling

The committee's policy is that executive directors' contracts should allow for termination with reasonable notice from the Company, except in circumstances of summary dismissal when no notice is given.

In the event of termination of the contract any payment made will be decided after consideration of the individual circumstances, including the reason for termination, contractual notice period and share scheme rules.

Total shareholder return

The following graph shows the Company's performance, measured by total shareholder return (TSR), compared with the performance of the FTSE Techmark 100 Index and the FTSE Small Cap Index for the period from 1 April 1999 to 31 March 2004.

TSR measures share price growth, with dividends deemed to be reinvested gross on the ex-dividend date, and the TSR is shown as the one month average on each day.

The remuneration committee has selected the above indices as the most relevant for a company of Radstone Technology PLC's size and sector.

report to the shareholders on directors' remuneration

for the year ended 31 March 2004

Forward looking statement

The remuneration committee will keep the existing remuneration arrangements under review during the year ending 31 March 2005 to ensure that they remain competitive and provide appropriate incentive for performance. No significant changes to reward arrangements for directors are expected outside of normal reviews of base salary or fees.

No significant amendments are proposed to be made to the terms and conditions of any entitlement of a director to share options.

Interests in shares

The interests of the current directors in the ordinary shares of 12½p each of the Company, all of which were beneficial, were as follows:

	As at 31 March 2004 Number	As at 31 March 2003* Number
R J Williams	78,237	74,666
J L Perrin	366,618	324,857
K J Boyd	430	224
P J Cavill	94,192	23,333
S J Day	11,538	10,000
Sir Alan Thomas	-	-
	551,015	433,080

* Or date of appointment if later.

The interests disclosed above include the following number of partnership shares acquired through participation in the Company's Share Incentive Plan (SIP):

	As at 31 March 2004 Number	As at 31 March 2003* Number
J L Perrin	1,759	1,257
K J Boyd	430	224
	2,189	1,481

* Or date of appointment if later.

In accordance with the Plan rules applicable to all participating employees, for every two shares purchased the Company has contributed a further matching share at no cost which have not been included above.

All shares purchased under the SIP are held in trust and interest in the matching shares is forfeited should the partnership shares be withdrawn before the expiry of three years from the date of purchase.

Part of the bonuses earned by the executive directors are converted into shares in the Company and held in trust on their behalf for a period of 3 years. If they leave the Company during the 3 years, the right to ownership of the shares is lost except in certain circumstances such as retirement or ill health. Details of the number of shares is as follows:

	As at 31 March 2004 Number	As at 31 March 2003* Number
J L Perrin	15,621	29,267
P J Cavill	16,522	30,223
	32,143	59,490

* Or date of appointment if later.

report to the shareholders on directors' remuneration

for the year ended 31 March 2004

Audited Information

Directors' detailed emoluments

Details of individual directors' emoluments for the year are as follows:

	Salary and fees	Bonus	Benefits	Pension contributions	2004 Total	2003 Total
	£	£	£	£	£	£
Executive						
C H Paterson	80,869	-	4,271	14,409	99,549	260,613
J L Perrin	113,333	17,304	9,658	20,783	161,078	166,557
K J Boyd	55,769	13,844	6,115	2,875	78,603	-
P J Cavill	110,750	15,920	9,658	-	136,328	157,627
Non-executive						
R J Williams	53,750	-	-	-	53,750	52,250
S J Day	21,495	-	-	-	21,495	19,494
	435,966	47,068	29,702	38,067	550,803	656,541

The fees of Mr R J Williams and Mr S J Day are payable to companies in which they have a substantial interest.

The criteria for performance related elements of directors' emoluments are detailed in the paragraph entitled "Performance related incentive plan" on page 18.

The following retirement benefits are accruing to directors under the Group's defined benefit schemes:

	Accrued pension at 31 March 2004*	Increase in accrued pension excluding inflation (A)	Increase in accrued pension including inflation	Transfer value of (A) less directors' contributions	Transfer value of accrued pension at 31 March 2003	Transfer value of accrued pension at 31 March 2004*	Increase in transfer value less directors' contributions
	£	£	£	£	£	£	£
C H Paterson	87,696	3,527	5,820	59,932	1,260,517	1,363,892	57,503
J L Perrin	36,502	4,687	5,554	52,125	299,195	405,748	48,599

* Or date of resignation if earlier.

The transfer values disclosed above do not represent a sum paid or payable to the individual director but a potential liability of the pension scheme.

Share options

Approved Senior Executive Share Option Scheme

	As at 1 April 2003	Granted	Exercised	As at 31 March 2004	Option price (p)	Market price on date of exercise (p)	Gain on exercise £	Date from which exercisable	Expiry date
J L Perrin	25,000	-	25,000	-	41½	400	89,625	n/a	n/a
K J Boyd	-	9,740	-	9,740	308	n/a	n/a	18/08/06	18/08/13
P J Cavill	75,000	-	75,000	-	118	265	110,250	n/a	n/a
P J Cavill	15,000	-	15,000	-	41½	265	33,525	n/a	n/a
	115,000	9,740	115,000	9,740			233,400		

report to the shareholders on directors' remuneration

for the year ended 31 March 2004

Unapproved Senior Executive Share Option Scheme

	As at 1 April 2003	Granted	As at 31 March 2004	Option price (p)	Date from which exercisable	Expiry date
J L Perrin	-	13,500	13,500	308½	19/08/06	19/08/13
J L Perrin	-	15,400	15,400	347½	14/11/06	14/11/13
K J Boyd	-	6,483	6,483	308½	19/08/06	19/08/13
K J Boyd	-	18,308	18,308	347½	14/11/06	14/11/13
P J Cavill	-	14,250	14,250	308½	19/08/06	19/08/13
P J Cavill	-	14,200	14,200	347½	14/11/06	14/11/13
	-	82,141	82,141			

No unapproved options were exercised during the year.

The market price of the Company's shares at the end of the financial year was 382½p and the range of market prices during the year was 224½p to 419p.

Further details of share options are given in note 22 to the financial statements.

Apart from the interests disclosed above, none of the directors had any interests at any time in the year in the share capital of the Company or other Group companies, nor had any interest in contracts of significance in which the Company or any other Group Company is or was materially interested. There have been no changes to the directors' interests since the year-end other than the purchase of a further 103 partnership shares by J L Perrin and 103 by K J Boyd through participation in the Company's SIP.

This report was approved by the board of directors on 11 June 2004 and signed on its behalf by:

Rhys Williams
Remuneration Committee Chairman

corporate governance statement

for the year ended 31 March 2004

Under the Listing Rules as published by the Financial Services Authority, the Company has to report to shareholders on its compliance with the Combined Code on Corporate Governance (the Hampel Code). This statement describes how the relevant principles set out in Section 1 of the Code are applied to the Company and details its compliance with the provisions.

The revised Combined Code (the FRC 2003 Code) on Corporate Governance was published in July 2003. Although its standards will not apply to the Company until its year ending 31 March 2005, every effort will be made in the coming year to ensure compliance with the detailed provisions.

The Board of Radstone Technology PLC is responsible and accountable for operations and exercises control over the Group. The Board meets regularly throughout the year and has certain matters specifically reserved to it for decision. None of the directors has a service contract notice period of more than one year. The Board comprises a non-executive chairman, two further non-executive directors, a chief executive, and two other executive directors; their biographies appear on pages 4 and 5. All non-executive directors are considered independent. All directors are able to take independent legal advice in the furtherance of their duties, if necessary.

The Audit Committee, which comprises the three non-executive directors, is responsible for reviewing the Group's accounting policies, internal controls, half year and full year results and any matters raised by the Auditors.

The Remuneration Committee currently consists of the three non-executive directors. Its main responsibilities are to approve the remuneration and other benefits of the directors, including the rules and payment of any performance related bonus schemes and granting of share options.

The Nomination Committee: Given the small size of the Board, the directors consider it unnecessary for the creation of a specific Nomination Committee and therefore all directors are involved in considering new appointments. Its main responsibilities are to approve the appointment of any new director, specifically approve the remuneration and terms of engagement of the non-executive directors, and support, or otherwise, the re-appointment of directors who retire in accordance with Article 73 of the Company's Articles of Association. Under the Hampel Code all directors are required to retire every 3 years by rotation.

Internal Control: An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout the year ended 31 March 2004 and has remained in place up to the approval date of the annual report and accounts. That process is regularly reviewed by the Board and accords with the Internal Control Guidance for Directors on the Combined Code produced by the Turnbull working party.

