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# RM plc

## Report & Accounts 1997

RM

"By 2002 every one of the 32 000 Schools in Britain will have modern computers, the educational programs to go with them, the teachers skilled to teach on them, the pupils skilled to use them, connected to the superhighway and with phone bills slashed to as low as £1 per pupil per year."

**Tony Blair**
*Labour Party Conference, 1997*

"But connecting young people to the Internet is not enough. We have to make sure that when they log on they have access to the information that will prepare them for the world of the future."

**Bill Clinton**
*April 1997*

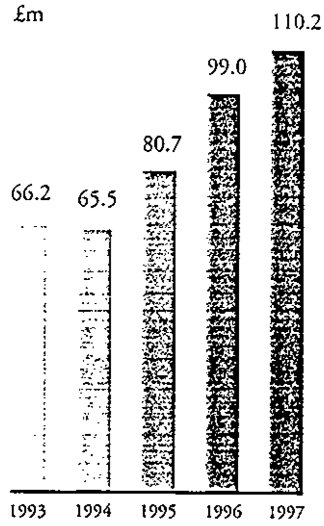
"We wish to see a society within ten years where ICT has permeated the entirety of education."

**Report of the Stevenson Commission into ICT in UK Schools**
*March 1997*

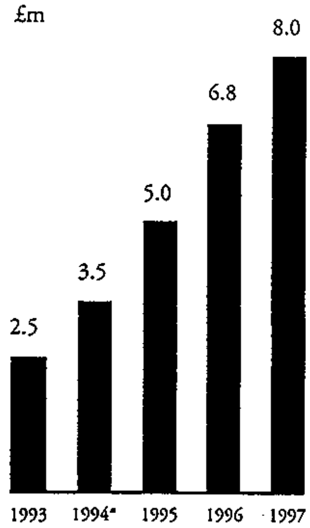
RM

*Annual Report and Financial Statements*
*for the year ended 30th September 1997*

**Turnover**

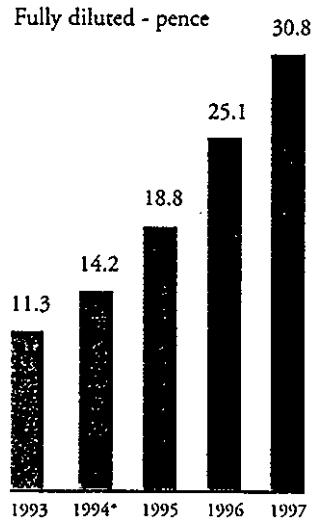



**Profit Before Tax**




** Excluding exceptional income*

**Earnings per share**




** Excluding exceptional income*

## Contents

# CHAIRMAN'S Statement

John Leighfield
• Chairman

I am pleased to report that RM plc achieved good results for the year ended 30th September 1997 against a background of challenging market conditions. Turnover increased 11% to £110.2 million (1996: £99.0 million) and profit before tax was up 18% to £8.0 million (1996: £6.8 million). Fully diluted earnings per share increased 23% at 30.8p (1996: 25.1p).

The development of RM's software and services business model continued successfully during the year. Turnover in these business areas grew by 37% year-on-year compared with a 2% growth in the Group's hardware activities.

Gross margins were 26.6% (1996: 26.1%) with the favourable impact of the increase in the software elements of the Group's business more than offsetting a decline in PC margins. Operating costs increased by 13% to £22.0 million (1996: £19.5 million) reflecting increased expenditure on software development and sales and marketing. Operating profit was up 14% to £7.3 million (1996: £6.4 million) and the operating profit margin increased to 6.6% from 6.4%.

The Group remains strongly cash generative. The year-end cash balance was £10.8 million (1996: £13.5 million) after making an initial £6.1 million investment in learning software.

I reported at the interim stage that uncertainty about future budgets had led many schools to carry budgets forward to their next fiscal year. Actual school budgets for the Government year 1997/98 are smaller than expected and are causing some customers to defer expenditure. Nonetheless, the Group has continued to gain new customers and reinforced its position as the leading supplier of IT software, services and systems to UK education establishments.

