

ARMOUR GROUP PLC
Annual Report 2004

2004

FINANCIAL HIGHLIGHTS

ARMOUR GROUP PLC IS THE UK'S LEADING CONSUMER ELECTRONICS GROUP FOCUSED ON THE IN-CAR COMMUNICATION AND ENTERTAINMENT AND HOME ENTERTAINMENT MARKETS. IT COMPRISES TWO DIVISIONS: ARMOUR AUTOMOTIVE AND ARMOUR HOME ELECTRONICS.

THE GROUP HAS AN IMPRESSIVE BRAND PORTFOLIO, WHICH BOASTS SOME OF THE UK'S MARKET LEADERS, REGULARLY WINNING INDUSTRY AWARDS FOR QUALITY AND INNOVATION.

ARMOUR GROUP PLC WAS RECENTLY AWARDED "BEST AIM COMPANY 2004" BY GROWTH COMPANY INVESTOR MAGAZINE.

- SALES OF £31.1 MILLION (2003: £16.1 MILLION) UP 94%
- PROFIT BEFORE INTEREST, TAXATION AND AMORTISATION OF GOODWILL OF £3.7 MILLION (2003: £1.3 MILLION) UP 173%
- PROFIT BEFORE TAXATION OF £2.9 MILLION (2003: £1.4 MILLION) UP 105%
- CASH INFLOW FROM OPERATING ACTIVITIES OF £2.5 MILLION (2003: £1.3 MILLION) UP 94%
- RECOMMENDED DIVIDEND OF 0.45P (2003: 0.35P) UP 29%
- UNDERLYING EARNINGS PER SHARE OF 4.7P (2003: 2.7P) UP 74%

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DIRECTORS AND ADVISERS

DIRECTORS

BOB MORTON – CHAIRMAN (62) *

Appointed as a non-executive Director and Chairman in January 2002. He is also Chairman of Vislink plc, Systems Union Group plc and Maclellan Group plc. He holds directorships in a wide range of quoted and private companies. He is Chairman of the Audit, Remuneration and Nominations Committees.

GEORGE DEXTER – CHIEF EXECUTIVE (42)

Appointed in April 1998. He was a Director of Brink's (UK) Limited and held various positions at Transport Development Group plc and ML Holdings plc after qualifying as a Chartered Accountant. He is a member of the Nominations Committee.

JOHN HARRIS – FINANCE DIRECTOR AND COMPANY SECRETARY (43)

Appointed Finance Director in February 1999 and Company Secretary in April 2004. He was Finance Director of Howden Asia Pacific, part of Charter plc, where he held a number of positions including that of Group Financial Controller. He is a member of the Nominations Committee.

STEVE BODGER – (55) *

Appointed in January 2002. He is Chairman and/or Director of a number of private companies. He is a member of the Audit, Remuneration and Nominations Committees.

* Non-executive Directors

ADVISERS

AUDITORS

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Northside House
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The AM102 is one of the GSM antennae designed and manufactured by CTI.



Over 1,700 kilometres of cable have been used in Autoleads's products in the last year.

CHAIRMAN'S STATEMENT

RESULTS AND DIVIDEND

I am pleased to report another record set of results for Armour Group plc for the year ended 31 August 2004. The Group's operating profit after amortisation of goodwill rose by 149% to £3.1 million (31 August 2003: £1.2 million). Group sales were up 94% at £31.1 million (31 August 2003: £16.1 million). Basic underlying earnings per share increased by 74% to 4.7p (31 August 2003: 2.7p). Equity shareholders' funds were £16.4 million (31 August 2003: £9.5 million restated) and the Group's net debt position was £2.6 million (31 August 2003: Net funds £3.4 million).

The Board is recommending a dividend for the year of 0.45p (31 August 2003: 0.35p) per ordinary share, which represents a 29% increase over last year. The dividend is payable on 7 January 2005 to shareholders on the register on 10 December 2004.

ARMOUR AUTOMOTIVE

The Auto Electronics Division, which has changed its name to Armour Automotive, has delivered another year of excellent results with good organic growth in our proprietary brands and a full year's contribution from the acquisition of Continental Technologies and Investments Limited ("CTI") made in March 2003.

Our proprietary brands of Autoleads, the specialist range of connectivity solutions for in-car entertainment and communications, CTI, the specialist range of GSM and GPS aerials and antennae for the automotive and marine aftermarkets, RM Audio, the range of in-vehicle customer branded speakers and head units, and Veba, the range of in-car audio-visual entertainment systems, generate 91% of the Division's sales.

In March 2004, we successfully added to our impressive proprietary brand portfolio with the launch of Mutant, a new range of affordable high quality amplifiers and speakers for the in-car market. Mutant has been well received with its products being listed by the two major retail chains in the automotive aftermarket, Halfords and Motorworld, as well as a large number of the specialist independent retailers.

The organic growth in sales of our proprietary brands in the year ended 31 August 2004 was 15%, with Veba leading the way with an increase of more than 70% over the prior year.

The brands have leading positions in their respective markets and combine to make our products and services in the in-car entertainment and communications market unique in Europe.

ARMOUR HOME ELECTRONICS

The Armour Home Electronics division, which was formed on 31 October 2003 through the acquisitions of Veda Products Limited ("Veda"), QED Audio Products Limited ("QED"), Goldring Products Limited ("Goldring") and Integrated Media Installations Limited ("IMI"), has had a profitable ten months in the Group. The acquisitions have been earnings enhancing for the Group in the year ended 31 August 2004.

Over the last ten months, the operations have been streamlined from four businesses into two – one business designs, manufactures and sells products into the hi-fi, home theatre and home entertainment market and the other provides specialist custom design and installation services to home builders, architects and homeowners in the home automation market. The product based business represents 87% of the Division's sales, whilst the service based business accounts for the remaining 13%.

Our proprietary brands and services, which include the award-winning QED, a range of interconnects and cables, Systemline, a range of multi-room entertainment systems, Sound Style and Sound Organisation, a range of furniture, Goldring, a range of turntables and styli and IMI's custom install services, account for 76% of the Division's sales. The balance of the Division's sales of 24% come from high quality third party brands, which include Linn, Grado, Imerge, Sonance and Mission.

The European ISO plug is a key component in Autoleads's wiring harnesses.



Veba's six disc multi-media changer plays CDs, DVDs and MP3 discs.



CHAIRMAN'S STATEMENT CONTINUED

The acquisition of QED, Veda, Goldring and IMI and their integration to form Armour Home Electronics has created one of the leading businesses in the United Kingdom in the specialist hi-fi and home entertainment markets.

RESEARCH AND PRODUCT DEVELOPMENT

The Group's organic growth will continue to be driven by our investment in research and product development, which is a fundamental part of the Group's strategy. Both divisions have dedicated teams of software and hardware engineers as well as industrial designers, who are developing the next generation of products. In the year ended 31 August 2004, the Group's expenditure on research and product development was £0.8 million with over 250 new products being brought to market by Armour Automotive and over 170 by Armour Home Electronics.

PEOPLE

The continuing success of the Group is a reflection of the hard work, dedication and professionalism of the people that we have in the Group. Once again, I would like to acknowledge the Board's appreciation of their commitment and efforts over the last year.

POST BALANCE SHEET EVENTS

ACQUISITION

On 23 September 2004, the Group announced the acquisition of The Hi-End Limited ("Hi-End"), which provides specialist retro-fit design, integration and installation services for home theatre and home automation systems.

Hi-End, which will be integrated into our existing custom install business, will strengthen our operational activities and complement our sales by enabling our service based business to cover the new build pre-wire and retro-fit markets.

The consideration, payable in cash from the Group's existing facilities, totals £1.75 million of which £1.6 million was paid on completion with the balance being payable three months after completion. The net assets acquired at completion of £0.4 million, which included £0.3 million in cash, generated an attributable profit before taxation of £0.28 million in the year ended 31 December 2003 on sales of £1.2 million.

Veba's portable in-car DVD solution.

The acquisition is expected to be earnings enhancing in the year to 31 August 2005.

OUTLOOK

The Group has strong brands, products, management and financial resources. The Board is confident of the Group's prospects for the current financial year.

BOB MORTON

Chairman
26 October 2004



Mutant's highly successful and best selling 12", 700 watt subwoofer.



CHIEF EXECUTIVE'S REVIEW

The Group has had another impressive year with strong growth generated from a combination of organic development and the acquisitions made in 2003. This growth has also improved the quality of the Group's earnings stream with the return on sales, measured at an operating profit level, increasing to 9.9% from 7.7% last year.

ARMOUR AUTOMOTIVE

The Armour Automotive division continues to go from strength to strength. Sales rose by 17% and operating profit by 47% helped by a full year's contribution from CTI, which the Group acquired in March 2003. The Division's sales of £18.7 million represent 60% of the Group's sales in the year ended 31 August 2004.

Sales of the Autoleads in-car mobile communications products, especially our range of telemute interconnects, have been very strong following the change in legislation in December 2003 in respect of the use of mobile phones in vehicles. Sales increased by 43% with a noticeable surge in demand in the first six months following the legislative change. Sales patterns have now settled down but remain well ahead of last year with increasing amounts of business being done directly with the mobile networks, principally Vodafone and one of the large mobile phone handset manufacturers.

Sales of the CTI range of specialist GSM and GPS aerials and antennae have increased on a year on year basis by approximately 13%. Sales of CTI's aerials have benefited from our established channels to market and have been successfully cross sold with Autoleads's branded cellular products. In April 2004, we announced that we had secured a US \$1.2 million two year contract to supply a dual band GPS antenna for use in the telematics market in the United Kingdom. This contract is progressing well and we have secured further new business with our customer as a result of the contract.

The RM Audio brand has been repositioned in the year. The focus has moved to the non-retail market, supplying customer branded speakers and head units for a range of vehicle producers that include car, tractor, combine harvester and caravan manufacturers.