The directors are responsible for the Group's system of internal control. The Board is supplied in a timely manner with information appropriate to enable it to discharge its duties. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group has an established framework covering financial, operational, compliance and risk management controls as detailed below:

- **Control environment** - the Group's control environment is the responsibility of the Group's directors and managers at all levels. The Group's organisational structure has clear lines of responsibility. Operating and financial responsibility for subsidiary companies is delegated to the local boards.
- **Financial reporting** - there is a comprehensive budgeting system in place with an annual budget approved by the Board. Monthly actual results are reported against budget and the previous year, together with order intake, order book analysis and a rolling cash flow forecast. A quarterly review of the results to date and latest year end forecasts is undertaken by the Board. The Company reports to shareholders twice a year. Comments arising from the detailed review of the performance and financial position are included within the Chairman's Statement, the Operations and Financial Reviews on pages 6 to 13. The Board seeks to present a balanced and understandable assessment of the Group's position and prospects. The Directors' responsibilities for the financial statements are described on page 24.
- **Delegation of authority** - the Company has a Group procedure approved by the Board and reviewed at least once a year, that defines levels of authority before committing the Company to defined actions involving commercial risk.
- **Risk identification** - executive management has a clear responsibility for the identification of risks facing the business and for putting in place procedures to eliminate, mitigate and monitor risks. The full Board monitors this process through a system of internal control.
- **Treasury** - the strategy of hedging against foreign exchange and interest rates, levels of borrowing, charges over assets and investment of cash are reviewed and approved by the Board. Insurance of various business risks is reviewed and approved by the Board at least once a year.

corporate governance statement

for the year ended 31 March 2004

- **Main control procedures** - standard financial control procedures operate throughout the Group to ensure the integrity of its financial statements. The Board has established procedures for authorisation of capital expenditure.
- **Monitoring system used by the Board** - the Board reviews and approves budgets and monitors the Group's performance against those budgets monthly. Variances from the expected outcome are investigated fully and where lapses in internal control are detected, these are rectified. The Group's cash flow is also monitored monthly compared to forecast.

The Board has reviewed the effectiveness of the system of internal control on the basis of the criteria set out in the Guidance for Directors "Internal Control and Financial Reporting". It has considered the major business and financial risks, the control environment and information on and arising from control procedures. Action has been taken to further develop internal control and risk management and implement improvements where appropriate.

The Board will continue to monitor internal controls and risk management and introduce additional or enhanced procedures where areas for improvement are determined.

Internal audit: As permitted by the Listing Rules, the Company has complied with the requirements to review the need for an internal audit function in provision D.2.2 of the Hampel Code and has complied with the requirements to review the effectiveness of the internal controls in provision D.2.1.

Relations with shareholders: The Company encourages two way communication with both institutional and private shareholders. The Board welcomes the opportunity to meet shareholders at general meetings and to respond directly to their questions. The Company also responds to letters and electronic mail from shareholders throughout the year, actively encouraging this through its web site at www.radstone.co.uk where there is a specific section for investor relations.

Going concern: After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the Group's financial statements.

Statement of Compliance: The Hampel Code and compliance requirements are incorporated in the Listing Rules and listed companies are required to state their compliance with the Hampel Code throughout the relevant accounting period.

In accordance with the Listing Rules, your Board confirms that it has complied throughout the accounting period with the Hampel Code provisions set out in Section 1, save as now detailed:

Hampel Code Provision D.3.1 states that the Board should establish an audit committee of at least three directors all non-executive. The Radstone Audit Committee comprised two non-executive directors throughout the accounting period which given the size of the Group was considered appropriate. The number of directors comprising the audit committee has however been increased to three following the appointment of Sir Alan Thomas on 1 April 2004.

Rhys Williams
Audit Committee Chairman
11 June 2004

statement of directors' responsibilities

for the year ended 31 March 2004

The directors are required by United Kingdom law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that year. The Board are responsible for maintaining adequate accounting records, for safeguarding the assets of the Group and for preventing and detecting fraud and other irregularities.

The directors confirm that appropriate accounting policies have been used and applied consistently, that reasonable and prudent judgements and estimates have been used in the preparation of the financial statements and that applicable accounting standards have been followed.

By order of the Board

Brian Shears ACA
Secretary
11 June 2004

independent auditors' report

to the members of Radstone Technology PLC

We have audited the financial statements of Radstone Technology PLC for the year ended 31 March 2004 which comprise the profit and loss account, the balance sheets, the cash flow statement, the note to the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the report to the shareholders on directors' remuneration that is described as having been audited.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the report to the shareholders on directors' remuneration. Our responsibility is to audit the financial statements and the part of the report to the shareholders on directors' remuneration described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 report to the shareholders on directors' remuneration described as having been 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 regarding directors' remuneration and transactions with the Company and other members of 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 of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the report to the shareholders on directors' remuneration and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with 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 report to the shareholders on directors' remuneration described as having been 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 circumstances of the Company and the Group, 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 report to the shareholders on directors' remuneration described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the report to the shareholders on directors' remuneration described as having been audited.

Opinion

In our opinion:

the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2004 and of the profit of the Group for the year then ended; and

the financial statements and part of the report to the shareholders on directors' remuneration described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Nottingham

11 June 2004

consolidated profit & loss account

for the year ended 31 March 2004

	Notes	Continuing £'000	Acquisition £'000	2004 £'000	2003 £'000
Turnover	2	39,379	4,342	43,721	48,494
Cost of sales		(20,529)	(2,198)	(22,727)	(29,674)
Gross profit		18,850	2,144	20,994	18,820
Administration costs					
Administration		(3,391)	-	(3,391)	(3,083)
Development	1	(4,337)	(188)	(4,525)	(3,942)
Goodwill		(186)	(620)	(806)	(186)
Total administration costs		(7,914)	(808)	(8,722)	(7,211)
Distribution costs - sales and marketing		(4,740)	(569)	(5,309)	(5,152)
Operating profit	3	6,196	767	6,963	6,457
Exceptional cost on closure of operation	6			(3,508)	-
Net interest payable	7			(393)	(332)
Profit on ordinary activities before taxation				3,062	6,125
Taxation	8			(1,759)	(1,866)
Profit for the financial year				1,303	4,259
Dividends	9			(842)	(477)
Retained profit for the year	23			461	3,782
Basic earnings per share	10			5.00p	17.98p
Normalised earnings per share	10			20.50p	18.77p
Diluted earnings per share	10			4.97p	17.86p

Statement of total recognised gains and losses

	£'000	£'000
Profit for the financial year	1,303	4,259
Exchange rate adjustment	(461)	(217)
Total gains recognised relating to the year	842	4,042

There is no material difference between the profit reported above and that calculated on the historical cost basis.

Turnover and expenses all relate to continuing operations.

balance sheets

at 31 March 2004

		Group		Company	
	Notes	2004 £'000	As restated 2003 £'000	2004 £'000	As restated 2003 £'000
Fixed assets					
Goodwill	11	20,613	3,100	-	-
Intangible assets	12	76	57	76	57
Total intangible assets		20,689	3,157	76	57
Tangible assets	13	15,350	5,997	10,337	1,529
Investments	15	-	-	26,492	6,865
		36,039	9,154	36,905	8,451
Current assets					
Stocks	16	9,266	9,450	-	-
Debtors falling due after more than one year	17	-	-	151	151
Debtors	17	13,870	13,248	6,158	6,243
Cash at bank and in hand		9,150	4,406	17,096	11,382
		32,286	27,104	23,405	17,776
Creditors: amounts falling due within one year					
Bank and other borrowings	18	2,733	939	1,400	-
Other creditors	18	11,112	10,420	4,681	6,040
		13,845	11,359	6,081	6,040
Net current assets		18,441	15,745	17,324	11,736
Total assets less current liabilities		54,480	24,899	54,229	20,187
Creditors: amounts falling due after more than one year					
Bank and other borrowings	19	19,134	2,904	18,051	1,353
Other creditors	19	2,066	-	2,066	-
Provisions for liabilities and charges	20	366	234	6,221	366
		21,566	3,138	26,338	1,719
Net assets		32,914	21,761	27,891	18,468
Capital and reserves					
Called up share capital	21	3,503	2,982	3,503	2,982
Share premium account	23	19,962	9,519	19,962	9,519
Revaluation reserve	23	218	218	218	218
Merger reserve	23	199	-	199	-
Profit and loss account	23	9,386	9,386	4,363	6,093
Own shares	14	(354)	(344)	(354)	(344)
Equity shareholders' funds	24	32,914	21,761	27,891	18,468

The financial statements on pages 26 to 55 were approved by the board of directors on 11 June 2004 and were signed on its behalf by:

J L Perrin
Director



K J Boyd
Director



consolidated cash flow statement

for the year ended 31 March 2004

	Notes	2004 £'000	2003 £'000
Operating activities			
Net cash inflow from operating activities		9,056	12,676
Returns on investments and servicing of finance			
Interest received		160	18
Interest paid		(447)	(219)
Interest paid on finance leases		(83)	(116)
		(370)	(317)
Taxation			
UK Corporation tax paid		(1,673)	(1,703)
Overseas tax paid		(1,222)	-
		(2,895)	(1,703)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(10,470)	(1,810)
Proceeds from disposal of tangible fixed assets		10	4
Purchase of intangible fixed assets		(55)	(63)
		(10,515)	(1,869)
Acquisitions and disposals			
Purchase of subsidiary undertaking	28	(16,797)	-
Costs of terminating subsidiary activity		(125)	-
		(16,922)	-
Equity dividends paid		(689)	(238)
Net cash (outflow)/inflow before financing		(22,335)	8,549
Financing			
Issue of ordinary share capital		10,593	15
Purchase of own shares		(230)	(109)
Proceeds from disposal of own shares		220	-
		10,583	(94)
New loans		18,289	-
Repayment of loans		(556)	(500)
Repayment of loan notes		(281)	-
Repayment of principal under finance leases		(490)	(496)
	26	16,962	(996)
		27,545	(1,090)
Increase in cash	26	5,210	7,459

Note to the Consolidated Cash Flow Statement

Reconciliation of operating profit to net cash inflow from operating activities

Operating profit	6,963	6,457
Amortisation of goodwill	806	186
Operating profit before goodwill	7,769	6,643
Amortisation of intangible fixed assets	36	56
Depreciation of tangible fixed assets	1,792	1,687
Ebitda	9,597	8,386
(Profit)/loss on disposal of tangible fixed assets	(2)	80
Decrease in stocks	962	2,323
Decrease in debtors	1,017	1,881
(Decrease)/increase in creditors	(2,518)	6
Net cash inflow from operating activities	9,056	12,676

notes to the financial statements

for the year ended 31 March 2004

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom.