Sales to primary schools grew by 18% and the Group achieved the number one position (measured in market share by value) in this sector for the first time. RM also extended its market leadership in secondary schools where it has been the number one supplier for a number of years.

The Group's newer activities made excellent progress.

RM Learning Systems, the Group's learning software division, increased turnover by 117% to £4.5 million (1996: £2.1 million) and contributed to profits for the first time. As well as being the exclusive UK distributor of CCC's *SuccessMaker*™, the Group now supplies learning software for the post-16 market from Invest Learning Corporation (a sister company of CCC), and is also developing its own products. The Group's relationship with CCC and Invest Learning Corporation was strengthened through a £10 million investment (of which £6.1 million was paid in the year) in a strategic alliance agreement. This agreement gives RM the ability to manufacture the products in the UK under licence on a royalty basis, and allows additional flexibility in adapting them for local market requirements.

The Group's Internet businesses have developed rapidly as a result of the increasing importance of on-line communications to education. Turnover in this area grew 110% to £1.4 million.

RM's Internet connections service - *Internet For Learning (IFL)* - remains the premier Internet service for education and achieved break-even in the year. More than 4,000 establishments use *IFL* giving Internet access to in excess of 400,000 students. A major growth area for *IFL* is connecting school and college networks to the Internet. Network Internet connection is a pre-requisite for the Government's proposed National Grid for Learning, and RM already provides this service to 300 establishments. (We estimate that RM supplies in excess of 70% of schools that have network connections.)

**In 1997 RM reached the number one position in the primary school market for the first time**

Investment continued in high quality educational Internet content with the launch of *Living Library* and the continuing development of *Eduweb*, RM's recently relaunched Internet site for schools. *Living Library* is an innovative content and information navigation service that allows students to access a range of information resources - including encyclopedias and newspapers as well as web sites - using a curriculum and age keyed search engine.

Over the year the Board has been strengthened in preparation for the next phase of RM's growth.

I am pleased to announce that Richard Girling, Managing Director of Research Machines, the Group's operating subsidiary, will assume the role of Group Chief Executive with effect from 24th November 1997. Richard was appointed to the Board of RM plc in June 1996, having been a Director of Research Machines since 1987. He has been appointed in succession to Mike Fischer who becomes President of RM plc and a Non-executive Director. Mike will retain a key role advising the Board on strategy and will continue his work with Government and other key influencers.

**1,800 secondary schools chose RM as their IT partner**

Tim Pearson was appointed to the Board on 3rd November 1997 as Group Director - Software and Integrated Systems. Following the appointment of Mark Burrell as a Non-executive Director in February 1997 in succession to Mike Harrison, Colin Maltby, Chief Investment Officer of Equitas, joined the Group as a Non-executive Director in September 1997. Colin replaces Mike Smith who will retire at the AGM. I would like to record the Board's thanks to Mike Smith who, as a Director of RM since 1984, has made an enormous contribution to the Group's progress.

A final dividend of 7.2p will be proposed at the AGM, making a total for the year of 9.5p, an increase of 19% (1996: final 6.2p, total 8.0p). The final dividend will be payable on the 3rd February 1998 to shareholders on the register on 5th December 1997.

RM retained its number one position in colleges and strengthened its number two position in universities