Sales of the Veba in-car multi-media entertainment equipment have grown by over 70% to £2.2 million. A significant amount of new business has been secured with new customers including BMW, Hyundai, and Mitsubishi. The BMW in-car multi-media project, which is potentially the single biggest piece of new business, is nearing fruition with the first deliveries expected in December 2004. In addition, two large car retailing groups have recently commenced pilot schemes selling Veba in-car multi-media entertainment equipment in their showrooms. The potential for these two schemes, if rolled out throughout their respective dealership networks, is significant with their combined number of showrooms being in excess of 320.

In March 2004, we successfully launched the new Mutant range of mid-priced speakers and amplifiers. The Mutant product range has been reviewed favourably in the specialist press and has sold well into its niche market.

The only area of disappointment was with the third party brand, Kicker, which, whilst remaining profitable, saw sales fall in mainland Europe. As a consequence of its disappointing sales performance, the operations have been reorganised with the mainland European distribution being taken over by the American owners of Kicker with effect from 1 September 2004. We will continue to distribute the Kicker range in the United Kingdom.

In terms of customers, we have over 1,200, which include Halfords, Case New Holland, Sony, Kenwood, VDO Siemens, Vodafone, Fiat, BMW, Hyundai and Mitsubishi as well as almost all of the specialist in-car aftermarket retailers in the United Kingdom.

The Mutant NW4650 amplifier produces 135 watts over four channels.



The Goldring brand has been associated with high quality turntables and styli since 1906.



CHIEF EXECUTIVE'S REVIEW CONTINUED

In terms of our channels to market, our non-retail business to customers such as vehicle manufacturers, mobile phone networks and wholesalers has increased by 38%, reflecting the strong growth of Autoleads and Veba.

In the retail market, where conditions have been more challenging as a result of the rise in interest rates over the past year, there has been a steady increase in sales of 5%. We have seen a strong demand for Veba, with an increased range listed in Halfords, and Mutant, which is now on sale in over 500 retail outlets.

ARMOUR HOME ELECTRONICS

The Armour Home Electronics division has made a good maiden contribution to the Group's results with both sales and operating profit exceeding the expectations set at the time of the acquisitions in October 2003. The Division's sales for the 10 months ended 31 August 2004 of £12.4 million represent 40% of the Group's sales for the year.

In our product based business, sales have benefited from strong demand for home automation products, which account for 33% of the Division's sales. These products are typically more complex than retail products and include Systemline multi-room entertainment systems, Lutron lighting control systems, Imerge soundservers and the specialist installation cables required to wire such products into homes. The home automation market is growing quickly as more new homes are equipped as standard with automated control systems. It is expected that this trend will continue and gather pace. As one of the leading product suppliers to this market, we are well positioned to take advantage of the anticipated growth.

In the retail market, we supply over 650 specialist retail customers including Richer Sounds, Sevenoaks Sound and Vision and Audio T. Sales of retail products represent 53% of the Division's sales. Our award-winning proprietary brands, which include QED, Goldring, Sound Style and Sound Organisation, account for 80% of sales in this channel. The balance of retail sales comes from third party brands including Grado and Linn, which are generally sold on an exclusive basis. In July 2004, we signed a UK distribution agreement with Mission as the exclusive UK distributor for its low to mid-range speakers.

Many of the Division's brands are market leaders within their niches. At the recent What Hi-Fi Awards ceremony, four interconnects from the QED product range won awards as did our Systemline Modular product. This is only the second time that a single company has won five awards at this industry awards ceremony and reinforces the quality of our products and brands.

In February 2004, we launched Systemline Modular, the latest generation of our multi-room entertainment system. Systemline Modular is targeted at the new home build market and utilises standard data cable to carry the power, data and audio signal from a variety of source equipment, such as a CD player or tuner, to up to eight different rooms simultaneously. Systemline Modular is unique in its use of this single type of cabling topography and the proprietary technology used in the system ensures hi-fi quality sound is delivered to all rooms. Since its launch, the product has been enthusiastically received by builders, architects and specialist custom installers. To date over 2,500 new homes are being pre-wired for Systemline Modular and we predict that a number of home builders will introduce it over the coming year as part of their home sale option programmes.

The GR2 is one of the new generation of Goldring turntables.



QED's 2004
award-winning
component
video cable.



CHIEF EXECUTIVE'S REVIEW CONTINUED

Our service based business has undergone some significant changes since it was acquired. We anticipate that this market will grow quickly over the coming two years and consequently have restructured the business to meet the expected increase in demand. The management team has been strengthened, new information technology systems are being installed and the operating procedures reviewed and changed to meet the specific needs of the business. Despite these changes, which are inevitably disruptive, the business has performed profitably and our pipeline of new business is starting to build.

Since the year end, we have announced the acquisition of Hi-End, a custom install business focused on the retro-fit market based in South West London. This acquisition will give more critical mass to our custom install service operations and provide opportunities to exploit economies of scale in terms of resource management, purchasing and sales. The Hi-End business will be integrated into our existing service based business.

OUTLOOK

The prospects for the current year appear to be good and we are expecting another year of growth.

GEORGE DEXTER

Chief Executive
26 October 2004

One of five awards won by QED and Systemline at the What Hi-Fi Awards 2004.



The highly acclaimed Systemline Modular multi-room audio distribution hub.

FINANCE DIRECTOR'S REVIEW

RESULTS

Group sales have increased by 94% to £31.1 million (31 August 2003: £16.1 million). Excluding acquisitions, which contributed £12.4 million, Group sales from continuing operations increased 17% to £18.7 million.

Group operating profit increased by 149% to £3.1 million (31 August 2003: £1.2 million). Excluding acquisitions, which contributed £0.9 million, Group operating profit from continuing operations increased 73% to £2.1 million.

Net interest expense of £0.2 million (31 August 2003: £0.1 million income) was covered 18 times by profit before interest and amortisation of goodwill.

The effective taxation rate on profit before taxation was 39% (31 August 2003: 29%). The rate, after adjusting for disallowed amortisation of goodwill, is 32.5%.

Profit after taxation was £1.7 million (31 August 2003: £1.0 million).

EARNINGS AND DIVIDEND

Basic earnings per share rose 40% to 3.5p (31 August 2003: 2.5p). Underlying earnings per share before amortisation of goodwill and exceptional items rose 74% to 4.7p (31 August 2003: 2.7p).

The Board has proposed a final dividend for the year of 0.45p (31 August 2003: 0.35p) per ordinary share.

PLACING AND NEW BORROWINGS

On 31 October 2003, KBC Peel Hunt placed, on behalf of the Company, 11,111,111 new ordinary shares at 45p raising £5 million before associated expenses.

On the same date, the Group entered into a credit agreement with National Westminster Bank Plc, which provides the Group with a 5 year committed overdraft facility of £4 million and a 7 year £4 million loan. The loan is repayable in equal 6 monthly instalments over its 7 year term.

The placing and new borrowing facilities provided funds for the acquisitions made in the year but also put in place funds for the continuing strategy of profitable growth both organically and through acquisitions.

ACQUISITIONS

On 31 October 2003, the Group purchased Veda, QED, Goldring and IMI, which together form the Armour Home Electronics Division. The consideration was £15.2 million, which includes £0.5 million of costs. £13.1 million was paid in cash, £0.6 million by way of new ordinary shares and £1.5 million is deferred and contingent upon the achievement of profit performance criteria in the 12 months following acquisition.

EQUITY SHAREHOLDERS' FUNDS

In accordance with UITF 38, the equity shareholders' funds of both the Group and Company have been restated to include the investment in own shares (see Note 1).

The Group's equity shareholders' funds have increased to £16.4 million (31 August 2003: £9.5 million). The retained profit was £1.5 million.

The Company has equity shareholders' funds of £11.9 million (31 August 2003: £8.8 million).

CASH FLOW

The Group delivered strong cash inflow from operating activities of £2.5 million (31 August 2003: £1.3 million).

Interest paid was £0.2 million (31 August 2003: £0.1 million received) and taxation payments were £0.8 million (31 August 2003: £0.2 million).

Investment in capital projects was £0.8 million (31 August 2003: £0.5 million). £11.4 million was spent on the acquisitions (net of cash acquired) and £8.6 million was raised through the placing and new borrowings.



Systemline
Modular's sleek
single source
remote control.

FINANCE DIRECTOR'S REVIEW CONTINUED

LIQUIDITY MANAGEMENT

The Group finances its operations through a mix of equity and borrowings. The Group's objective is to provide funding for future growth and achieve a balance between continuity and flexibility of funding. This has been achieved through a term loan and a committed overdraft facility. The Group may draw up to £4 million on the overdraft facility. If, from time to time, the Group has surplus funds, interest income is earned on a daily basis.

At 31 August 2004, the Group had drawn down the £4 million loan and made one instalment repayment of £0.3 million. In addition, the Group had surplus funds of £1.1 million.

TREASURY MANAGEMENT

The Group's treasury function is controlled centrally to ensure the availability and flexibility of funding in order to meet the Group's ongoing requirements. Foreign exchange exposures are generally managed directly by operating subsidiary undertakings within the guidelines and controls established by the Directors.

CURRENCY RISKS

The Group does not have significant investment in overseas operations and hence movements in exchange rates do not materially affect the Group's Balance Sheet. The Group seeks to mitigate the effects of foreign currency liabilities by holding cash in the same denomination. When appropriate, use is made of forward foreign exchange contracts.

INTEREST RATE RISK

The Group's borrowings are denominated in sterling. The Group's objective is to manage the degree of interest hedging such that exposure to interest rate fluctuations are balanced against cost and flexibility of funding.

Borrowings under the term loan have been fixed through a hedging agreement, which extends to November 2005. Borrowings under the committed overdraft facility are not hedged and are subject to base rate movements.

JOHN HARRIS

Finance Director
26 October 2004

CORPORATE GOVERNANCE STATEMENT

The Company is committed to good standards of corporate governance and as such has voluntarily complied with the The Combined Code as appended to the Listing Rules of the Financial Services Authority ("Combined Code") as far as practicable. The Company has complied with the Combined Code as described below.