Restatements have been made to the balance sheets at 31 March 2003 to reflect the adoption of UITF abstract 38 Accounting for ESOP trusts. This has had the effect of reducing net assets at 31 March 2004 by £354,000 (2003: £344,000).

A summary of the principal accounting policies, which have been consistently applied, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention, modified to include the revaluation of land and buildings.

Basis of consolidation

The consolidated financial statements include the Company and all its subsidiary undertakings for the year ended 31 March 2004.

The acquisition of Interactive Circuits and Systems Limited and its wholly owned subsidiary companies has been accounted for by the acquisition method of accounting. Its assets and liabilities have been included in the consolidated balance sheet at fair value at the date of acquisition and its results included in the consolidated profit and loss account from that date. The difference between the consideration paid and the fair value of the net assets acquired has been accounted for as goodwill (see note 27).

Intra-group sales and profits are eliminated fully on consolidation.

Goodwill

Any excess of cost over the fair value of net assets acquired represents goodwill. Prior to 1 January 1998, purchased goodwill was written off on acquisition immediately to reserves. From 1 January 1998, in accordance with FRS10, goodwill has been capitalised and amortised over its estimated useful life as determined by the directors.

The cumulative amounts of goodwill previously written off to reserves as a matter of accounting policy would be charged or credited to the profit and loss account on the subsequent disposal of the business to which it related.

Fixed assets

Tangible assets

Interests in land and buildings at the Group's Water Lane site are stated at modified historic cost. Other tangible fixed assets are stated at their purchase price, together with any incidental expenses of acquisition.

Depreciation is provided to write off the cost or valuation of tangible fixed assets on a straight line basis over their estimated useful economic lives in accordance with the table below:

	Estimated useful economic life
Freehold buildings	45 - 50 years
Plant and machinery	3 - 10 years
Fixtures, fittings and equipment	3 - 10 years

Freehold land is not depreciated.

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

Intangible assets

Intangible assets, representing manufacturing licences, are amortised over 3 years, estimated to be the period in which the individual products to which they relate are to be sold. Where, in the directors' opinion, there has been an impairment in the value of intangible assets, this is charged to the profit and loss account in the period in which it is recognised.

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure and associated costs of conversion based on the normal level of activity.

Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state into a finished condition. Provision is made where necessary for obsolete and defective stocks.

notes to the financial statements

for the year ended 31 March 2004

Financial instruments and foreign currencies

Derivative instruments used by the Group are interest rate swaps and forward exchange contracts. The Group does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Group in line with its risk management policies.

Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts.

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rates ruling when the transactions were undertaken. Monetary assets and liabilities denominated in foreign currencies are generally translated into sterling at the exchange rates ruling at the balance sheet date, except where rates of exchange specified in forward exchange contracts are applied to the appropriate related assets and liabilities. Exchange gains or losses are taken to the profit and loss account in the year in which they arise. Unrealised exchange gains arising on forward contracts are taken to the profit and loss account when realised.

Results of overseas subsidiary undertakings are translated at the average rate for the period of ownership. Assets and liabilities of overseas subsidiary undertakings are translated at the rate ruling at the balance sheet date. Exchange differences arising are dealt with through reserves. Exchange differences on foreign currency loans, to the extent that they relate to investment in a subsidiary undertaking, are also taken to reserves.

Turnover

Turnover represents the invoiced value of goods and services supplied less trade discounts and excluding value added tax.

Taxation

The charge for taxation is based on the profit for the year as adjusted for disallowable items. Tax deferred or accelerated is accounted for in respect of all material timing differences in accordance with FRS19 - Deferred Tax. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise. Where this is not known the latest estimate of the long term tax rate applicable has been adopted. Deferred tax has not been discounted as permitted by FRS19.

Pensions

Pension costs are charged to the profit and loss account so as to spread the cost over the employees' estimated working lives with the Group. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the schemes. The defined benefit funds are valued every three years by a professionally qualified actuary. Other than pensions, the Group gives no other post-retirement benefits.

Leases

All finance leases are capitalised and the corresponding obligation to pay future rentals is reflected as a liability in the financial statements. The lease rentals are treated as comprising capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. All leased assets are depreciated over the term of their estimated useful lives.

Warranty expenditure

Expenditure is charged to the profit and loss account as incurred.

Development expenditure

All company funded development expenditure is written off as incurred and has been separately disclosed within the profit and loss account in order to give a more meaningful presentation of the Group's activities. Total expenditure was:

	2004 £'000	2003 £'000
Company funded	4,525	3,942
Customer funded	179	147
	4,704	4,089

notes to the financial statements

for the year ended 31 March 2004

2 Segmental information

The analysis by geographical area of destination of the Group's turnover, all of which relates to continuing operations, is set out below:

	2004 £'000	2003 £'000
United Kingdom	12,975	22,474
Rest of Europe	4,881	3,146
USA	23,336	18,651
Rest of World	2,529	4,223
	43,721	48,494

Class of business

The Group operates in two classes of business being Embedded Computing and Electronic Manufacturing Services. An analysis of the trading performance and net assets of each class of business is detailed below.

	Embedded Computing		Electronic Manufacturing Services		Total	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Turnover						
Total sales	33,181	31,969	11,327	17,315	44,508	49,284
Inter-segment sales	-	-	(787)	(790)	(787)	(790)
External sales	33,181	31,969	10,540	16,525	43,721	48,494
Cost of sales	(13,579)	(14,704)	(9,148)	(14,970)	(22,727)	(29,674)
Gross profit	19,602	17,265	1,392	1,555	20,994	18,820
Operating costs (excluding goodwill and central overheads)	(9,556)	(8,784)	(278)	(310)	(9,834)	(9,094)
Contribution	10,046	8,481	1,114	1,245	11,160	9,726
Administration cost - goodwill	(620)	-	(186)	(186)	(806)	(186)
Exceptional item	-	-	(3,508)	-	(3,508)	-
	9,426	8,481	(2,580)	1,059	6,846	9,540
Administration cost - central overhead					(3,391)	(3,083)
Net interest payable					(393)	(332)
Profit before taxation					3,062	6,125
Segmental net assets	13,781	10,339	3,063	6,717	16,844	17,056
Central net assets					29,719	5,196
Current and deferred taxation					(931)	(1,054)
Net obligations under finance leases					(931)	(1,470)
Loan notes					(736)	-
Cash, bank loans and overdrafts					(11,051)	2,033
Net assets					32,914	21,761

Central overheads have not been allocated between the classes of business as to do so would be impracticable and misleading.

Geographical segment

In the directors' opinion, the disclosure of segmental information for turnover, profit before taxation and net assets by origin, would be seriously prejudicial to the interests of the Group. As a consequence, this information in its entirety has not been disclosed as permitted by SSAP25.

notes to the financial statements

for the year ended 31 March 2004

3 Operating profit

	2004 £'000	2003 £'000
Operating profit is stated after crediting:		
Profit on foreign currency exchange	249	-
And after charging:		
Auditors' remuneration for:		
Audit services	97	82
Non audit services	99	68
(Profit)/loss on disposal of tangible fixed assets	(2)	80
Depreciation of owned tangible fixed assets	1,414	1,131
Depreciation of tangible fixed assets held under finance leases	378	556
Amortisation of goodwill	806	186
Amortisation of intangible fixed assets	36	56
Research and development expenditure	4,525	3,942
Loss on foreign currency exchange	-	476

Auditors' remuneration for audit services provided to the Company amounted to £12,000 (2003: £12,000).

In addition to the above, the auditors received £197,000 in connection with the acquisition of ICS.

4 Directors' emoluments

Detailed disclosures on directors' emoluments are set out in the audited information in the Report to the Shareholders on Directors' Remuneration on page 21.

	2004 £'000	2003 £'000
Emoluments	476	585
Gain on exercise of share options	233	-
Aggregate emoluments	709	585
Sums paid to third parties for directors' services	75	72

Retirement benefits are accruing to one director (2003: two) under the Group's defined benefit pension schemes.