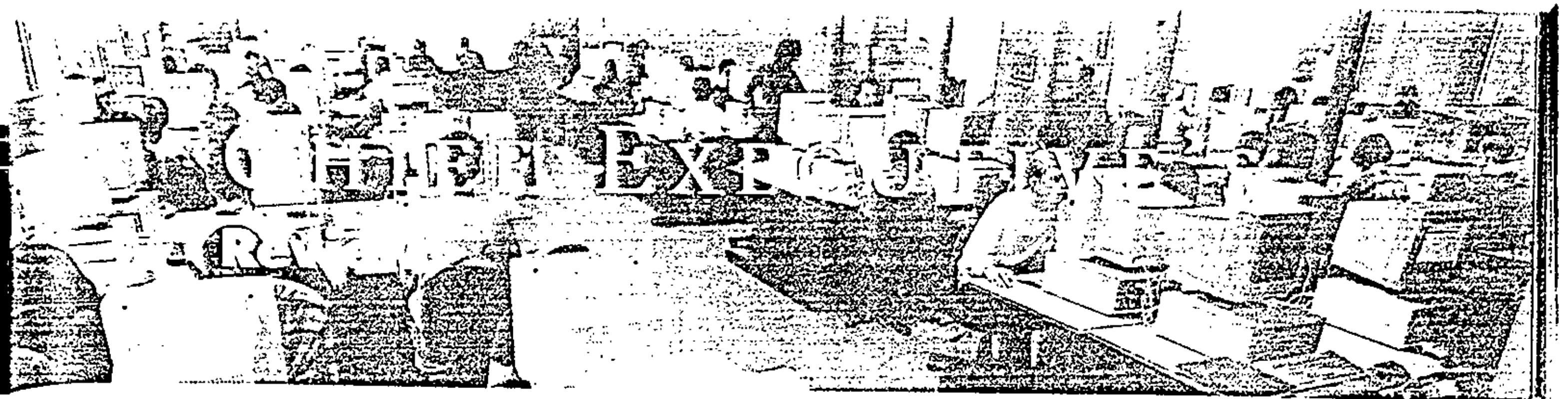
The new Government has been very supportive of increasing the use of IT and communications services in education. The most significant policy proposal is the National Grid for Learning and the Government has committed £100 million of public funding to build it. RM welcomes this development with enthusiasm. In order to take advantage of this funding, and to counter any increase in competitive activity, the Board has approved additional expenditure on product development and sales and marketing.

As is usual at the time when this annual report is made, it is too early to give an indication of the outcome for the current year. However, it is already clear that the pronounced seasonal pattern of the Group's business, with the majority of profits earned in the second half, will be even more marked than usual.

The additional public funding will not be available until the second half of RM's financial year, whilst RM's additional expenditure on product development and sales and marketing will impact the first half. In addition, the nature of this funding is such that some customers will choose to defer expenditure whilst they revise their IT plans. The combination of these factors will result in significantly lower first half profits than last year. Nonetheless, recent developments herald the largest increase in market size RM has ever experienced, and the Board is confident that the Group is well placed to benefit over the full year and in future years.

Finally, as has always been the case, RM's performance is the result of having excellent people working for it. In 1997 they have had to work particularly hard, in the face of limited education expenditure, to produce a good result for shareholders. I would like to record the Board's gratitude to them all. It is the quality of the team at RM that will allow us to take advantage of the opportunities that lie ahead, to the benefit of customers and shareholders alike.

John Leighfield
21st November 1997



## The Educational Market

1997 was RM's 20th year in the educational IT market. It was another successful year for the company and one in which we reinforced our position as the leading supplier of IT to UK education establishments.

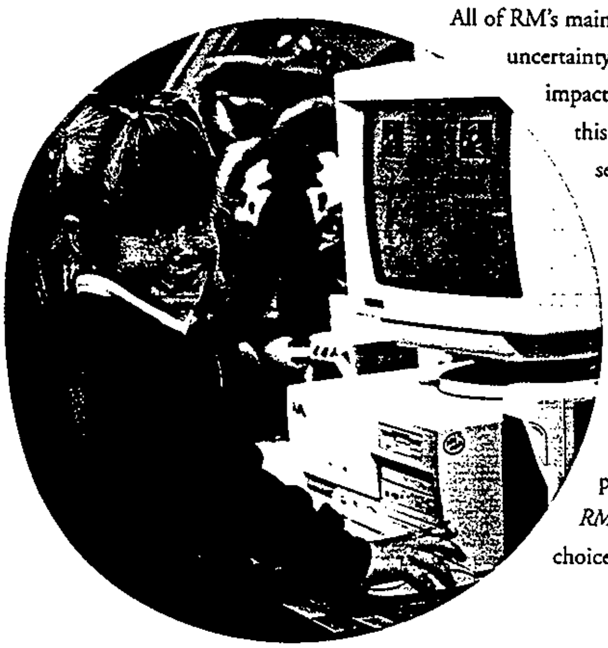
We moved, for the first time, to the position of number one supplier in the primary schools market, maintained our number one position in the secondary schools and colleges markets and strengthened our number two position in the universities sector. We made major investments in learning software and Internet content and we continued the expansion of our services business.