THE BOARD AND ITS COMMITTEES

The Board comprises two non-executive Directors, one of whom is the Chairman and senior non-executive Director, and two executive Directors. In selecting Directors, the Company looks for individuals who provide business experience, strong personal skills and independence of thought and perspective.

The Board meets regularly throughout the year. A formal schedule of matters is reserved for its consideration, which is updated as and when new situations require. Key activities of the business are reviewed and the Board receives full supporting papers to enable it to do so effectively. The Company Secretary is responsible to the Board and is available to individual Directors in respect of Board procedures. Directors may take independent professional advice on any matter relating to the Company at the Company's expense.

Day-to-day decisions and policies are delegated to the executive Directors. The Board also delegates specific responsibilities to committees made up from Board members.

The Nominations Committee meets as and when required to consider candidates for appointment as Directors. All Directors are required to submit themselves for re-election on the third anniversary of their last appointment. All of the Directors are members of the Nominations Committee of which Bob Morton is the Chairman.

The Remuneration Committee is responsible for ensuring the remuneration packages of the executive Directors are appropriate to attract, motivate and retain high calibre individuals. The Remuneration Report on pages 22 to 25 contains more detailed information on the Directors' remuneration. The members of the Remuneration Committee are the two non-executive Directors, Bob Morton, who is the Chairman, and Steve Bodger.

The Audit Committee's terms of reference include the duties set out in the Combined Code. The Committee monitors the effectiveness of the internal controls and reviews the interim and annual financial statements before submission to the Board. It also advises the Board on the appointment of external auditors, monitors their independence, reviews their fees and discusses the nature, scope and results of the audit with the external auditors. This Committee meets at least twice a year and reports to the Board.

The Company's Auditors attend the Audit Committee meetings. The members of the Audit Committee are the two non-executive Directors, Bob Morton, who is the Chairman, and Steve Bodger, although the executive Directors are invited to attend parts of the Audit Committee meetings.

RELATIONS WITH SHAREHOLDERS

The Company maintains communication with institutional shareholders through individual meetings with senior management. Private shareholders are encouraged to attend the Annual General Meeting at which the Group's activities are considered and questions answered.

CORPORATE GOVERNANCE STATEMENT CONTINUED

COMPLIANCE WITH THE COMBINED CODE

Throughout the year ended 31 August 2004, the Company has been in compliance with the provisions set out in Section 1 of the Combined Code except for:

- A.6.1 Non-executive appointments are not restricted to specified terms other than by the requirement for re-election every three years.
- C.2.4 The Combined Code recommends a notice period of twenty working days for the Annual General Meeting. The requirement to hold the Annual General Meeting in this calendar year means that, in accordance with the Companies Act 1985, twenty one days notice has been given for the Annual General Meeting on 8 December 2004.
- D.3.1 The Combined Code recommends that the Audit Committee comprises three non-executive Directors. The Group's Audit Committee comprises two.

A revised Combined Code was issued in 2003, which is effective for reporting years beginning on or after 1 November 2003. The Company is reviewing its corporate governance procedures in the light of the new code and the related guidance and best practice suggestions including those from the Smith and Higgs reports, which were also issued in 2003.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control. It should be recognised that any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board confirms that it has carried out a review of the effectiveness of the Group's internal controls as operated during the year.

Processes to assess and manage the risks to success faced by the businesses are reviewed and improved as necessary. The objective is to enable the businesses to achieve their objectives without being hindered by circumstances that could have been reasonably foreseen whilst, at the same time, not adversely constricting the businesses with unnecessary bureaucracy. The principal elements of the system, which are designed to recognise the specific requirements of the Group, include:

- An organisational structure with defined levels of responsibility and delegation of authority, which is subject to the overall Group control procedures;
- Review of the risks faced by the businesses;
- A comprehensive budgeting system producing detailed profit and loss account, balance sheet and cash flows which are approved by the Board;
- Monthly reporting of results that are compared to budget and revised forecasts;
- Central control over key areas such as capital expenditure authorisation, insurance and banking facilities;
- Regular meetings with the managing directors of the Group's operating subsidiaries to review the current and forecast performance of each business;
- Annual completion by operating divisions of a self-certification internal control questionnaire, which confirms that appropriate controls are in place. Where potential weaknesses are identified, appropriate action is taken.

The Group continues to review its system of internal control to ensure compliance with best practice, as set out in Internal Control: Guidance for Directors on The Combined Code, whilst also having regard to its size and the resources available. In this context, the Board has concluded that the introduction of an internal audit function is not appropriate at this juncture.

CORPORATE GOVERNANCE STATEMENT CONTINUED

GOING CONCERN AND CURRENT LIQUIDITY

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The financial statements are published on www.armourgroup.uk.com. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 August 2004.

The Directors have not been advised of any other substantial interest in the share capital of the Company.

RESULTS AND DIVIDENDS

Group profit on ordinary activities before taxation amounted to £2.9 million (31 August 2003: £1.4 million). The Consolidated Profit and Loss Account for the Group is shown on page 27.

SHARE OPTION SCHEMES

No grants of options (31 August 2003: Nil) were made under the Company's 1995 Executive Share Option Scheme.

The Directors recommend a dividend for the year of 0.45p (31 August 2003: 0.35p) per ordinary share. The dividend is payable on 7 January 2005 to shareholders on the register on 10 December 2004.

Options over 73,241 ordinary shares at 71p per ordinary share (31 August 2003: 550,000 ordinary shares at 34.5p per ordinary share) were granted under the Company's 1999 Unapproved Executive Share Option Scheme.

PRINCIPAL ACTIVITIES

Armour Group plc is the holding company of the UK's leading consumer electronics group focused on the in-car communications and entertainment and home entertainment markets.

Options over 174,421 ordinary shares at 33p per ordinary share and options over 404,116 ordinary shares at 66p per ordinary share (31 August 2003: 305,100 ordinary shares at 14p per ordinary share) were granted under the Company's 1998 Share Save Scheme. 30,190 were granted to executive Directors.

This Annual Report should be read in conjunction with the Chairman's Statement, Chief Executive's Review and Finance Director's Review, which contain details of the Group's trading for the year ended 31 August 2004, future developments and post balance sheet events.

Options over 605,000 ordinary shares at 65.5p per ordinary share (31 August 2003: 1,700,000 ordinary shares at 20p per ordinary share and 610,000 ordinary shares at 34.5p per ordinary share) were granted under the Enterprise Management Incentive Share Option Plan.

DONATIONS

The Group made no charitable or political donations in either the current or preceding year.

Options over 126,759 ordinary shares at 71p per ordinary share (31 August 2003: Nil) were granted under the Company's 1999 Approved Executive Share Option Plan.

SUBSTANTIAL INTERESTS

The names of the shareholders which, as at 22 October 2004, have notified the Company that they are interested in 3% or more of the ordinary shares in issue, as entered in the register maintained under Section 211 of the Companies Act 1985, are as follows:

800,000 options (31 August 2003: Nil) were exercised during the year ended 31 August 2004.

	%
Southwind Limited	16.3
Universities Superannuation Scheme Limited	4.0
Montanaro New Millennium Fund	3.8
Fleming Mercantile Investment Trust Ltd.	3.3

DIRECTORS

The names of the current Directors and the Company Secretary, along with their brief biographical details, are given on page 3.

No Director has any beneficial interest in the share capital of any subsidiary undertaking. Their interests in the ordinary shares of the Company are as disclosed in the Remuneration Report.

DIRECTORS' REPORT CONTINUED

AUDITORS

On 31 December 2003, BDO Stoy Hayward, the Group's Auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Partnerships Act 2000. Accordingly BDO Stoy Hayward resigned as Auditors on that date and the Directors appointed BDO Stoy Hayward LLP as its successor.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 8 December 2004.

The ordinary business comprises receipt of the Directors' Report and audited financial statements for the year ended 31 August 2004; the re-appointment of BDO Stoy Hayward LLP as Auditors and authorisation of the Directors to determine the Auditors' remuneration; the re-appointment of a Director; the declaration of a dividend and the authorisation of the Directors to allot ordinary shares up to a maximum nominal amount of £4,000,000 (equivalent to 75% of the Company's issued share capital) during the period expiring on 7 December 2009, when the authority will lapse. Resolutions 1 to 5 deal with these matters.

The special business comprises increasing the authorised share capital of the Company to £10,000,000; the disapplication of Section 89 of the Companies Act 1985 and the authority for the Company to purchase its own ordinary shares. Resolutions 6 to 8 deal with these matters.

The Notice of Annual General Meeting and the ordinary and special resolutions to be put to the Meeting are included at the end of this Annual Report and financial statements.

The Combined Code recommends a notice period of twenty working days for the annual general meeting. The requirement to hold the Annual General Meeting in this calendar year means that, in accordance with the Companies Act 1985, twenty one days notice has been given for the Annual General Meeting on 8 December 2004.

EMPLOYEES

The Group's policy is to encourage effective communication and consultation between employees and management. Subsidiary undertakings develop their own consultative and communication procedures as part of their operating practices.

The Company and its subsidiary undertakings give full consideration to applications for employment made by disabled people, having regard to their aptitudes and abilities. Should employees become disabled during employment, they would be considered for any necessary retraining and available work within their capabilities. For the purposes of training, career development and promotion, disabled employees are treated in the same way as other employees.

ENVIRONMENTAL POLICY

The Group consults professional experts on environmental matters as part of pre-acquisition enquiries for new businesses and takes appropriate action on the advice received. The Group is committed to maintaining a responsible attitude to environmental management in all areas of its business.

CREDITOR PAYMENT POLICY

The Group does not follow any code or standard on payment practice. However, its policy is for Group subsidiary undertakings to agree terms and conditions for their business transactions with all suppliers. Payment is normally made on these terms, subject to the terms and conditions being met by the suppliers. The Company has no amounts included within trade creditors.