5 Employee information

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

	2004 Number	2003 Number
Operations	367	316
Selling and distribution	49	53
Administration	25	25
	441	394

Employee payroll costs were:

	2004 £'000	2003 £'000
Wages and salaries	12,621	11,434
Social security costs	1,375	1,129
Other pension costs (see note 30)	621	609
	14,617	13,172

notes to the financial statements

for the year ended 31 March 2004

6 Exceptional cost on closure of operation

On 24 November 2003 the Company announced its decision to consolidate the Group's electronic manufacturing services activities into its Milton Keynes facility and to close its Hawarden plant if a suitable purchaser could not be found.

In the eventual absence of such a purchaser, the decision to close the Hawarden facility was made in February 2004 and an exceptional charge of £3,508,000 representing the write off of goodwill of £2,913,000 and other closure and redundancy costs of £595,000 taken in the accounts for the year ended 31 March 2004. A tax credit of £278,000 is attributable to these costs and is included in the overall tax charge for the year.

7 Net interest payable

	2004 £'000	2003 £'000
On borrowings wholly repayable within five years:		
Bank loans and overdrafts	376	170
Net interest payable under swap arrangements	94	64
Finance leases and other outstanding liabilities	83	96
On borrowings repayable after five years		
Finance leases and other outstanding liabilities	-	20
	553	350
Less: Bank interest receivable	(146)	(18)
Other interest receivable	(14)	-
	393	332

8 Taxation

	2004 £'000	2003 £'000
Tax charge for the year:		
United Kingdom corporation tax at 30%	1,243	1,830
Overseas taxation	587	22
Current tax charge	1,830	1,852
Deferred tax	73	52
(Over)/under provision in respect of prior years:		
United Kingdom corporation tax	(166)	(124)
Overseas taxation	-	-
Deferred tax	22	86
	1,759	1,866

The deferred tax charge above all relates to the origination or reversal of timing differences.

The current tax charge is higher than the standard rate of corporation tax in the UK as detailed below:

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	3,062	6,125
Tax on profit on ordinary activities at standard rate of 30%	919	1,838
United Kingdom corporation tax at lower rates	(4)	-
Disallowable expenses	1,154	60
Capital allowances in excess of depreciation	(94)	(16)
Other timing differences	(191)	(36)
Higher tax rates on overseas earnings	46	6
Current tax charge for the year	1,830	1,852

notes to the financial statements

for the year ended 31 March 2004

9 Dividends

	2004 pence per share	2003 pence per share	2004 £'000	2003 £'000
Interim paid	0.75	-	212	-
Final proposed	2.25	2.00	630	477
	3.00	2.00	842	477

10 Earnings per share

	2004 pence per share	2003 pence per share
Basic earnings per share	5.00	17.98
Normalised earnings per share	20.50	18.77
Diluted earnings per share	4.97	17.86

The calculation of basic and diluted earnings per share is based on the profit for the year after tax of £1,303,000 (2003: £4,259,000). Normalised earnings per share is calculated after adjusting profit after tax for the effect of goodwill amortisation and exceptional items and is more indicative of underlying performance. The reconciliation of basic to normalised earnings per share is as follows:

	2004 pence per share	2003 pence per share
Basic earnings per share	5.00	17.98
Goodwill written off	3.10	0.79
Exceptional item	12.40	-
Normalised earnings per share	20.50	18.77

The weighted average number of shares in issue during the year used in the calculation of earnings per share is as per the following table:

	2004 '000	2003 '000
Weighted average for year - basic and normalised earnings per share	26,041	23,683
Calculation of shares under option per FRS14	202	160
Weighted average for year - diluted earnings per share	26,243	23,843

notes to the financial statements

for the year ended 31 March 2004

11 Goodwill

Group

	£'000
Cost	
At 1 April 2003	3,720
Additions (see note 27)	21,232
At 31 March 2004	24,952
Amortisation	
At 1 April 2003	620
Charge for year	806
Impairment (see note 6)	2,913
At 31 March 2004	4,339
Net book value	
At 31 March 2004	20,613
At 31 March 2003	3,100

12 Intangible fixed assets

Group and Company

	Manufacturing licences £'000
Cost	
At 1 April 2003	368
Additions	55
At 31 March 2004	423
Amortisation	
At 1 April 2003	311
Charge for year	36
At 31 March 2004	347
Net book value	
At 31 March 2004	76
At 31 March 2003	57

notes to the financial statements

for the year ended 31 March 2004

13 Tangible fixed assets

Group	Land and buildings £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost or valuation				
At 1 April 2003	1,727	13,793	1,467	16,987
Exchange adjustment	(85)	(18)	(62)	(165)
Acquisition of subsidiary undertaking	887	-	387	1,274
Additions	8,832	1,347	291	10,470
Disposals	-	(2,270)	(264)	(2,534)
At 31 March 2004	11,361	12,852	1,819	26,032
Depreciation				
At 1 April 2003	198	9,719	1,073	10,990
Exchange adjustment	(11)	(17)	(36)	(64)
Acquisition of subsidiary undertaking	118	-	247	365
Charge for year	30	1,584	172	1,786
Disposals	-	(2,207)	(188)	(2,395)
At 31 March 2004	335	9,079	1,268	10,682
Net book value				
At 31 March 2004	11,026	3,773	551	15,350
At 31 March 2003	1,529	4,074	394	5,997

The net book value of tangible fixed assets held under finance leases at 31 March 2004 was £774,000 (2003: £1,593,000) which all relates to plant and machinery.

Company	Land and buildings £'000
Cost or valuation	
At 1 April 2003	1,727
Additions	8,832
At 31 March 2004	10,559
Depreciation	
At 1 April 2003	198
Charge for year	24
At 31 March 2004	222
Net book value	
At 31 March 2004	10,337
At 31 March 2003	1,529

The land and buildings at 1 April 2003 relate to the Company's freehold premises at Water Lane, Towcester, which were revalued at £1,700,000 on 16 September 1993 by Connell Wilson Limited, Commercial Surveyors and Property Consultants, on an open market existing use basis. A further valuation on 23 January 1998 confirmed this amount. The difference between the net book value at 23 January 1998 and the valuation has not been incorporated into the balance sheet due to immateriality.

notes to the financial statements

for the year ended 31 March 2004

If these land and buildings had not been revalued they would have been stated at a cost of £1,568,000 (2003: £1,568,000) and a net book value of £1,314,000 (2003: £1,331,000). Surpluses arising on valuation are deemed to apply to land values only.

The value of buildings is written off over 45 years in accordance with note 1 to the financial statements. Depreciation has not been charged on freehold land which is stated at its original revalued amount of £850,000 (2003: £850,000).

All additions in respect of land and buildings during the year relate to the Company's purpose built facility at Tove Valley, Towcester. No depreciation has been charged in respect of these premises as they were not completed or in use during the financial year ended 31 March 2004.

14 Own shares

Group and Company

	Number	Cost £'000	Nominal value £'000	Called up share capital %
Radstone Technology Employee Trust				
At 1 April 2003	141,958	278	18	0.51
Additions	67,815	190	8	0.24
Disposals	(115,522)	(213)	(14)	(0.41)
At 31 March 2004	94,251	255	12	0.34
Radstone Technology PLC All Employee Share Ownership Plan				
At 1 April 2003	28,935	66	4	0.10
Additions	12,526	40	2	0.04
Disposals	(2,827)	(7)	(1)	-
At 31 March 2004	38,634	99	5	0.14
Total				
At 31 March 2004	132,885	354	17	0.48
At 31 March 2003	170,893	344	22	0.61

Shares held by the Radstone Technology Employee Trust represent part of the bonuses earned by senior employees in prior years and converted into shares. Those shares acquired during the year relate to bonuses earned in the year ended 31 March 2003 which have been charged to the profit and loss account for that year. The shares are held in trust on the employees' behalf for a period of 3 years during which time their right to ownership is lost should they leave the Company.

Shares purchased by the Radstone Technology PLC All Employee Share Ownership Plan represent matching shares under the Company's Share Incentive Plan (SIP) under which employees can subscribe up to a maximum of the lower of £125 or 10% of salary per month to purchase shares in the Company. For every two partnership shares that the employee buys the Company contributes a further matching share at no cost to the employee. The matching shares are charged to the profit and loss account in accordance with UITF abstract 17: Employee share schemes. All shares purchased are held in trust on behalf of the employee whose interest in the matching shares is forfeited should the partnership shares be withdrawn before the expiry of three years from the date of purchase.