This is an extremely important time for the educational IT market with the Government pledging significant additional funding for schools' information technology and communications needs. A range of major initiatives will cause significant changes to the education market. These include a drive to improve basic standards in literacy and numeracy through IT, the allocation of lottery money for IT teacher training, and the commitment to developing and financing a National Grid for Learning.

Richard Girling
Chief Executive

The activities we have undertaken in 1997 have positioned RM well to take advantage of the high level of commitment the new Government has given to IT in education.

## RM's Markets



All of RM's main markets were characterised by tight budgets and uncertainty over funding, with many customers waiting to see what impact the new Government would have on education. Despite this uncertainty, RM increased turnover in primary and secondary schools and universities and maintained its strong overall market leadership.

### Primary Schools Sector

RM's primary school revenues grew by 18%, giving RM an estimated 45% of the UK primary school market by value. In a year of political uncertainty, and low growth in the market in general, RM's primary school business remained strong and the *RM Window Box*™ continues to be the product of choice for a growing number of schools.

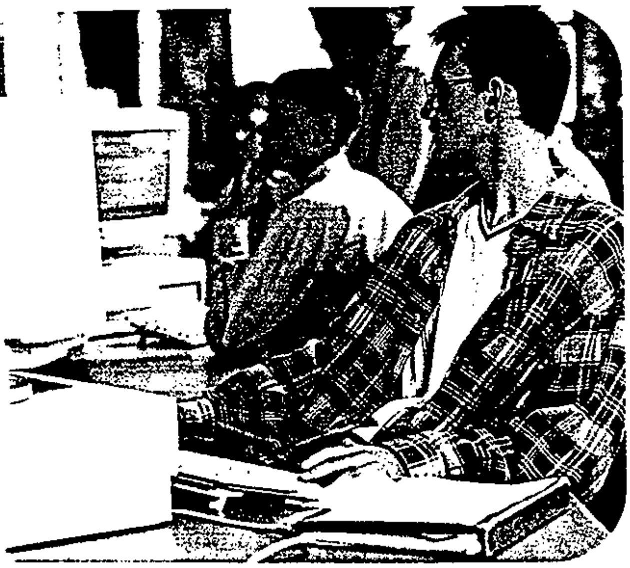
RM Window Box brings learning to life in primary classrooms across the country

RM now has 128 Window Box Partners. The Window Box Partnership programme provides RM with a strategic relationship with local education authorities and training centres who, in turn, provide locally based training and support for the *RM Window Box*. These partnerships will be significant in light of the central role LEAs will play in bidding for the new Standards Fund money and building the National Grid for Learning.

RM held a successful round of seminars for primary schools during the Spring and Summer terms. The seminars in Wales, to accompany the launch of the Welsh Window Box, were attended by over 30% of Welsh Schools. These seminars held in English and Welsh, built on the success of the Welsh Office (WOMPI), contract won in 1996, and strengthened RM's market share in an area where there has been a strong tradition of buying non-PC products for education.

## Secondary Schools Sector

In RM's largest market sector, secondary schools, the Group grew its revenues by 17%. This was despite the sector facing tight budgets, which led to low growth in overall IT expenditure. RM's revenues from learning software and services grew markedly, enabling RM to increase its market share to an estimated 55%.



IT is transforming the way students learn in schools and colleges

Over 1,800 secondary schools use RM networks and almost half these are now using *RM Connect*, RM's network solution based on Microsoft® Windows® NT Server. Continuation of RM's targeted sales and marketing campaigns recruited 250 more schools to those who regard RM as their main curriculum IT supplier.

RM's seminar programme in March 1997, entitled 'Extending IT Across the Curriculum', attracted more than 2,000 delegates, comprising mainly head teachers and schools' other senior managers. The seminars have become an integral part of the school calendar for many head teachers and provide what may be the largest forum for debate and training on IT for schools' senior managers in the UK.

## Further & Higher Education Sectors

Revenues from the further education (colleges) market declined, reflecting the funding cutbacks that have affected this sector. Despite this, RM continues to be the leading supplier of PCs and related products.