By order of the Board

JOHN HARRIS

Company Secretary
26 October 2004

REMUNERATION REPORT

SCOPE OF REPORT

The Remuneration Report sets out the Company's remuneration policy and, particularly, its approach for Directors. It also explains how the Company applies the principles of good corporate governance in relation to Directors' remuneration. This Report has been prepared by the Remuneration Committee and has been approved by the Board.

COMPOSITION AND ROLE

The Remuneration Committee's members are Bob Morton, who is the Chairman, and Steve Bodger. The Committee is responsible for reviewing all senior executive appointments and determining the Group's policy in respect of the terms of employment, including remuneration packages of executive Directors and for monitoring senior management development programmes. The constitution and operation of the Committee are in compliance with the principles, which are incorporated in Section A of the best practice provisions attached to The Financial Services Authority Listing Rules ("Listing Rules"). The Committee has given full consideration to the best practice provisions set out in the Combined Code in determining the remuneration packages for executive Directors.

REMUNERATION POLICY

The objective of the Group's remuneration policy is to attract, motivate and retain high quality individuals, who will contribute fully to the success of the Group. To secure this objective, the Group provides competitive salaries and benefits to all employees. Packages are established having regard to current market practice.

Executive Directors' remuneration is set to create an appropriate balance between basic salary and bonus potential and consists of the following elements:

- Basic salary
- Performance-related annual bonus
- Benefits
- Defined contribution pension payments
- Share options

SENIOR EXECUTIVES' BONUS AND BENEFITS

The executive Directors' bonus scheme is linked to the year-on-year growth in the Company's basic underlying earnings per share. Divisional performance-related bonus schemes are in place so that bonuses may be payable to senior executives provided their divisional results reach pre-set profit targets.

Senior executives' benefits typically, but not necessarily, include a car (or cash alternative) and insurance for life, disability and health care.

PENSION ARRANGEMENTS

The majority of senior executives are members of a defined contribution pension plan operated by the Group or, alternatively, have their own personal pension arrangements to which the Company contributes between 7% and 10% of pensionable salary.

NON-EXECUTIVE DIRECTORS

Non-executive Directors do not have formal service contracts with the Company but each has a letter of appointment. The appointment of the non-executive Directors may be terminated without notice from the Company and without payment of compensation. The fees payable to non-executive Directors are set by the Board.

REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

The executive Directors have service contracts with the Company which are not of fixed duration and which are terminable by either party giving 12 months' written notice.

ARMOUR EMPLOYEES' SHARE TRUST

The Armour Employees' Share Trust is a discretionary settlement, controlled and managed by an independent trustee company. It is empowered to purchase the Company's shares (up to a maximum of 5% of issued share capital) and subsequently make them available to employees, principally through the grant and exercise of rights under certain share option schemes operated by the Company. The Trust currently holds 966,000 ordinary shares but these have not yet been specifically allocated to employees under any scheme. The trustee is required to waive both voting rights and dividends payable on any share in the Company in excess of 0.001p, unless otherwise directed by the Company.

DIRECTORS' EMOLUMENTS

The following table summarises the total gross remuneration of the Directors, who served during the year ended 31 August 2004:

	Fees £000	Basic salary £000	Bonus £000	Benefits £000	Total emoluments excluding pensions		Pension contributions	
					31 August 2004 £000	31 August 2003 £000	31 August 2004 £000	31 August 2003 £000
Executive								
George Dexter	–	126	135	12	273	219	12	7
John Harris	–	95	100	11	206	175	10	6
Non-executive								
Bob Morton	35	–	–	–	35	30	–	–
Steve Bodger	23	–	–	–	23	20	–	–
Total 2004	58	221	235	23	537	–	22	–
Total 2003	50	186	186	22	–	444	–	13

Steve Bodger's fees are payable to Stratys Limited, a company in which Mr Bodger has an interest.

Benefits include all assessable taxation benefits arising from employment by the Company, which relate principally to a company car allowance.

The above figures represent emoluments earned as Directors during the relevant year. Such emoluments have been paid in the same period with the exception of bonuses, which are payable after the year end. The figures for pensions shown above are the contributions paid by the Company.

REMUNERATION REPORT CONTINUED

DIRECTORS' SHAREHOLDINGS

According to the register maintained under Section 325 of the Companies Act 1985, the Directors, who served during the year ended 31 August 2004 and who held an interest in the ordinary shares of the Company, were as follows:

	At 31 August 2004			At 1 September 2003		
	Ordinary shares of 10p each			Ordinary shares of 10p each		
	Non-beneficial	Beneficial	Options	Non-beneficial	Beneficial	Options
Bob Morton	8,760,152	400,000	–	8,760,152	400,000	–
George Dexter	–	267,604	1,684,590	–	240,604	2,379,000
John Harris	–	68,638	982,903	–	68,638	958,303
Steve Bodger	–	100,000	–	–	100,000	–

There have been no changes in the Directors' share interests from 1 September 2004 to 26 October 2004.

SHARE OPTIONS

The non-executive Directors are not entitled to participate in the Company's share option schemes.

1995 EXECUTIVE SHARE OPTION SCHEME

	Options at 31 August 2004	Exercised in the year	Options at 1 September 2003	Exercise price p	Exercise period
George Dexter	–	(700,000)	700,000	10.0	1 February 2002 – 1 February 2006
John Harris	75,000	–	75,000	10.0	1 February 2002 – 1 February 2006

At the date of exercise, the market value of ordinary shares in the Company was 84.5p, which represents a profit of £521,500.

1999 UNAPPROVED EXECUTIVE SHARE OPTION SCHEME

	Options at 31 August 2004	Granted in the year	Options at 1 September 2003	Exercise price p	Exercise period
George Dexter	1,125,000	–	1,125,000	20.0	10 May 2002 – 9 May 2012
John Harris	175,000	–	175,000	20.0	10 May 2002 – 9 May 2012
	200,000	–	200,000	34.5	24 July 2004 – 23 July 2013

REMUNERATION REPORT CONTINUED

SHARE OPTIONS CONTINUED

1998 SHARE SAVE SCHEME

	Options at 31 August 2004	Granted in the year	Options at 1 September 2003	Exercise price p	Exercise period
George Dexter	54,000	–	54,000	14.0	1 December 2005 – 31 May 2006
	5,590	5,590	–	33.0	1 December 2006 – 31 May 2007
John Harris	8,303	–	8,303	14.0	1 September 2004 – 28 February 2005
	24,600	24,600	–	33.0	1 December 2006 – 31 May 2007

ENTERPRISE MANAGEMENT INCENTIVE SHARE OPTION PLAN

	Options at 31 August 2004	Granted in the year	Options at 1 September 2003	Exercise price p	Exercise period
George Dexter	500,000	–	500,000	20.0	21 January 2004 – 20 January 2013
John Harris	500,000	–	500,000	20.0	21 January 2004 – 20 January 2013

The high-low market price of ordinary shares in the Company during the year was 90.5p – 40.0p and the market price of the ordinary shares at 31 August 2004 was 70.0p (31 August 2003: 45.5p).

The details of these share option schemes are set out in Note 21.

By order of the Board

JOHN HARRIS

Company Secretary

26 October 2004

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARMOUR GROUP PLC

We have audited the financial statements of Armour Group plc for the year ended 31 August 2004 on pages 27 to 51, which have been prepared under the accounting policies set out on pages 31 to 33.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Financial Highlights, Chairman's Statement, Chief Executive's Review, Finance Director's Review, Corporate Governance Statement, Directors' Report and Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and Company at 31 August 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO STOY HAYWARD LLP

Chartered Accountants
Registered Auditors
Bromley
26 October 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 AUGUST 2004

		31 August 2004		31 August 2003	
	Note	Excluding amortisation of goodwill £000	Amortisation of goodwill £000	Total £000	Total £000
Turnover	2, 3				
Continuing operations		18,736	–	18,736	16,075
Acquisitions		12,377	–	12,377	–
		31,113	–	31,113	16,075
Operating profit	2, 3				
Continuing operations		2,266	(133)	2,133	1,236
Acquisitions		1,411	(466)	945	–
		3,677	(599)	3,078	1,236
Amounts written back to investments					
Continuing operations				–	24
Profit on ordinary activities before interest				3,078	1,260
Net interest	7			(200)	141
Profit on ordinary activities before taxation				2,878	1,401
Taxation on profit on ordinary activities	8			(1,131)	(406)
Profit on ordinary activities after taxation				1,747	995
Dividend	9			(237)	(138)
Profit for the year retained	22			1,510	857
Earnings per ordinary share	10				
Basic				3.5p	2.5p
Basic – underlying				4.7p	2.7p
Diluted				3.3p	2.5p
Diluted – underlying				4.4p	2.7p

The Notes on pages 31 to 51 form part of these financial statements.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 AUGUST 2004

	31 August 2004	31 August 2003
	£000	£000
Profit for the year	1,747	995
Currency translation differences on foreign currency net investments	(7)	(1)
Total recognised gains and losses relating to the year	1,740	994

CONSOLIDATED STATEMENT OF HISTORICAL COST PROFITS AND LOSSES

FOR THE YEAR ENDED 31 AUGUST 2004

There is no material difference between the results stated in the Profit and Loss Account and those on an unmodified historical cost basis.

The Notes on pages 31 to 51 form part of these financial statements.