The number and market value of all shares held on 31 March 2004 was 132,855 (2003: 170,893) and £508,000 (2003: £437,000).

notes to the financial statements

for the year ended 31 March 2004

15 Investments

Company

	Interests in Group undertakings £'000	Loans £'000	Total £'000
Cost			
At 1 April 2003	6,892	151	7,043
Additions	23,205	-	23,205
Disposals	(256)	-	(256)
At 31 March 2004	29,841	151	29,992
Impairment			
At 1 April 2003	178	-	178
Charge for year	3,500	-	3,500
Disposals	(178)	-	(178)
At 31 March 2004	3,500	-	3,500
Net book value			
At 31 March 2004	26,341	151	26,492
At 31 March 2003	6,714	151	6,865

Interests in Group undertakings

Name of undertaking	Country of incorporation or registration	Proportion of nominal value of issued shares held	Principal activity
Foundation Technology Limited	England and Wales	100%	Surface-mount assembly
Foundation Technology (Hawarden) Limited	England and Wales	100%	
Radstone Limited	England and Wales	100%	Marketing and selling of digital electronic equipment
Radstone Technology Corporation	USA	100%	
Radstone Technology (France) SARL	France	100%	
Interactive Circuits and Systems Limited	Canada	100%	Design and manufacture of real-time data acquisition and analogue to digital conversion products for the embedded sensor processing market
SensorCom Inc.	USA	100%	
DaqScribe Technology Inc.	USA	100%	
ICS Embedded Technologies Inc.	USA	100%	Intermediate holding company

All of the above companies operated principally in their country of incorporation or registration.

notes to the financial statements

for the year ended 31 March 2004

On 3 September 2003 the Company acquired the whole of the issued share capital of Interactive Circuits and Systems Limited and its wholly owned subsidiaries, ICS Embedded Technologies Inc., SensorCom Inc. and DaqScribe Technology Inc. The trading results of the companies acquired have been included since the date of acquisition.

On 10 March 2004 the Company completed the voluntary liquidation of Radstone Technology SA, a wholly owned subsidiary incorporated in France. The write off of the Company's investment in Radstone Technology SA which was dormant from 1 April 2003 to 10 March 2004 has been treated as a disposal above.

Following the decision to close the Group's electronic manufacturing services facility at Hawarden (see note 6), the Company's investment in Foundation Technology (Hawarden) Limited has been reduced to £nil by an impairment provision of £3,500,000.

16 Stocks

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Raw materials and consumables	2,606	2,757	-	-
Work in progress	6,257	6,693	-	-
Finished goods	403	-	-	-
	9,266	9,450	-	-

Raw materials and work in progress stocks are partly funded by payments received on account from customers which are included in creditors (see note 18).

17 Debtors

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	12,164	11,824	-	-
Amounts owed by subsidiary undertakings	-	-	5,677	5,835
Other debtors	139	128	-	87
Value added tax	260	39	141	-
Tax recoverable	36	53	9	-
Deferred tax (see note 20)	-	30	-	-
Prepayments and accrued income	1,271	1,174	331	321
	13,870	13,248	6,158	6,243
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	-	-	151	151
	13,870	13,248	6,309	6,394

notes to the financial statements

for the year ended 31 March 2004

18 Creditors: amounts falling due within one year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank overdraft	-	20	-	-
Bank loans	1,958	500	1,400	-
Loan notes	491	-	-	-
Net obligations under finance leases	284	419	-	-
Bank and other borrowings	2,733	939	1,400	-
Trade creditors	4,208	5,735	169	184
Amounts owed to subsidiary undertakings	-	-	1,000	4,581
Corporation tax	817	1,137	-	14
Taxation and social security costs	362	324	36	34
VAT payable	145	662	-	5
Payments invoiced on account	448	47	-	-
Other	2,458	359	2,420	357
Accruals	2,044	1,679	426	388
Proposed dividend	630	477	630	477
Other creditors	11,112	10,420	4,681	6,040
	13,845	11,359	6,081	6,040

The overdraft and loans are secured by a fixed and floating charge over certain assets of the Group. The overdraft is repayable on demand.

19 Creditors: amounts falling due after more than one year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank loans	18,242	1,853	18,051	1,353
Loan notes	245	-	-	-
Net obligations under finance leases	647	1,051	-	-
Bank and other borrowings	19,134	2,904	18,051	1,353

Total borrowings

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Repayable as follows:				
Within one year or on demand	2,733	939	1,400	-
Between one and two years	2,210	858	1,704	-
Between two and five years	10,549	2,011	9,972	1,353
After more than five years	6,375	35	6,375	-
	21,867	3,843	19,451	1,353

notes to the financial statements

for the year ended 31 March 2004

Bank Loans

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Repayable as follows:				
Within one year or on demand	1,958	500	1,400	-
Between one and two years	1,711	500	1,704	-
Between two and five years	10,156	1,353	9,972	1,353
After more than five years	6,375	-	6,375	-
	20,200	2,353	19,451	1,353

Bank loans and overdrafts are secured by fixed and floating charges over assets of the Group and are repayable in instalments. Interest rates for both years vary between 1.0% and 1.5% above LIBOR, base or prime rate. Bank deposits earn interest at prevailing short term money market rates.

At 31 March 2004 there were undrawn committed borrowing facilities amounting to £584,000 (2003: £4,604,000) that are repayable on demand. £3,352,000 (2003: £3,180,000) is renewable within one year and the remainder has no fixed renewal date.

The interest rate exposure created by the requirements of sterling, US dollar and Canadian dollar loans is managed by interest rate swaps. After taking into account these swaps, the interest rate profile of the Group's borrowings was:

	Floating		Fixed		Total	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Euro finance leases	-	-	669	974	669	974
Sterling finance leases	-	-	262	496	262	496
Sterling overdraft	-	20	-	-	-	20
Sterling loans	7,200	-	8,800	1,000	16,000	1,000
US dollar loans	75	87	1,087	1,266	1,162	1,353
Canadian dollar loans	120	-	2,918	-	3,038	-
Canadian dollar loan notes	-	-	736	-	736	-
	7,395	107	14,472	3,736	21,867	3,843

The fair values of the fixed rate borrowings are not materially different from the carrying value included in the balance sheet, taking into account market rates and maturities.

Fixed rate financial liabilities

	Weighted average interest rate 2004 %	Weighted average fixed period 2004 Years	Weighted average period to maturity 2004 Years	Weighted average interest rate 2003 %	Weighted average fixed period 2003 Years	Weighted average period to maturity 2003 Years
Euro	7.13	7	4	7.13	7	5
Sterling	7.07	5	2	7.35	2	2
US dollar	4.93	5	3	5.93	5	4
Canadian dollar	5.55	5	4	n/a	n/a	n/a

notes to the financial statements

for the year ended 31 March 2004

Loan notes

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Within one year	491	-	-	-
Between one and two years	245	-	-	-
	736	-	-	-

The loan notes are in favour of a former co-owner of Interactive Circuits and Systems Limited and are denominated in Canadian dollars.

Finance leases

The net finance lease obligations are repayable as follows:

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Within one year	284	419	-	-
Between one and two years	254	358	-	-
Between two and five years	393	658	-	-
After more than five years	-	35	-	-
	931	1,470	-	-

Fair value of financial assets and liabilities

There is no material difference between the fair value of the Group's financial assets and liabilities and their book values as shown in the financial statements.

Other creditors

Other creditors falling due after more than one year relates to deferred consideration for the acquisition of Interactive Circuits and Systems Limited (see note 27) and is non-interest bearing and denominated in Canadian dollars.

20 Provisions for liabilities and charges

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Deferred taxation	150	(30)	463	366
Other provisions	216	234	5,758	-
	366	204	6,221	366

notes to the financial statements

for the year ended 31 March 2004

Deferred taxation

Net liability/(asset) provided in the accounts:

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Tax effect of timing differences at 30% (2003: 30%):				
Accelerated capital allowances	198	30	463	366
Other short term differences	(48)	(60)	-	-
Deferred tax liability/(asset)	150	(30)	463	366

Other provisions

Group

The provision at 1 April 2003 relates to the redundancy costs on the relocation of part of the Group's electronic manufacturing services business from Towcester to Milton Keynes. Of the provision made, £221,000 was utilised with the balance of £13,000 being credited to the profit and loss account.

The provisions at 31 March 2004 relate to estimated redundancy costs and the costs of an onerous contract arising from the proposed closure of the Group's electronic manufacturing services facility at Hawarden (see note 6).

Company

The provision at 31 March 2004 relates to a guarantee in respect of the bank overdraft of the Company's wholly owned subsidiary Foundation Technology (Hawarden) Limited, the operations of which have been closed (see note 6).

Movement in the year

	Deferred taxation £'000	Other provisions £'000	Total £'000
Group			
At 1 April 2003	(30)	234	204
Exchange adjustment	(10)	-	(10)
Acquisition of subsidiary undertaking	95	-	95
Charged to profit and loss account	95	203	298
Utilised in the year	-	(221)	(221)
At 31 March 2004	150	216	366
Company			
At 1 April 2003	366	-	366
Charged to profit and loss account	97	5,758	5,855
At 31 March 2004	463	5,758	6,221

notes to the financial statements

for the year ended 31 March 2004

21 Called up share capital

	2004 Number	2003 Number	2004 £'000	2003 £'000
Authorised Ordinary shares of 12½p each	32,429,774	28,480,000	4,054	3,560
Allotted, issued and fully paid Ordinary shares of 12½p each				
At 1 April 2003	23,853,086	23,816,086	2,982	2,977
Allotted on acquisition of subsidiary undertaking (note 27)	3,949,774	-	494	-
Allotted under share option schemes	218,800	37,000	27	5
At 31 March 2004	28,021,660	23,853,086	3,503	2,982

Of the shares allotted on acquisition of subsidiary undertaking, 266,223 ordinary shares of 12½p each were issued to certain of the vendors and 3,683,551 by way of a placing and open offer at a price of 280 pence per share.