Further growth within this sector will be driven by providing a more consultative, services-led approach and RM made good progress in developing this aspect of its business. The Group introduced RM Consulting and RM Networked Services to deliver a management consultancy service. Services revenues in further education increased by 50% from the previous year.

In the higher education (universities) market, the Group strengthened its position as the number two supplier to the market and increased market share.

- Working with Sainsbury's allows RM to reach new customers

### Sainsbury's

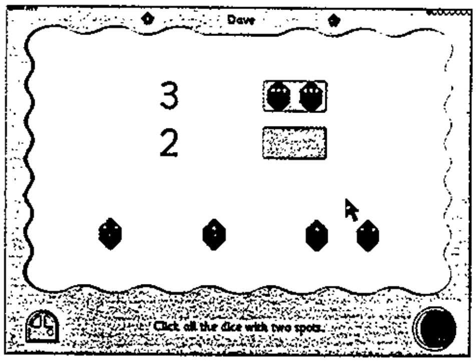
In February, RM joined the 'Sainsbury's Equipment for Schools' promotion, which gave Sainsbury's customers the chance to save vouchers redeemable against a range of schools' equipment. RM was chosen as the sole supplier of the IT equipment for the programme and supplied goods to more than 4,000 schools.

Inclusion in the scheme gave RM profile and promotional opportunities with Sainsburys wide customer base and also opened up a new channel for the RM message with schools who had not previously used RM's products.

RM is developing world leading learning software

## Products

### Software and Integrated Systems



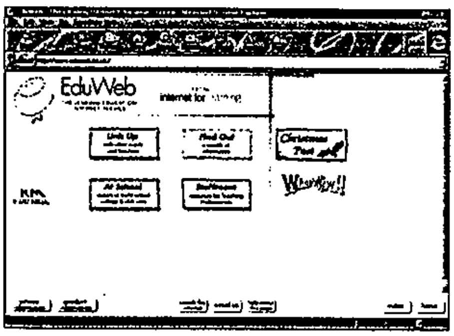

In January 1997 RM launched *RM Window Box 6* which provides all the elements needed to deliver IT across the primary curriculum. This, the sixth generation integrated solution for the primary classroom, continues to set the standard for primary IT solutions and won the Gold Award for Primary Products at BETT '97, the UK's major educational technology exhibition. Following on from the launch of *RM Window Box 6*, RM released a notebook version of the product as well as an Internet version.

*RM Connect 2.2*, RM's fourth generation school-wide multimedia local area network product, was developed and released during the year. With management tools developed by RM and an advanced multimedia server, which allows delivery of sound, video and animation to networked PCs, *RM Connect* gives schools and colleges the latest network technology in a secure environment. *RM Connect* is pre-configured for intranet use and is supplied Internet-ready.

Also launched during the year was *RM Logon for RISC OS*, an add-on to *RM Connect* that enables schools to support all their legacy systems on a RM Connect network.

### Internet

Revenue for RM's Internet businesses increased by 110% to £1.4m. *Internet For Learning (IFL)* was the UK's first education specific Internet service provider and has, to date, connected over 4,000 schools to the Internet giving access to the service to 400,000 schoolchildren.




RM's Eduweb site sets the standard for educational Internet services

It is clear that networked Internet access will be the way in which most education establishments take full advantage of communications technology in the curriculum. RM has seen rapid growth in this area and, with the National Grid for Learning and announcements on low cost cable and BT ISDN line rates, the Group expects further rapid growth. RM has now supplied 300 establishments with networked Internet access via *IFL* (compared to 60 a year ago) and an estimated 70% of schools with networked access use RM's service.

IT helps school managers manage better

RM sees significant potential in Internet content services in the medium to long term. In 1997 RM launched *Living Library*, a premium education specific service. Content is provided by a range of selected educational publishers including Oxford University Press, Corbis Picture Library and World Book as well as archive material from the Independent and Mirror newspapers. Schools can purchase the *Living Library* service independently of their choice of Internet Service Provider. RM is also supplying a range of education content to the home market through a partnership with Virgin Net.