BALANCE SHEETS

AT 31 AUGUST 2004

	Note	Group		Company	
		31 August 2004 £000	Restated * 31 August 2003 £000	31 August 2004 £000	Restated * 31 August 2003 £000
Fixed assets					
Intangible assets	11	13,068	2,846	–	–
Tangible assets	13	1,765	882	9	9
Investments	14	–	–	1,794	4,794
		14,833	3,728	1,803	4,803
Current assets					
Stocks	15	5,904	2,767	–	–
Debtors	16	7,207	3,956	18,255	3,199
Cash at bank and in hand		1,081	3,407	–	1,903
		14,192	10,130	18,255	5,102
Creditors: Amounts falling due within one year					
Creditors	17	(8,961)	(4,354)	(1,266)	(815)
Borrowings	18	(599)	(54)	(3,881)	(263)
		(9,560)	(4,408)	(5,147)	(1,078)
Net current assets		4,632	5,722	13,108	4,024
Total assets less current liabilities		19,465	9,450	14,911	8,827
Creditors: Amounts falling due after more than one year					
Borrowings	18	(3,048)	–	(3,048)	–
Net assets		16,417	9,450	11,863	8,827
Capital and reserves					
Called up share capital	21	5,341	4,044	5,341	4,044
Share premium account	22	3,723	–	3,723	–
Other reserves	22	444	–	–	–
Profit and Loss Account	22	7,109	5,606	2,999	4,983
Share trust reserve	22	(200)	(200)	(200)	(200)
Equity shareholders' funds	23	16,417	9,450	11,863	8,827

* See Note 1

These financial statements were approved by the Board on 26 October 2004 and were signed on its behalf by:

GEORGE DEXTER
Director

JOHN HARRIS
Director

The Notes on pages 31 to 51 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2004

	Note	31 August 2004		31 August 2003	
		£000	£000	£000	£000
Net cash inflow from operating activities	24(a)		2,462		1,271
Returns on investments and servicing of finance					
Interest received		54		144	
Interest paid		(156)		–	
Bank loan arrangement costs		(135)		–	
Interest element of finance lease rentals		(9)		(3)	
Net cash (outflow)/inflow from returns on investments and servicing of finance			(246)		141
Corporate taxation paid			(843)		(225)
Capital expenditure and financial investment					
Payments to acquire tangible assets		(854)		(505)	
Sale of tangible assets		76		27	
Net cash outflow from capital expenditure and financial investment			(778)		(478)
Acquisitions and disposals					
Purchase of subsidiary undertakings		(13,177)		(1,839)	
Net cash/(overdraft) acquired with subsidiary undertakings		1,812		(291)	
Net cash outflow from acquisitions and disposals			(11,365)		(2,130)
Dividend paid			(138)		(100)
Net cash outflow before financing			(10,908)		(1,521)
Financing					
Issue of ordinary share capital		4,914		–	
New bank loans		4,000		–	
Repayment of bank loans		(286)		–	
Capital element of finance lease rental repayments		(40)		(22)	
Net cash inflow/(outflow) from financing			8,588		(22)
Net cash outflow after financing, being the decrease in cash in the year	24(c)		(2,320)		(1,543)

The Notes on pages 31 to 51 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

CHANGE IN ACCOUNTING POLICY

Previously, in accordance with UITF 13, the ordinary shares of the Company held by the Armour Employees' Share Trust have been shown as fixed asset investments. In accordance with UITF 38, issued on 15 December 2003, this investment in own shares has been transferred to equity shareholders' funds. The comparative figures have been restated to reflect this change. The effect on the Group and Company Balance Sheets at 31 August 2003 is to decrease equity shareholders' funds by £200,000.

BASIS OF PREPARATION

The Group's financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

CONSOLIDATION

The Group's financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings. The financial statements are made up for the year ended 31 August 2004. The comparative figures are for the year ended 31 August 2003.

The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the Consolidated Profit and Loss Account from the date of acquisition or up to the date of disposal.

A separate profit and loss account for the Company has not been presented as permitted by Section 230 of the Companies Act 1985. The loss for the year before dividends of the Company amounts to £1,747,000 (31 August 2003: Loss of £178,000).

GOODWILL

Goodwill arising on consolidation in respect of acquisitions before 1 May 1998, when FRS 10: Goodwill and Intangible Assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs, any related goodwill previously written off to reserves is written back through the Profit and Loss Account as part of the profit or loss on disposal.

Goodwill (representing the excess of the fair value of the consideration and associated costs given over the fair value of the identifiable net assets acquired) arising on consolidation in respect of acquisitions since 1 May 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life of 20 years.

On the subsequent disposal or termination of a business acquired since 1 May 1998, the profit or loss on either disposal or termination is calculated after charging the unamortised amount of any related goodwill.

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any impairment in value.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

DEFERRED TAXATION

Deferred taxation balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that recognition of deferred taxation assets is limited to the extent that the Group anticipates making taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred taxation balances are not discounted.

DEPRECIATION

Depreciation of tangible fixed assets is provided on a straight line basis so as to write them down to their residual values over their expected useful lives. The annual depreciation rates used are:

	%
Plant and fixtures and fittings	10-33
Motor vehicles	20-25

LEASES

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. The interest element of finance lease payments is charged to the Profit and Loss Account over the term of the lease. Operating lease rentals are charged to the Profit and Loss Account in the year to which they relate.

STOCKS

These have been valued at the lower of cost and net realisable value. Cost includes all direct expenditure to bring items to their condition and location at the accounting date, together with, in the case of goods manufactured by the Group, an appropriate proportion of production overhead expenditure attributable thereto.

TURNOVER

Turnover represents the invoiced value of goods sold and the value of services provided (based on the percentage of completion) to third party customers. Turnover excludes value added tax.

FOREIGN CURRENCIES

The financial statements of overseas subsidiary undertakings are translated into sterling at the rates of exchange ruling at the year end. Gains or losses arising on the translation of the opening net assets of overseas subsidiary undertakings are taken to reserves.

Transactions denominated in foreign currencies are translated into sterling at the exchange rate in operation on the date of the transaction or at the rate fixed under the terms of the transaction. Monetary assets and liabilities originally denominated in foreign currencies are translated into sterling at the exchange rate in operation at the balance sheet date or at the rate fixed under the terms of the transaction. Exchange gains and losses are reported as part of the profit on ordinary activities.

PENSION COSTS

Pension costs associated with defined contribution schemes represent contributions payable by the Company and its subsidiary undertakings.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

LOAN ARRANGEMENT COSTS

Loan arrangement costs are charged to the Profit and Loss Account over the term of the loan so that the amount charged is at a constant rate on the carrying amount. These costs are initially recognised as a reduction in the proceeds of the associated loan.

FINANCIAL INSTRUMENTS

In relation to disclosures made in Note 19, short-term debtors and creditors are not treated as financial assets or financial liabilities except for foreign currency disclosures. The Group does not hold or issue derivative financial instruments for trading purposes.

2 ANALYSIS OF OPERATING PROFIT

The acquisitions during the year were that of Veda, Goldring, QED and IMI as shown in Note 20. There were no discontinued operations during either the current or previous year.

	31 August 2004		31 August 2003	
	Continuing £000	Acquisitions £000	Total £000	Total £000
Turnover	18,736	12,377	31,113	16,075
Operating expenses				
Changes in stocks of finished goods and work in progress	1,106	219	1,325	(68)
Raw materials and consumables	(9,871)	(6,157)	(16,028)	(8,272)
Staff costs (Note 4)	(4,322)	(2,745)	(7,067)	(3,440)
Depreciation of tangible fixed assets	(438)	(192)	(630)	(281)
Amortisation of goodwill	(133)	(466)	(599)	(113)
Other operating charges	(2,945)	(2,091)	(5,036)	(2,665)
	(16,603)	(11,432)	(28,035)	(14,839)
Operating profit	2,133	945	3,078	1,236

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 SEGMENTAL INFORMATION

(A) TURNOVER, OPERATING PROFIT AND OPERATING ASSETS BY CLASS OF BUSINESS

	31 August 2004			31 August 2003		
	Turnover £000	Operating profit £000	Operating assets £000	Turnover £000	Operating profit £000	Operating assets £000
Armour Automotive						
Continuing operations	18,736	3,418	6,062	16,075	2,322	4,051
Armour Home Electronics						
Acquisitions	12,377	1,411	2,241	–	–	–
Central operations	–	(1,152)	(2,388)	–	(973)	(800)
Amortisation and goodwill						
Armour Automotive	–	(133)	2,369	–	(113)	2,846
Armour Home Electronics	–	(466)	10,699	–	–	–
	31,113	3,078	18,983	16,075	1,236	6,097
Amounts written back to investments		–	–		24	–
Net interest and net (debt)/funds		(200)	(2,566)		141	3,353
Profit on ordinary activities before taxation		2,878	–		1,401	–
Net assets			16,417			9,450

(B) TURNOVER BY DESTINATION

	31 August 2004 £000	31 August 2003 £000
United Kingdom	24,176	11,960
Rest of Europe	5,959	3,907
Rest of world	978	208
	31,113	16,075

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(c) TURNOVER, OPERATING PROFIT AND OPERATING ASSETS BY COUNTRY OF OPERATION

	31 August 2004			31 August 2003		
	Turnover £000	Operating profit £000	Operating assets £000	Turnover £000	Operating profit £000	Operating assets £000
United Kingdom						
Continuing operations	18,331	2,204	3,457	15,628	1,255	3,061
Acquisitions	12,377	1,411	2,241	–	–	–
Amortisation and goodwill	–	(599)	13,068	–	(113)	2,846
	30,708	3,016	18,766	15,628	1,142	5,907
Rest of Europe						
Continuing operations	763	62	217	750	94	190
Inter-area eliminations	(358)	–	–	(303)	–	–
	31,113	3,078	18,983	16,075	1,236	6,097
Amounts written back to investments		–	–		24	–
Net interest and net (debt)/funds		(200)	(2,566)		141	3,353
Profit on ordinary activities before taxation		2,878	–		1,401	–
Net assets			16,417			9,450

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 STAFF NUMBERS AND COSTS

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	31 August 2004	31 August 2003
Manufacturing	130	97
Selling and distribution	80	47
Administration	72	34
	282	178

The aggregate payroll costs of these persons were as follows:

	31 August 2004	31 August 2003
	£000	£000
Wages and salaries	6,137	3,083
Social security costs	669	298
Other pension costs	147	48
Ordinary staff costs	6,953	3,429
Redundancy costs	114	11
	7,067	3,440

5 DIRECTORS' EMOLUMENTS

	31 August 2004	31 August 2003
	£000	£000
Emoluments	537	444
Company contributions to money purchase pension schemes	22	13
	559	457

The gain on options exercised during the year, comparing exercise price to market price on the day of exercise, was £521,500 as shown in the Remuneration Report on page 24.