22 Share options

The Company operates an Executive Share Option Scheme which was approved by the Board of the Inland Revenue on 31 March 1994 (the Approval Date). Under the scheme rules no further options will be granted following the tenth anniversary of the Approval Date.

The Scheme is performance related. Options are not exercisable unless the percentage increase in the Company's basic earnings per share is greater than or equal to 2% per annum above the percentage increase in the RPI over the relevant period in which the option may be exercised. The RPI is the "All Items" Index of Retail Prices as published by the Central Statistics Office.

The Board of the Company administers the Scheme, which has been delegated to the remuneration committee, who have authority to offer options to selected employees.

Options granted and unexercised as at 31 March 2004 were:

Date normally exercisable	Number of shares	Price per share (p)
19.12.2000 - 18.12.2007	3,000	41½
23.11.2003 - 22.11.2010	65,600	207½
12.07.2004 - 11.07.2011	319,000	234
04.07.2005 - 03.07.2012	29,850	254
14.08.2006 - 18.08.2013	19,480	308
	436,930	

The Company also operates an Unapproved Executive Share Option Scheme. The Scheme is performance related. Options are not exercisable unless the percentage increase in the Company's basic earnings per share is greater than or equal to 5% per annum above the percentage increase in the RPI over the relevant period in which the option may be exercised. The RPI is the "All Items" Index of Retail Prices as published by the Central Statistics Office.

The Board of the Company administers the Scheme, which has been delegated to the remuneration committee, who have authority to offer options to selected employees.

notes to the financial statements

for the year ended 31 March 2004

Options granted and unexercised as at 31 March 2004 were:

Date normally exercisable	Number of shares	Price per share (p)
20.08.2006 - 19.08.2013	243,452	308½
15.11.2006 - 14.11.2013	295,008	347½
	538,460	

23 Reserves

	Share premium account £'000	Revaluation reserve £'000	Merger reserve £'000	Profit and loss account £'000	Own shares £'000	Total £'000
Group						
At 1 April 2003	9,519	218	-	9,386	-	19,123
Restatement on adoption of UITF abstract 38 Accounting for ESOP trusts	-	-	-	-	(344)	(344)
At 1 April 2003 restated	9,519	218	-	9,386	(344)	18,779
Retained profit for the year	-	-	-	461	-	461
Exchange rate adjustment	-	-	-	(461)	-	(461)
New share capital subscribed	10,827	-	-	-	-	10,827
Issue costs connected with placing	(384)	-	-	-	-	(384)
Arising on acquisition of subsidiary undertaking	-	-	199	-	-	199
Purchase of own shares	-	-	-	-	(230)	(230)
Disposal of own shares	-	-	-	-	220	220
At 31 March 2004	19,962	218	199	9,386	(354)	29,411

Company						
At 1 April 2003	9,519	218	-	6,093	-	15,830
Restatement on adoption of UITF abstract 38 Accounting for ESOP trusts	-	-	-	-	(344)	(344)
At 1 April 2003 restated	9,519	218	-	6,093	(344)	15,486
Retained loss for the year	-	-	-	(1,730)	-	(1,730)
New share capital subscribed	10,827	-	-	-	-	10,827
Issue costs connected with placing	(384)	-	-	-	-	(384)
Arising on acquisition of subsidiary undertaking	-	-	199	-	-	199
Purchase of own shares	-	-	-	-	(230)	(230)
Disposal of own shares	-	-	-	-	220	220
At 31 March 2004	19,962	218	199	4,363	(354)	24,388

The Company has taken advantage of the exemption not to publish its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company's loss for the financial year was £887,000 (2003: £4,863,000 profit).

The cumulative amount of goodwill resulting from acquisitions which has been written off to reserves as at 31 March 2004 amounted to £31,000 (2003: £31,000).

notes to the financial statements

for the year ended 31 March 2004

24 Reconciliation of movements in consolidated shareholders' funds

	2004 £'000	2003 £'000
Profit for the financial year	1,303	4,259
Dividends paid and proposed	(842)	(477)
Exchange rate adjustment	(461)	(217)
New share capital subscribed	11,348	15
Costs of acquisition of subsidiary undertaking	(384)	-
Merger reserve arising on acquisition of subsidiary company	199	-
Purchase of own shares	(230)	(109)
Disposal of own shares	220	-
Net movement in shareholders' funds	11,153	3,471
Opening shareholders' funds	21,761	18,290
Closing shareholders' funds	32,914	21,761

The opening shareholders' funds at 1 April 2003 as previously reported amounted to £22,105,000 before the restatement of £344,000 on adoption of UITF abstract 38 Accounting for ESOP trusts.

25 Reconciliation of net cash flow to movement in net (debt)/cash

	2004 £'000	2003 £'000
Increase in cash	5,210	7,459
Cash inflow from loan advances	(18,289)	-
Cash outflow from loan repayments	556	500
Cash outflow from loan note repayments	281	-
Cash outflow from finance lease repayments	490	496
Change in net (debt)/cash resulting from cash flows	(11,752)	8,455
Bank loans relating to subsidiary acquired	(1,461)	-
	(13,213)	8,455
Exchange adjustment	(67)	137
Movement in net (debt)/cash	(13,280)	8,592
Net cash/(debt) at 1 April 2003	563	(8,029)
Net (debt)/cash at 31 March 2004	(12,717)	563

notes to the financial statements

for the year ended 31 March 2004

26 Analysis of net cash/(debt)

	At 1 April 2003 £'000	Cash flow £'000	Acquisition* £'000	Other non-cash changes £'000	Exchange adjustment £'000	At 31 March 2004 £'000
Cash at bank and in hand	4,406	5,190	-	-	(446)	9,150
Bank overdrafts	(20)	20	-	-	-	-
	4,386	5,210	-	-	(446)	9,150
Bank loans due within one year	(500)	(885)	(80)	(500)	7	(1,958)
Bank loans due after one year	(1,853)	(16,848)	(257)	500	216	(18,242)
Loan notes due within one year	-	281	(555)	(270)	53	(491)
Loan notes due after one year	-	-	(569)	270	54	(245)
Finance leases	(1,470)	490	-	-	49	(931)
	(3,823)	(16,962)	(1,461)	-	379	(21,867)
Total	563	(11,752)	(1,461)	-	(67)	(12,717)

*Excluding cash at bank and in hand

27 Purchase of subsidiary undertaking

On 3 September 2003 the Company acquired the whole of the issued share capital of Interactive Circuits and Systems Limited and its wholly owned subsidiaries, ICS Embedded Technology Inc., SensorCom Inc. and DaqScribe Technology Inc.

The table below shows the adjustments made to the book values of assets and liabilities acquired in calculating fair values for inclusion in the consolidated accounts:

	Book value £'000	Accounting policy adjustment £'000	Fair value £'000
Intangible fixed assets	157	(22)	135
Tangible fixed assets	953	(43)	910
Stocks	1,313	(413)	900
Debtors	1,696	(10)	1,686
Cash at bank and in hand	1,706	-	1,706
Bank and other borrowings	(1,461)	-	(1,461)
Other creditors	(1,651)	(22)	(1,673)
Provisions for liabilities and charges	(95)	-	(95)
Net assets	2,618	(510)	2,108
Goodwill			21,097
Consideration			23,205
Analysis of consideration			
Issue of shares			954
Cash paid			17,063
Deferred consideration			4,132
Costs incurred			1,440
Costs offset against share premium			(384)
			23,205

notes to the financial statements

for the year ended 31 March 2004

The deferred consideration, payable in Canadian dollars, will be made if ICS achieves certain gross profit targets:

- (a) C\$2.631579 will be payable for every C\$1.00 by which ICS Group's aggregate gross profit for the two years ending 30 September 2003 and 30 September 2004 exceeds C\$19.0 million (approximately £7.9 million) up to a maximum of C\$5.0 million (approximately £2.1 million). It will be paid following finalisation and agreement of accounts for that period; and
- (b) C\$2.173913 will be payable for every C\$1.00 by which ICS Group's gross profit for the 12 months ending 30 September 2005 plus any excess of ICS Group's aggregate gross profit for the years ending 30 September 2003 and September 2004 over C\$20.9 million (approximately £8.6 million) or less any shortfall in ICS Group's aggregate gross profit for those years below C\$19.0 million exceeds C\$11.4 million (approximately £4.7 million) up to a maximum of C\$5.0 million (approximately £2.1 million). It will be paid following finalisation and agreement of accounts for that period.