## RM Learning Systems

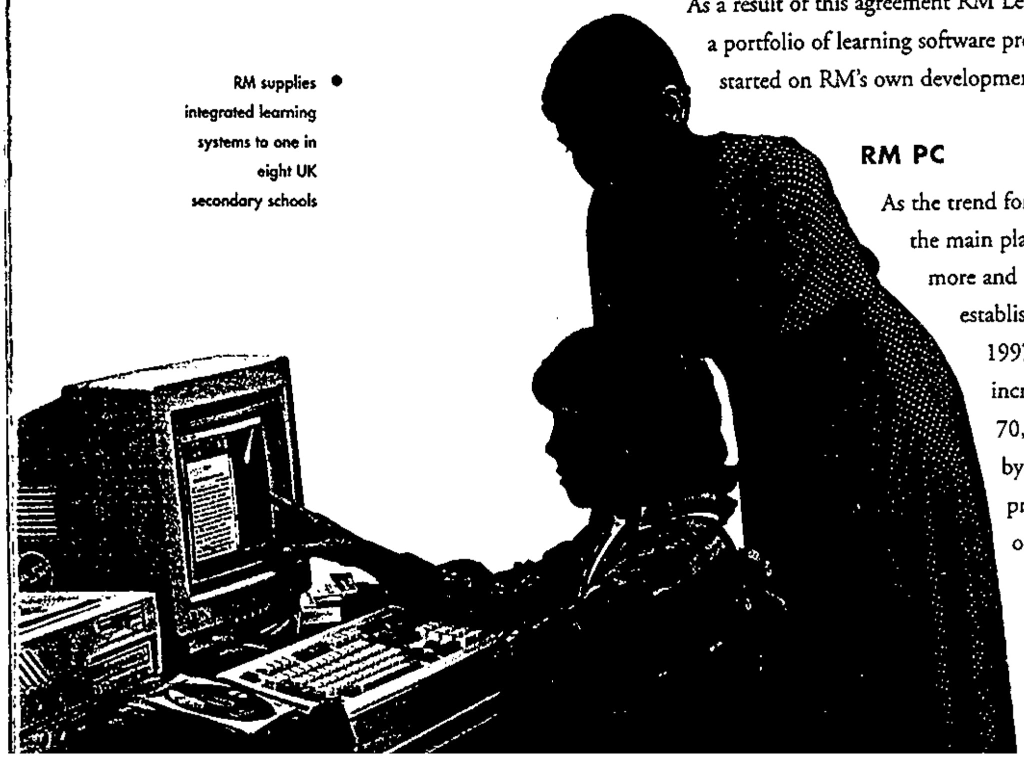
RM Learning Systems, which has exclusive UK rights to the CCC integrated learning system (ILS), *SuccessMaker*, increased its turnover by 117% to £4.6m. The division, set up in 1994, has doubled its size each year and now employs 40 people. 2,000 teachers have been trained on the product and 57,000 pupils regularly use it in nearly 800 sites across 137 LEAs. One in eight UK secondary schools now use *SuccessMaker* including one in five Technology Colleges.

Evaluation studies have continued to report significant learning gains from the use of ILS. The Technology Colleges Trust recently published a report on ILS demonstrating, for the first time in UK research, significant learning gains in literacy. The Government has pledged to improve numeracy and literacy in schools, and supports the concept of achieving this through investment in IT.

In August this year, RM strengthened its relationship with CCC and Invest Learning Corporation through a £10m investment securing long term distribution rights for *SuccessMaker* and *Destinations* (an adult learning system). The ten year agreement provides for the products' supply and support, a high priority in the educational IT market, and gives RM greater flexibility in product development and marketing. In particular RM has the ability to develop enhancements for the UK market and to create its own complementary products.