Emoluments of the highest paid director amounted to £273,000 (31 August 2003: £219,000) and Company contributions to the defined contribution pension scheme amounted to £12,000 (31 August 2003: £7,000).

No Director at any time during the year had a material interest in any contract, other than service contracts, with the Company or any of its subsidiary undertakings. Detailed information relating to Directors' remuneration and share options are included in the Remuneration Report on pages 22 to 25.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 OPERATING PROFIT

	31 August 2004	31 August 2003
	£000	£000
Operating profit is stated after charging		
Depreciation		
Owned assets	619	272
Held under finance leases and hire purchase contracts	11	9
Auditors' remuneration:		
Audit fees – Company: £21,500 (2003: £26,000)	89	52
Non-audit fees – Company: £4,600 (2003: £12,000)	15	22
Amortisation of goodwill	599	113
Operating lease rentals:		
Hire of plant and machinery	18	12
Other	529	253

The non-audit fees for the year ended 31 August 2004 relate to taxation advice. In addition, fees of £81,000 were paid to the Auditors in relation to advice given on the acquisition of Veda, QED, Goldring and IMI, which have been included in acquisition costs.

7 NET INTEREST

	31 August 2004	31 August 2003
	£000	£000
Receivable	58	144
Bank loans and overdraft	(226)	–
Bank loan arrangement costs expensed	(23)	–
Finance leases	(9)	(3)
	(200)	141

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	31 August 2004 £000	31 August 2003 £000
UK Corporation Tax at 30% (2003: 30%)	(1,233)	(427)
Adjustment in respect of prior years	–	(13)
Overseas taxation	(14)	(20)
Current taxation	(1,247)	(460)
Deferred taxation – current year	121	54
Deferred taxation – prior year	(5)	–
	(1,131)	(406)

The UK taxation assessed for the year is higher than the standard rate of UK Corporation Tax. The differences are explained below:

	31 August 2004 £000	31 August 2003 £000
Profit on ordinary activities before taxation	2,878	1,401
Profit on ordinary activities multiplied by the standard rate of UK Corporation Tax of 30%	(863)	(420)
Effects of:		
Disallowed amortisation of goodwill	(180)	(34)
Expenses not deductible for taxation purposes	(25)	(7)
Depreciation in excess of capital allowances	(30)	(4)
Other timing differences	(154)	8
Lower tax rates on overseas profit	5	10
Adjustment in respect of prior years	–	(13)
Current UK Corporation Tax charge for the year	(1,247)	(460)

The deferred taxation asset/(liability) is as follows:

	Group		Company	
	31 August 2004 £000	31 August 2003 £000	31 August 2004 £000	31 August 2003 £000
Accelerated capital allowances	20	28	3	2
Short-term timing differences	155	59	53	6
	175	87	56	8
At 1 September 2003	87	56	8	–
Acquisition of subsidiary undertakings	(28)	(23)	–	–
Movement in the year	116	54	48	8
At 31 August 2004	175	87	56	8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9 DIVIDEND

	31 August 2004	31 August 2003
	£000	£000
Proposed dividend for the year of 0.45p (2003: 0.35p) per ordinary share	(237)	(138)

The Armour Employees' Share Trust has waived its right to a dividend in excess of 0.001p per ordinary share for the 966,000 ordinary shares that it holds.

10 EARNINGS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing the profit for the year of £1,747,000 (31 August 2003: £995,000) by the weighted average number of ordinary shares in issue during the year of 49,934,924 (31 August 2003: 39,477,042).

Underlying earnings per share is also shown calculated by reference to earnings before the amortisation of goodwill and amounts written back to investments. The Directors consider that this gives a useful additional indication of underlying performance.

Diluted earnings per share is calculated with reference to 53,569,068 (31 August 2003: 40,406,857) ordinary shares. The effect of exercise of options on the weighted average number of shares in issue is 3,634,144 (31 August 2003: 929,815).

	31 August 2004			31 August 2003		
	£000	Basic p	Diluted p	£000	Basic p	Diluted p
Profit for the year	1,747	3.5	3.3	995	2.5	2.5
Amortisation of goodwill	599	1.2	1.1	113	0.3	0.3
Amounts written back to investments	–	–	–	(24)	(0.1)	(0.1)
Underlying earnings	2,346	4.7	4.4	1,084	2.7	2.7

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 INTANGIBLE FIXED ASSETS – GOODWILL

Group	Cost £000	Amortisation £000	Net book value £000
At 1 September 2003	3,179	(333)	2,846
Additions	11,165	–	11,165
Adjustment	(344)	–	(344)
Amortisation for the year	–	(599)	(599)
At 31 August 2004	14,000	(932)	13,068

The adjustment relates to the consideration paid for CTI, which was acquired by the Group in March 2003. The deferred consideration of £332,000, which was subject to the value of sales achieved by CTI in the 12 months immediately after acquisition, was not payable. A further £12,000 of the original consideration was recovered under the terms of the sale and purchase agreement.

12 SUBSIDIARY UNDERTAKINGS

The Company's principal subsidiary undertakings, which are all wholly owned through subsidiary undertakings, are as follows:

	Class of share capital	Country of incorporation
Armour Automotive		
Autoleads Limited	Ordinary	Great Britain
Autoleads (Sweden) AB	Ordinary	Sweden
Continental Technologies and Investments Limited	Ordinary	Great Britain
Armour Home Electronics		
Veda Products Limited	Ordinary	Great Britain
QED Audio Products Limited	Ordinary	Great Britain
Goldring Products Limited	Ordinary	Great Britain
Integrated Media Installations Limited	Ordinary	Great Britain

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 TANGIBLE ASSETS

	Motor vehicles £000	Group Plant and fixtures and fittings £000	Total £000	Company Plant and fixtures and fittings £000	Total £000
Cost					
At 1 September 2003	306	2,050	2,356	71	71
Additions	251	603	854	8	8
Acquisition of subsidiary undertakings	295	1,160	1,455	–	–
Disposals	(223)	(304)	(527)	–	–
At 31 August 2004	629	3,509	4,138	79	79
Depreciation					
At 1 September 2003	195	1,279	1,474	62	62
Charge for the year	146	484	630	8	8
Acquisition of subsidiary undertakings	130	595	725	–	–
Disposals	(163)	(293)	(456)	–	–
At 31 August 2004	308	2,065	2,373	70	70
Net book value					
At 31 August 2004	321	1,444	1,765	9	9
At 1 September 2003	111	771	882	9	9

Included in motor vehicles are assets held under finance leases with a net book value of £21,000 (31 August 2003: £Nil). Included in plant and fixtures and fittings are assets held under finance leases with a net book value of £42,000 (31 August 2003: £62,000).

14 FIXED ASSET INVESTMENTS

Company	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost			
At 1 September 2003	1,976	4,794	6,770
Loan forgiven	–	(3,000)	(3,000)
At 31 August 2004	1,976	1,794	3,770
Provisions			
At 1 September 2003 and 31 August 2004	1,976	–	1,976
Net book value			
At 31 August 2004	–	1,794	1,794
At 1 September 2003	–	4,794	4,794

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 STOCKS

	Group	
	31 August 2004	31 August 2003
	£000	£000
Raw materials and consumables	1,177	467
Finished goods and goods for resale	4,727	2,300
	5,904	2,767

16 DEBTORS

	Group		Company	
	31 August 2004	31 August 2003	31 August 2004	31 August 2003
	£000	£000	£000	£000
Trade debtors	6,118	3,374	–	–
Amounts owed by subsidiary undertakings	–	–	18,178	3,169
Corporate taxation recoverable	5	5	–	–
Deferred taxation (Note 8)	175	87	56	8
Other debtors	607	336	1	2
Prepayments and accrued income	302	154	20	20
	7,207	3,956	18,255	3,199

All amounts are due for payment within one year.

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	31 August 2004	31 August 2003	31 August 2004	31 August 2003
	£000	£000	£000	£000
Trade creditors	3,184	1,567	–	–
Amounts owed to subsidiary undertakings	–	–	63	67
Corporate taxation	1,240	406	–	–
Other taxes and social security	248	184	47	66
Other creditors	191	68	70	8
Accruals and deferred income	2,361	1,659	849	536
Deferred acquisition payments	1,500	332	–	–
Dividend payable	237	138	237	138
	8,961	4,354	1,266	815

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18 BORROWINGS

	Group		Company	
	31 August 2004 £000	31 August 2003 £000	31 August 2004 £000	31 August 2003 £000
Short-term				
Bank loans	554	–	554	–
Overdrafts	–	–	3,327	263
Finance leases	45	54	–	–
	599	54	3,881	263
Long-term				
Bank loans	3,048	–	3,048	–
	3,048	–	3,048	–

Long-term borrowings are repayable in six monthly instalments. They are scheduled for repayment as follows:

	Group		Company	
	31 August 2004 £000	31 August 2003 £000	31 August 2004 £000	31 August 2003 £000
Between one and two years	554	–	554	–
Between two and five years	2,216	–	2,216	–
Over five years	278	–	278	–
	3,048	–	3,048	–

The loans are secured by a fixed and floating charge over the Group's assets.

19 FINANCIAL INSTRUMENTS

Details of the Group's treasury policy are set out in the Finance Director's Review on pages 15 and 16.

The Group's financial instruments comprise cash, bank borrowings, finance leases and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group had undrawn bank overdraft facilities of £4 million (31 August 2003: £Nil) and undrawn bank guarantee facilities of £300,000 (31 August 2003: £100,000). The overdraft facility is committed until 31 October 2008.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19 FINANCIAL INSTRUMENTS CONTINUED

(A) INTEREST RATE AND CURRENCY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group's floating rate financial assets of £1,081,000 (31 August 2003: £1,504,000) comprise cash held on current account and overnight deposit earning interest at variable rates depending upon the market at any point in time, and £Nil (31 August 2003: £1,903,000) on a floating rate deposit available on demand, but which earns a higher rate of interest if the Group operates with an effective notice period of one month.