The summarised profit and loss account for Interactive Circuits and Systems Limited and its subsidiary companies for the year ended 30 September 2002 and for the period from 1 October 2002, the beginning of its financial year, to the date of acquisition are as follows:

	Period ended 3 September 2003	Year ended 30 September 2002
Turnover	5,779	5,483
Cost of sales	(1,994)	(1,673)
Gross profit	3,785	3,810
Administrative expenses		
Development costs	(444)	(487)
Other	(1,112)	(901)
Total administrative expenses	(1,556)	(1,388)
Selling and distribution expenses	(701)	(599)
Operating profit	1,528	1,823
Investment income	37	21
Amounts written off investments	-	(6)
Interest payable and similar charges	(43)	(75)
Profit on ordinary activities before taxation	1,522	1,763
Tax charge on profit on ordinary activities	(414)	(513)
Retained profit for the financial period	1,108	1,250

notes to the financial statements

for the year ended 31 March 2004

28 Analysis of net outflow of cash in respect of the purchase of subsidiary undertaking

	£'000
Cash consideration and related expenses	18,503
Cash at bank and in hand on acquisition	(1,706)
Net cash outflow	16,797

Interactive Circuits and Systems Limited and its subsidiaries had the following impact on the Group's cash flow since acquisition:

Operating profit	1,382
Amortisation of goodwill	4
Depreciation of tangible fixed assets	51
Increase in stocks	(201)
Increase in debtors	(184)
Decrease in creditors	(257)
Net cash inflow from operating activities	795
Returns on investments and servicing of finance	-
Taxation	(1,209)
Capital expenditure	(47)
Financing	(337)
Decrease in cash	(798)

29 Commitments, contingent liabilities and financial instruments

Capital expenditure

	2004 £'000	2003 £'000
Group		
Expenditure contracted for	2,049	192
Company		
Expenditure contracted for	1,749	-

Financial instruments

The Group's policies as regards derivatives and financial instruments are set out in the Financial Review on page 13 and the Accounting Policies on page 30. The Group uses derivatives to reduce exposure and risk to interest rates and foreign currency. There is no speculative trading in derivatives.

At 31 March 2004 the Company had foreign currency exchange contracts and options that will mature within 18 months with a fair value (including the nominal value) of £20,297,000 (2003: £15,621,000) and a carrying value of £nil (2003: £nil). Fair values of forward contracts are calculated at their contract rate and options at the rate that would be transacted if they were exercisable on 31 March 2004.

The Company enters into formal foreign currency contracts and options to minimise the currency exposures that arise on sales denominated in foreign currencies, as described in the Treasury note within the Financial Review on page 13. An analysis of these unrecognised gains and losses is detailed below.

	2004 £'000	2003 £'000
Gains	1,790	282
Losses	(7)	(7)
Net gain	1,783	275

notes to the financial statements

for the year ended 31 March 2004

At 31 March 2004 there were unrealised net gains on forward foreign currency contracts covering US dollars. None of these were recognised at the balance sheet date. The unrealised net gain is expected to be dealt with in the profit and loss account for the years ending 31 March 2005 and 31 March 2006. During the year ended 31 March 2004 the net gain unrealised at 31 March 2003 was included in the profit and loss account. Since unrealised gains or losses are calculated by marking to market forward foreign currency contracts and options, that in themselves are used to calculate foreign currency prices for the Group's products, the off-set for these unrealised amounts are sales of those products.

The fair value of foreign currency assets and liabilities is not materially different from the carrying value included in the balance sheet.

The tables below show the Group's currency exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the operating currency of the company involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations.

	Net foreign currency monetary assets/(liabilities)				
	Sterling £'000	US dollar £'000	Canadian dollar £'000	Euro £'000	Total £'000
As at 31 March 2004					
Operating currency					
Sterling	(344)	(49)	-	590	197
US dollar	-	7,635	-	-	7,635
Canadian dollar	-	103	21	-	124
	(344)	7,689	21	590	7,956

As at 31 March 2003

Operating currency					
Sterling	617	332	-	310	1,259
US dollar	-	4,830	-	-	4,830
	617	5,162	-	310	6,089

At 31 March 2004 the Group had various currency swaps and forward contracts in place to hedge future foreign currency sales.

There were no exposed monetary assets or liabilities at 31 March 2004.

Other

At 31 March 2004 the Company had a liability under outstanding bank guarantees and bonds amounting to £10,000 (2003: £15,000).

Cash at bank and in hand of £9,150,000 (2003: £4,406,000) earns interest at floating rates, principally on short term inter bank rates. These are the only financial assets.

Further financial instruments disclosures are shown in note 19.

notes to the financial statements

for the year ended 31 March 2004

30 Pensions

Pensions have continued to be accounted for in accordance with SSAP24 - Accounting For Pension Costs and the disclosures required by that Standard are given below.

UK schemes

The Group operates two funded defined benefit pension schemes and two defined contribution schemes in the United Kingdom. Contributions to these schemes are charged to the profit and loss account.

The contributions of the defined benefit schemes are determined by an independent qualified actuary on the basis of triennial valuations. Full actuarial valuations were carried out at 31 March 2001, the results of which were as follows:

	Radstone Pension Fund	Radstone Executive Pension Fund
Aggregate market value of assets	£11,451,000	£3,263,000
Actuarial value of assets as a percentage of accrued service liabilities	103%	105%

The total charge for the year was £390,000 (2003: £400,000). Company contribution rates for the Radstone Pension Fund for the year commencing 1 April 2004 have been agreed at 9.8% of pensionable salaries, an increase of 2.3%, with those for the Radstone Executive Pension Fund remaining unchanged at 21.5%.

The schemes were closed to new entrants at 31 March 1997. As the age profile for the active members increases, the service cost may increase.

The defined contribution schemes are a Group Personal Pension Plan provided by The Equitable Life Assurance Company Limited and a Grouped Stakeholder Pension Plan with Bank of Scotland Investment Service. Both schemes are voluntary and the Group Personal Pension Plan was closed to new entrants on introduction of the Stakeholder arrangement in April 2002. In recognition of a minimum contribution of 3% of annual salary to either scheme by the employee, the Company contributes a further 4½%. The total charge for the year was £157,000 (2003: £142,000).

Overseas subsidiaries

The Group operates defined contribution pension schemes for certain of its overseas subsidiaries. The assets of the schemes are held separately from those of the companies in independently administered funds. The charge for the year represents contributions paid by the companies to the schemes and amounted to £74,000 (2003: £67,000).

FRS17 - Retirement Benefits

	2004 £'000	2003 £'000
Net assets		
Net assets excluding pension liability	32,914	21,761
Pension liability	(4,662)	(4,794)
Net assets including pension liability	28,252	16,967
Reserves		
Profit and loss reserve excluding pension liability	9,386	9,386
Pension liability	(4,662)	(4,794)
Profit and loss reserve including pension liability	4,724	4,592

notes to the financial statements

for the year ended 31 March 2004

The valuations used for FRS17 disclosures have been based upon the most recent actuarial valuations updated to 31 March 2004 by a qualified independent actuary. The major assumptions used by the actuary were, in nominal terms for both the Radstone Pension Fund and the Radstone Executive Pension Fund:

	At 31 March 2004 %	At 31 March 2003 %	At 31 March 2002 %
Rate of increase in salaries	4.80	4.50	4.75
Rate of increase of pensions in payment	2.80	2.50	2.75
Rate of increase of pensions in deferment	2.80	2.50	2.75
Discount rate	5.50	5.40	6.00
Inflation assumption	2.80	2.50	2.75

The Radstone Pension Fund

The assets in the scheme and the expected rates of return were:

	At 31 March 2004 %	At 31 March 2004 £'000	At 31 March 2003 %	At 31 March 2003 £'000	At 31 March 2002 %	At 31 March 2002 £'000
Equities	6.75	6,703	6.75	6,780	7.50	8,735
Bonds	4.75	4,696	4.50	2,623	5.25	2,912
Cash	4.50	49	4.00	91	4.00	-
Total market value of assets		11,448		9,494		11,647
Actuarial value of liability		(16,814)		(15,088)		(12,817)
Deficit		(5,366)		(5,594)		(1,170)
Related deferred tax asset		1,610		1,678		351
Net pension liability		(3,756)		(3,916)		(819)

The amounts that would be charged to operating profit under FRS 17 were:

	2004 £'000	2003 £'000
Service cost	418	378
Past service cost	-	-
Total operating charge	418	378

notes to the financial statements

for the year ended 31 March 2004

The net return on the scheme that would be (charged)/credited to other finance under FRS17 were:

	2004 £'000	2003 £'000
Expected return on pension scheme assets	579	817
Interest on pension liabilities	(818)	(780)
Net (cost)/return	(239)	37

The amounts that would be recognised in the statement of total recognised gains and losses (STRGL) were:

	2004 £'000	2003 £'000
Actual return less expected return on pension scheme assets	1,380	(3,212)
Experience gains and losses arising on pension liabilities	-	59
Changes in assumptions	(794)	(1,197)
Actuarial gain/(loss) recognised in STRGL	586	(4,350)