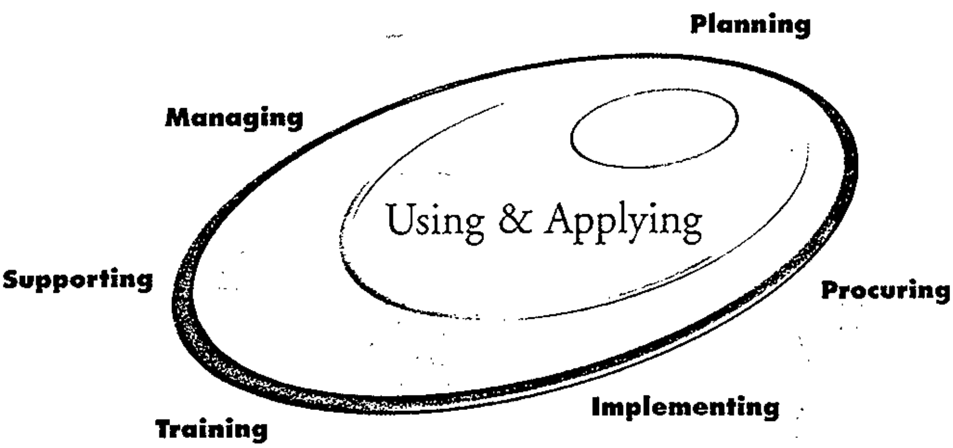
As a result of this agreement RM Learning Systems now provides a portfolio of learning software products and work has already started on RM's own developments.

RM supplies integrated learning systems to one in eight UK secondary schools



## RM PC

As the trend for adopting the PC standard as the main platform in education continues, more and more educational establishments are buying RM PCs. In 1997 the number of PCs shipped increased by 18% to approximately 70,000. However, this was offset by a decline in the average unit price, resulting in an increase of only 4% in PC revenues.




RM products continue to win accolades and awards in industry surveys of standards of hardware reliability and service. In *PC Magazine's* annual 'Service and Reliability Survey', RM came top in the categories for 'most reliable desktops' and 'satisfaction with repairs'.

RM Services works with customers across the whole IT lifecycle

## RM Services

Along with software, value added services are at the core of RM's business model. RM Services has experienced another exceptional year and has improved significantly on last year's excellent performance. Revenues in RM Services grew by 47% to £15.9 million.

With the increasing importance placed on IT in education, establishments are looking for a single point of contact for the total management of their IT needs. Driven by the demand for technology such as networked Internet access, and the Government's push for a National Grid for Learning, education is increasingly looking to purchase network services. The Group forecasts a growing market for both existing and new types of services, and RM is well placed to meet this need.

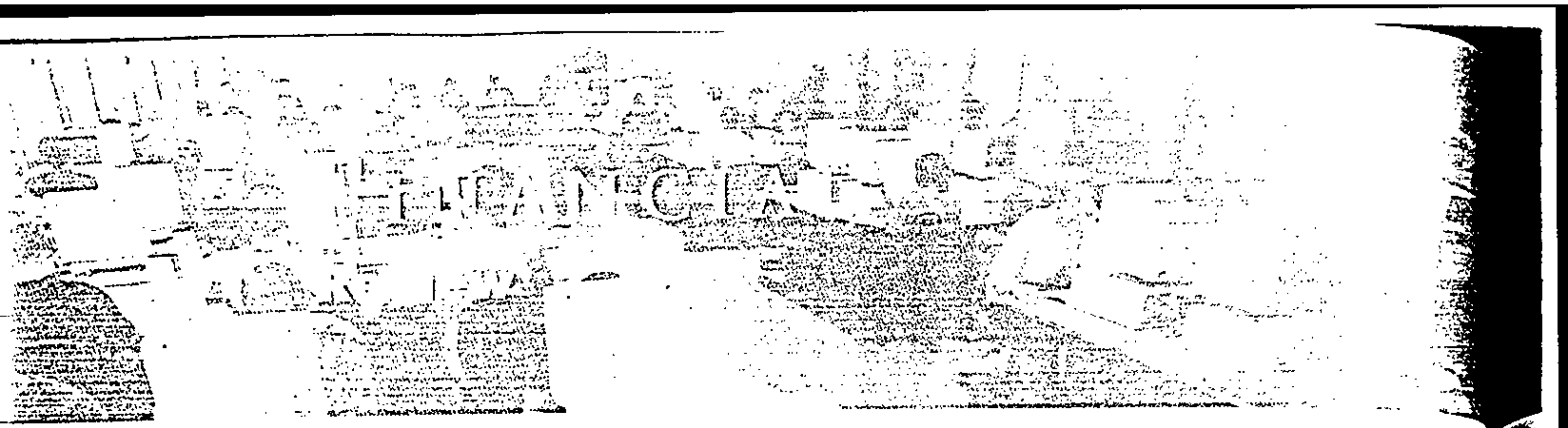
RM Services' portfolio includes consultancy, infrastructure, installations, training, telephone support, and on-site maintenance. During the year, RM Services made 17,500 site visits, received 160,000 support calls, delivered over 2,500 training sessions, laid 1,000 miles of cable and installed over 50,000 cable outlets. In addition, over 1,800 secondary schools took out or renewed RM InSITE support contracts. In customer satisfaction surveys 92% of RM Services customers say they would recommend RM Services to their colleagues.