At 31 August 2004, the Group had £3,714,000 (31 August 2003: £Nil) of bank loans, which were denominated in sterling. The interest rate at 31 August 2004 is estimated at 6.6% based on a fixed LIBOR rate of 5.1% plus the bank's margin and a mandatory cost charge.

To the extent that, from time to time, the Group utilises its overdraft facilities, interest is charged at an unhedged variable rate based upon bank base rates.

(B) CURRENCY EXPOSURE

The Group's currency exposure, i.e. those exposures arising from transactions, the net currency gains and losses of which will be recognised in the Profit and Loss Account, is shown below:

Functional currency of Group operations At 31 August 2004	Net foreign currency monetary assets/(liabilities)		
	US \$ £000	Euros £000	Total £000
Sterling	(28)	384	356

Functional currency of Group operations At 31 August 2003	Net foreign currency monetary assets/(liabilities)		
	US \$ £000	Euros £000	Total £000
Sterling	(597)	558	(39)

These exposures comprise the monetary assets of the Group, which are not denominated in the operating or "functional" currency of the operating unit involved.

(C) FAIR VALUES OF FINANCIAL INSTRUMENTS

Set out below is a year end comparison of the current and book value of all the Group's financial instruments by category. Where available, the market rates have been used to determine current values. Where market rates are not available, current values have been calculated by discounting cash flows at prevailing interest rates and exchange rates.

	31 August 2004		31 August 2003	
	Book value £000	Current value £000	Book value £000	Current value £000
Cash	1,081	1,081	3,407	3,407
Short-term debt	(599)	(599)	(54)	(54)
Long-term debt	(3,048)	(3,048)	-	-

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(D) HEDGES

As explained in the Finance Director's Review on pages 15 and 16, the Group's policy is to consider, and where appropriate, use hedges to manage interest rate risk and forward foreign currency contracts for foreign currency liabilities to manage currency risk.

The Group has taken out a hedge, up to 30 November 2005, against the LIBOR element of the interest charge payable on its bank loans. At 31 August 2004, this LIBOR element of the interest charge was fixed at 5.1% and continues to 30 November 2004.

At 31 August 2004, the Group had £2,100,000 outstanding forward foreign currency contracts (31 August 2003: £1,500,000). As a result, there are £26,000 of unrecognised losses (31 August 2003: £28,000 gains) in respect of these contracts at the year end. These are expected to be realised before 31 August 2005.

20 ACQUISITIONS

On 31 October 2003, the Group acquired the entire share capital of Veda, QED, Goldring and IMI. These four companies together form the Armour Home Electronics Division. The analysis of the fair value of the assets acquired is set out below:

	Fair value at acquisition £000
Fixed assets	730
Stocks	1,333
Debtors	1,931
Cash at bank and in hand	1,812
Creditors	(1,732)
	4,074
Cash consideration paid	12,624
Consideration paid in shares	550
Deferred consideration	1,500
Acquisition costs	565
	15,239
Fair value of the assets acquired	4,074
Goodwill on acquisition	11,165

There is no significant difference between the book values and fair values of the net assets at the date of acquisition.

The maximum deferred consideration is £1,500,000 and is payable in cash. It is subject to the value of gross profit achieved by the acquired companies in the 12 months immediately after acquisition and is due for payment after 31 October 2004 and after having followed the agreement procedures agreed with the vendors at acquisition.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 ACQUISITIONS CONTINUED

None of the companies forming the Armour Home Electronics division individually amount to a substantial acquisition. The following information, relating to the results of the Armour Home Electronics division prior to acquisition, has therefore been aggregated based upon the audited accounts of Veda (being the largest entity) at 30 September 2003 and the unaudited management accounts of each of the other companies.

	1 October to 31 October 2003 £000	Year ended 30 September 2003 £000
Turnover	1,432	14,039
Operating profit	335	2,009
Interest	(3)	25
Profit before taxation	332	2,034
Taxation	(100)	(571)
Profit after taxation and retained earnings	232	1,463

21 CALLED UP SHARE CAPITAL

	Ordinary shares of 10p each			
	Authorised		Allotted, called up and fully paid	
	Number	£000	Number	£000
At 1 September 2003	75,990,000	7,599	40,443,042	4,044
Shares placed during the year	–	–	11,111,111	1,111
Shares issued as consideration for acquisitions	–	–	1,057,692	106
Options exercised during the year	–	–	800,000	80
At 31 August 2004	75,990,000	7,599	53,411,845	5,341

At 31 August 2004, the following options were outstanding in respect of the ordinary shares:

1995 EXECUTIVE SHARE OPTION SCHEME

Date of grant	Number	Exercise price p	Exercise period
1 February 1999	92,500	10.0	1 February 2002 – 1 February 2006

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1999 UNAPPROVED EXECUTIVE SHARE OPTION SCHEME

Date of grant	Number	Exercise price p	Exercise period
10 May 2000	1,300,000	20.0	10 May 2002 – 9 May 2012
24 July 2003	550,000	34.5	24 July 2004 – 23 July 2013
7 February 2004	73,241	71.0	7 February 2006 – 6 February 2014
	1,923,241		

1999 APPROVED EXECUTIVE SHARE OPTION SCHEME

Date of grant	Number	Exercise price p	Exercise period
7 February 2004	126,759	71.0	7 February 2007 – 6 February 2014

ENTERPRISE MANAGEMENT INCENTIVE SHARE OPTION PLAN

Date of grant	Number	Exercise price p	Exercise period
5 December 2002	200,000	20.0	5 December 2003 – 4 December 2012
21 January 2003	1,500,000	20.0	21 January 2004 – 20 January 2013
24 July 2003	610,000	34.5	24 July 2004 – 23 July 2013
19 August 2004	605,000	65.5	19 August 2005 – 18 August 2014
	2,915,000		

The outstanding options above are subject to performance criteria relating to growth in earnings per ordinary share or growth in the average share price. These criteria were approved by the shareholders at the Annual General Meeting held on 3 December 2002.

1998 SHARE SAVE SCHEME

Date of grant	Number	Exercise price p	Exercise period
17 August 2001	197,127	14.0	1 September 2004 – 28 February 2005
24 October 2002	305,100	14.0	1 December 2005 – 31 May 2006
24 October 2003	174,421	33.0	1 December 2006 – 31 May 2007
16 April 2004	404,116	66.0	1 June 2007 – 30 November 2007
	1,080,764		

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22 RESERVES

Group	Other reserves £000	Share trust reserve £000	Share premium account £000	Profit and Loss Account £000
At 1 September 2003 as previously stated	–	–	–	5,606
Prior year adjustment (Note 1)	–	(200)	–	–
At 1 September 2003 as restated	–	(200)	–	5,606
New share capital subscribed (net of issue expenses)	444	–	3,723	–
Profit for the year retained	–	–	–	1,510
Exchange differences	–	–	–	(7)
At 31 August 2004	444	(200)	3,723	7,109

Company	Share trust reserve £000	Share premium account £000	Profit and Loss Account £000
At 1 September 2003	–	–	4,983
Prior year adjustment (Note 1)	(200)	–	–
At 1 September 2003 as restated	(200)	–	4,983
New share capital subscribed (net of issue expenses)	–	3,723	–
Loss for the year retained	–	–	(1,984)
At 31 August 2004	(200)	3,723	2,999

On 31 October 2003, the Group acquired, through an intermediate holding company, the entire share capital of Veda, QED, Goldring and IMI. The consideration, details of which are shown in Note 20, included the issue of 1,057,692 ordinary shares of 10p each in the Company. The fair value of this element of the consideration was £550,000. In accordance with Sections 131 and 133 of the Companies Act 1985, the Company has taken no account of any premium on the consideration shares issued. The cost of the investment includes the nominal value of the shares issued plus the fair value of the other consideration. The resulting difference arising on consolidation has been credited to other reserves.

The trustees of the Armour Employees' Share Trust, a discretionary settlement established for the benefit of the employees of the Company and Group subsidiary undertakings and which was approved at the Company's 1999 Annual General Meeting, hold 966,000 of the Company's ordinary shares. At 31 August 2004, the market value of the ordinary shares was £676,000 (31 August 2003: £440,000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23 RECONCILIATIONS OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Group		Company	
	31 August 2004 £000	31 August 2003 £000	31 August 2004 £000	31 August 2003 £000
Profit/(loss) for the year	1,747	995	(1,747)	(178)
Dividend	(237)	(138)	(237)	(138)
Profit/(loss) for the year retained	1,510	857	(1,984)	(316)
New share capital subscribed (net of issue expenses)	4,914	–	4,914	–
Ordinary shares issued as consideration for acquisitions	550	–	106	–
Currency translation differences on foreign currency investments	(7)	(1)	–	–
Net movement in equity shareholders' funds	6,967	856	3,036	(316)
Opening equity shareholders' funds	9,450	8,794	8,827	9,343
Prior year adjustment (Note 1)	–	(200)	–	(200)
Closing equity shareholders' funds	16,417	9,450	11,863	8,827

24 GROUP CASH FLOW STATEMENT

(A) RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES:

	31 August 2004 £000	31 August 2003 £000
Operating profit	3,078	1,236
Depreciation and other amounts written off tangible fixed assets	630	281
Amortisation of goodwill	599	113
Increase in stocks	(1,740)	(27)
Increase in debtors	(1,231)	(715)
Increase in creditors	1,131	388
Profit on disposal of tangible fixed assets	(5)	(5)
Net cash inflow from operating activities	2,462	1,271

(B) CASH FLOWS RELATING TO THE ACQUISITIONS:

	31 August 2004 £000
Cash flow from operating activities	1,884
Returns on investments and servicing of finance	1
Corporate taxation paid	(384)
Capital expenditure and financial investment	(404)
Financing	(10)
Net cash inflow from acquisitions	1,087