The movement in the scheme deficit during the year under FRS17 was:

	2004 £'000	2003 £'000
At 1 April 2003	(5,594)	(1,170)
Current service cost	(418)	(378)
Contributions	299	267
Past service cost	-	-
Net return on assets	(239)	37
Actuarial gain/(loss)	586	(4,350)
At 31 March 2004	(5,366)	(5,594)

The history of experience gains and losses is:

	2004	2003	2002
Difference between expected and actual return on scheme assets:			
Amount (£'000)	1,380	(3,212)	(737)
% of assets	12%	(34%)	(6%)
Experience gains and losses on scheme liabilities:			
Amount (£'000)	-	59	80
% of liabilities	0%	0%	1%
Total amount recognised in STRGL:			
Amount (£'000)	586	(4,350)	(1,422)
% of liabilities	3%	(29%)	(11%)

notes to the financial statements

for the year ended 31 March 2004

The Radstone Executive Pension Fund

The assets in the scheme and the expected rates of return were:

	At 31 March 2004 %	At 31 March 2004 £'000	At 31 March 2003 %	At 31 March 2003 £'000	At 31 March 2002 %	At 31 March 2002 £'000
Equities	6.75	2,319	6.75	1,917	7.50	2,475
Bonds	4.75	613	4.50	727	5.25	825
Cash	4.00	33	4.00	7	4.00	-
Total market value of assets		2,965		2,651		3,300
Actuarial value of liability		(4,260)		(3,905)		(3,474)
Deficit		(1,295)		(1,254)		(174)
Related deferred tax asset		389		376		52
Net pension liability		(906)		(878)		(122)

The amounts that would be charged to operating profit under FRS 17 were:

	2004 £'000	2003 £'000
Service cost	92	118
Past service cost	-	-
Total operating charge	92	118

The net return on the scheme that would be (charged)/credited to other finance under FRS17 were:

	2004 £'000	2003 £'000
Expected return on pension scheme assets	156	230
Interest on pension liabilities	(206)	(211)
Net (cost)/return	(50)	19

The amounts that would be recognised in the statement of total recognised gains and losses (STRGL) were:

	2004 £'000	2003 £'000
Actual return less expected return on pension scheme assets	381	(911)
Experience gains and losses arising on pension liabilities	(228)	33
Changes in assumptions	(106)	(176)
Actuarial gain/(loss) recognised in STRGL	47	(1,054)

notes to the financial statements

for the year ended 31 March 2004

The movement in the scheme surplus/(deficit) during the year under FRS17 was:

	2004 £'000	2003 £'000
At 1 April 2003	(1,254)	(174)
Current service cost	(92)	(118)
Contributions	54	73
Past service cost	-	-
Net return on assets	(50)	19
Actuarial gain/(loss)	47	(1,054)
At 31 March 2004	(1,295)	(1,254)

The history of experience gains and losses is:

	2004	2003	2002
Difference between expected and actual return on scheme assets:			
Amount (£'000)	381	(911)	(181)
% of assets	13%	(34%)	(5%)
Experience gains and losses on scheme liabilities:			
Amount (£'000)	(228)	33	(34)
% of liabilities	(5%)	1%	(1%)
Total amount recognised in STRGL:			
Amount (£'000)	47	(1,054)	(334)
% of liabilities	1%	(27%)	(10%)

shareholder information

Annual General Meeting

9 September 2004

Results

Announcement of interim results to 30 September 2004
Announcement of annual results to 31 March 2005

November 2004
June 2005

Proposed Dividend

Ex-dividend date
Payable to shareholders on the register on
Payable

8 September 2004
10 September 2004
29 September 2004

Share price listing (EPIC code: RST)

The price of shares in Radstone Technology PLC is currently listed daily in the following national newspapers:

Financial Times
Daily Telegraph
Daily Express
Evening Standard
The Scotsman

Additional information

Regular information for shareholders is also available on the Group's website at <http://www.radstone.co.uk>
(Investor Relations)

notice of annual general meeting

NOTICE IS HEREBY GIVEN that the Sixteenth Annual General Meeting of Radstone Technology PLC will be held at Tove Valley Business Park, Towcester, Northants NN12 6PF on Thursday 9 September 2004 at 10.00 am to consider the following business:-

Ordinary business

To consider and, if thought fit, pass the following resolutions all of which will be proposed as Ordinary Resolutions:

Resolution 1

To receive and consider the accounts for the year ended 31 March 2004, together with the reports of the directors and auditors thereon.

Resolution 2

To declare a final dividend of 2.25p per ordinary share to be paid on 29 September 2004 to all ordinary shareholders on the register as at 10 September 2004.

Resolution 3

To approve the Report to the Shareholders on Directors' Remuneration for the year ended 31 March 2004.

Resolution 4

To re-appoint as a director Sir Alan Thomas as required by Article 69 of the Company's Articles of Association.

Resolution 5

To re-appoint as a director Mr J L Perrin who retires in accordance with Article 73 of the Company's Articles of Association.

Resolution 6

To re-appoint as a director Mr R J Williams who retires in order to facilitate compliance with the provisions of the Combined Code.

Resolution 7

To re-appoint Deloitte & Touche LLP as auditors and to authorise the directors to determine their remuneration.

Special business

To consider, and if thought fit, pass the following Resolution 8 which will be proposed as an Ordinary Resolution and Resolution 9 as a Special Resolution:

Resolution 8

That the authorised share capital of the Company be and is hereby increased from £4,053,721.75 to £5,500,000 by the creation of 11,570,226 ordinary shares of 12.5p each in the capital of the Company.

Resolution 9

That the authority and power conferred on the directors by Article 4 of the Company's Articles of Association be renewed for the period ending on the date of the next Annual General Meeting in 2005 or 9 December 2005, whichever is earlier, and for such period:

- (a) the Section 80 Amount shall be £1,167,569; and
- (b) the Section 89 Amount shall be £175,135.

By order of the Board

Brian Shears ACA

Secretary
11 June 2004

Notes:

1. Any member entitled to attend and vote at the 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. A form of proxy is enclosed for use if desired.
2. The register of directors' shareholdings will be available for inspection during the meeting. Copies of all directors' service contracts will be available for inspection at the registered office of the Company during normal business hours and at the place of the Meeting at least 15 minutes prior to and during the Meeting.
3. To be effective, forms of proxy together with any power of attorney or authority (if any) under which they are signed (or a duly certified copy of the power or authority) must be deposited with the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4BR not less than 48 hours before the time for holding the Meeting. Completion and return of a form of proxy will not prevent the holder from attending the Meeting and voting in person should he wish to do so.

Radstone Technology PLC form of proxy

Annual General Meeting to be held on Thursday 9 September 2004 at 10.00 a.m.

I/We, of

.....being a member of Radstone Technology

PLC, hereby appoint or failing him/her, the Chairman of the Meeting, as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company and at any adjournment thereof.

Please indicate how you wish your votes to be cast by placing an "X" in the spaces provided below. The resolutions are as indicated in the Notice of Meeting contained in the Report and Accounts of the Company. If this Form of Proxy is signed and returned without any indication as to how the Proxy shall vote, he will exercise his discretion both as to how he votes and whether or not to abstain from voting on all resolutions at the Meeting.

		For	Against
Resolution 1	(Report and Accounts)	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	(Declaration of final dividend)	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	(Report to the Shareholders on Directors' Remuneration)	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	(Re-appointment of Sir Alan Thomas)	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	(Re-appointment of Mr J L Perrin)	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	(Re-appointment of Mr R J Williams)	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	(Re-appointment of the auditors)	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	(Increase in share capital)	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	(Authority and power to allot shares)	<input type="checkbox"/>	<input type="checkbox"/>

Signature(s) or Common Seal
(see notes 3 and 4)

Dated:

Notes:

1. You are entitled to appoint one or more Proxies of your own choice, who need not be a member of the Company, by inserting the name and address of such proxy in the space provided. Should the space be left blank, the Proxy will be exercised by the Chairman of the meeting.
2. In the case of a Company, this Form of Proxy must be executed under its common seal or in accordance with Section 36A of the Companies Act 1985 or under the hand of a duly authorised officer or attorney or other person authorised to sign.
3. In the case of joint holders, only one need sign but the vote of the senior who tenders the vote, whether in person or by Proxy, shall be accepted to the exclusion of the votes of the other joint holders, and seniority is determined by the order in which the names of the holders stand in the register of members. If the person signing is not the first named holder, it will be helpful to give the name of the first named.
4. To be valid, forms of proxy together with any power of attorney or other authority under which it is signed, or a copy of such authority notarially certified, must be lodged with the Company's Registrars, Capita Registrars, Bourne House, 34 Beckenham Road, Beckenham, Kent, BR3 4BR not later than 48 hours before the time fixed for the Meeting. Completion and return of a form of proxy will not prevent the holder from attending the Meeting and voting in person should he wish to do so.



AUDITORS NOTE: ELECTRONIC PUBLICATION

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

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