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(c) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT:

	31 August 2004 £000	31 August 2003 £000
Decrease in cash	(2,320)	(1,543)
New bank loans	(4,000)	–
Repayment of bank loans	286	–
Cash outflow from finance leases	40	22
Change in net debt resulting from cash flows	(5,994)	(1,521)
New finance leases	(31)	(76)
Bank loan arrangement costs	135	–
Bank loan arrangement costs expensed	(23)	–
Exchange adjustments	(6)	–
Movement in net debt in the year	(5,919)	(1,597)
Opening net funds	3,353	4,950
Closing net (debt)/funds	(2,566)	3,353

(d) ANALYSIS OF NET DEBT MOVEMENT:

	31 August 2003 £000	Cash flow £000	Other non-cash changes £000	Acquisitions £000	Exchange adjustments £000	31 August 2004 £000
Cash	3,407	(2,320)	–	–	(6)	1,081
Short-term debt	–	–	(554)	–	–	(554)
Long-term debt	–	(3,714)	666	–	–	(3,048)
Finance leases	(54)	40	–	(31)	–	(45)
	3,353	(5,994)	112	(31)	(6)	(2,566)

Bank loan arrangement costs of £135,000 were incurred during the year of which £112,000 had not been charged to the Consolidated Profit and Loss Account at 31 August 2004.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25 OPERATING LEASE OBLIGATIONS

Annual commitments under operating leases with expiry dates are as follows:

	Group		Company	
	31 August 2004	31 August 2003	31 August 2004	31 August 2003
	£000	£000	£000	£000
Land and buildings:				
Within one year	9	7	–	–
Second to fifth years inclusive	206	127	–	–
More than five years	532	155	40	40
	747	289	40	40
Other:				
Within one year	25	3	3	3
Second to fifth years inclusive	36	6	–	–
More than five years	7	–	–	–
	68	9	3	3
	815	298	43	43

26 GUARANTEES, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The Company has guaranteed certain overdrafts, loans and credit facilities of its subsidiary undertakings. At 31 August 2004, the Company had contingent liabilities under these guarantees of £115,000 (31 August 2003: £Nil).

The Group's subsidiary undertakings have contingent liabilities in respect of outstanding documentary credits amounting to £1,457,000 at 31 August 2004 (31 August 2003: £676,000).

At 31 August 2004, the Group had £24,000 capital commitments (31 August 2003: £Nil). At the same date, the Company had £Nil capital commitments (31 August 2003: £Nil).

27 PENSIONS

The Group operates a defined contribution pension scheme whereby the Company and certain subsidiary undertakings contribute to employees' personal pension plans.

28 POST BALANCE SHEET EVENTS

On 23 September 2004, the Group announced the acquisition of The Hi-End Limited for a consideration of £1.75 million satisfied by £1.6 million in cash and £0.15 million in cash but deferred for three months subject to confirmation of the net asset position at completion.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Armour Group plc will be held at the offices of Arnold & Porter (UK) LLP, Tower 42, 25 Old Broad Street, London EC2N 1HQ on 8 December 2004 at 12.00 noon for the following purposes:

ORDINARY BUSINESS

- 1 To receive and consider the Annual Report and audited financial statements for the year ended 31 August 2004, the Directors' Report and the Auditors' Report on those financial statements.
- 2 To re-appoint BDO Stoy Hayward LLP as Auditors to hold office from the conclusion of this Meeting until the conclusion of the next general meeting of the Company at which financial statements are laid and to authorise the Directors to determine their remuneration.
- 3 To re-appoint George Dexter as a Director.
- 4 To declare a dividend of 0.45p per ordinary share.
- 5 That in substitution for all existing authorities, and subject to the passing of Resolution 6, the Directors be and are hereby generally and unconditionally authorised, pursuant to and in accordance with Section 80 of the Companies Act 1985 ("Act") to exercise all powers of the Company to allot relevant securities (as defined in Section 80 of the Act) up to an aggregate nominal amount of £4,000,000 at any time or times within the period expiring on 7 December 2009 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities to such an offer or agreement as if the authority granted hereby had not expired.

SPECIAL BUSINESS

- 6 To consider the following resolution, which will be proposed as an Ordinary Resolution:

That the authorised share capital of the Company be increased from £7,599,000 to £10,000,000 by the creation of 24,010,000 ordinary shares of 10p each ranking pari passu in all respects with the existing ordinary shares of 10p each in the capital of the Company.

- 7 To consider the following resolution, which will be proposed as a Special Resolution:

That in substitution for all existing authorities, and subject to the passing of Resolution 5, the Directors be and are hereby empowered pursuant to and in accordance with Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) pursuant to the authority conferred by Resolution 5 as if Section 89(1) of the Act did not apply to such allotment. This power:

- (A) Expires 15 months after the date of the passing of this Resolution or at the conclusion of the next annual general meeting of the Company following the passing of this Resolution, whichever first occurs, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the Directors may allot equity securities in pursuance of that offer or agreement; and

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

(B) Is limited to:

(1) Allotments of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company and if, in accordance with their rights, the Directors so determine holders of other equity securities of any class made in proportion (as nearly as may be) to their existing holdings of ordinary shares or (as the case may be) other equity securities of the class concerned (so that any offer to holders of other equity securities of any class shall be on the basis of their rights to receive such offer and, failing which, shall be on the basis that their holdings had been converted into or that they had subscribed for ordinary shares on the basis then applicable) but subject to the Directors having a right to make such exclusions or other arrangements in connection with the offering as they deem necessary or expedient:

- (a) To deal with equity securities representing fractional entitlements; and
- (b) To deal with legal problems under the laws of any territory or the requirements of a regulatory body; and

(2) Allotments of equity securities for cash otherwise than pursuant to paragraph 7(B)(1) to an aggregate nominal amount of £1,608,485 representing 30% of the issued share capital of the Company.

8 To consider the following resolution, which will be proposed as a Special Resolution:

That:

(a) In accordance with Article 52 of its Articles of Association and Chapter VII of the Act and subject to paragraph (b) of this Resolution, the Company be and hereby is granted general and unconditional authority (pursuant to Section 166 of the Act) to make market purchases (as defined in Section 163 of the Act) of its own ordinary shares on such terms and in such manner as the Board may from time to time determine; and

(b) The authority conferred by paragraph (a) of this Resolution shall:

- (i) Expire on the date of the next annual general meeting of the Company;
- (ii) Be limited to the purchase of a maximum 8,042,425 ordinary shares representing 15% of the issued share capital of the Company;
- (iii) Not permit the payment per ordinary share of more than 5% above the average of the middle market quotations for an ordinary share derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which any purchase by the Company of ordinary shares is made or less than 10p exclusive of any applicable Corporation Tax payable by the Company;
- (iv) Before expiry entitle the Company to enter into any contract for the purchase of ordinary shares which might be executed and completed wholly or partly after its expiry; and

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

- (v) Only be capable of variation, revocation or renewal by the Company in general meeting.

By order of the Board

JOHN HARRIS

Company Secretary

26 October 2004

NOTES

- 1 A shareholder entitled to attend and vote at the Meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. The proxy need not be a shareholder of the Company.
- 2 To be effective, the instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at the offices of 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 the Form of Proxy will not preclude shareholders from attending and voting in person at the Meeting.
- 3 Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, the time by which a person must be entered on the Register of Members in order to have the right to attend and vote at the Meeting is close of business on 6 December 2004 or, if the Meeting is adjourned, such time being not more than 48 hours prior to the time fixed for the adjourned meeting. Changes to entries on the Register of Members after that time will be disregarded in determining the right of any person to attend or vote at the Meeting.
- 4 The register of interests of the Directors and their families in the issued share capital of the Company and copies of all Directors' service contracts will be available for inspections at the registered office of the Company during usual business hours (Saturdays, Sundays and public holidays excepted) from the date of this Notice until the conclusion of the Meeting.

FORM OF PROXY

I/We (name in full) _____

of _____

being (a) shareholder/(s) of Armour Group plc hereby appoint the Chairman of the Meeting or

_____ as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at the offices of Arnold & Porter (UK) LLP, Tower 42, 25 Old Broad Street, London EC2N 1HQ on 8 December 2004 at 12 noon.

Please indicate with an "X" in the space below how you wish your vote to be cast. In the absence of any specific direction, and on any other resolution or motion put to the Meeting, the proxy will, on a poll, vote or abstain as the proxy thinks fit.

RESOLUTIONS	FOR	AGAINST
1 To receive the Annual Report and audited financial statements for the year ended 31 August 2004.		
2 To re-appoint BDO Stoy Hayward LLP as Auditors.		
3 To re-appoint George Dexter as a Director.		
4 To declare a dividend.		
5 To authorise the Directors to allot relevant securities.		
6 To increase the authorised share capital of the Company.		
7 To disapply Section 89 of the Companies Act 1985.		
8 To authorise the Company to purchase its own ordinary shares.		

Signature(s) _____ Date _____ 2004

NOTES

- 1 To be valid, this Form of Proxy, duly completed, must be deposited with the Company's Registrars, at the address overleaf, not less than 48 hours before the time appointed for the Meeting.
- 2 In the case of joint holders, only one signature is required.
- 3 In the case of a corporation, this Form of Proxy must be executed under its common seal or signed on its behalf by an attorney or officer duly authorised.
- 4 Any alteration made to this Form or Proxy must be initialled.
- 5 Completion and return of a Form of Proxy will not preclude shareholders from attending and voting in person should they subsequently decide to do so.
- 6 Any shareholder entitled to attend and vote at the above Meeting may appoint one or more proxies of his/her own choice to attend and, on a poll, to vote instead of him/her. A proxy need not be a shareholder of the Company. A shareholder completing a Form of Proxy will not thereby be precluded from attending in person instead of by proxy.



Third fold and tuck in

BUSINESS REPLY SERVICE
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First fold

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

Second fold