## RM Management Solutions

Key Solutions RM has now been fully integrated into the core business as the RM Management Solutions Divison. The *Key Solutions* brand has been retained, and *Key Solutions* software is now in use in over 60 LEAs. *Key Solutions* software provides educational management, assessment, finance and administration software on both the PC and Macintosh platforms.

With the development of LEA-wide intranets, and a focus on assessment and reporting, the demand for education management products is set to grow.

RM Management Solutions has successfully exported products to Malta, USA, Russia and Dubai amongst other countries.



Mike Greig
• Finance Director

## Cash Flow

The format of the consolidated cash flow statement has been amended to comply with FRS 1 (Revised) and comparative figures have been restated accordingly.

The net cash inflow from operating activities during the year was £9.6m. Operating profit represented £7.3m of this and depreciation a further £2.5m. Working Capital movements resulted in a cash outflow of £0.2m.

Interest income and share issues on exercise of options contributed a further inflow of £1.0m. Outflows included taxation of £2.1m, dividends of £1.5m and capital expenditure of £9.7m, of which £6.1m related to learning software and is described below.

Overall cash and short term investments reduced by £2.7m to £10.8m.

## Dividends

Dividends paid and proposed total 9.5p, an increase of 19% for the year. At this level the dividend is covered 3.2 times by fully diluted earnings per share. The total dividends for the year will amount to £1.7m.

## Tax and Treasury

The tax rate for the year was 30%, down from 33% a year earlier, reflecting the reduction in the corporation tax rate to 31% in the July budget.

Net interest receivable was £764,000. Cash balances are held predominantly in Sterling with a defined list of institutions approved by the Board.

The seasonal nature of the Group's business results in minimum cash balances during the year being significantly less than at the year end. Minimum cash balances during 1997 were £2.0m compared to a minimum of £4m during the previous year.

RM helps millions of pupils get the benefit from IT •

## Learning Systems Investment

£9.2m of the investment RM agreed to make during the year in learning software has been included in Intangible Fixed Assets. In addition to £6.1m paid during the year, this includes a £2.5m payment due in December 1997 and a £0.6m payment due in December 1998. These latter two elements are included in Creditors. A further £0.7m is due in instalments against delivery of certain new products. The fixed asset is being written off on a straight line basis over the 10 year life of the contract.

## Share Price

The mid market share price at the close of business on 30th September 1997 was £8.325 capitalising the Group at £150m. During the year the mid market share price ranged between £5.825 and £8.825.

# BUSINESS
## Review

In 1997 RM celebrated 20 years of supplying products and services to the highly specialised educational IT market. Throughout this time we have innovated, we have continually developed our products and services and, crucially, we have worked closely with the education community. Today we supply more IT products and services to the education establishments than any other company in the UK.

Mike Fischer
Founder and President

RM has grown up with the educational IT market and has become the IT partner of choice for thousands of schools, colleges and universities.

### History

RM was founded in 1973 by Mike O'Regan and myself to supply electronic equipment for the research and educational markets.

We developed our first microcomputer - the RML 380Z - in 1977. These systems were supplied to pioneering local education authorities and began a partnership of supplying and developing products to meet the needs of the changing curriculum.

Since 1987 all RM computers have been IBM PC compatible, and all our new products are designed with the very latest IT developments in mind.

### Update

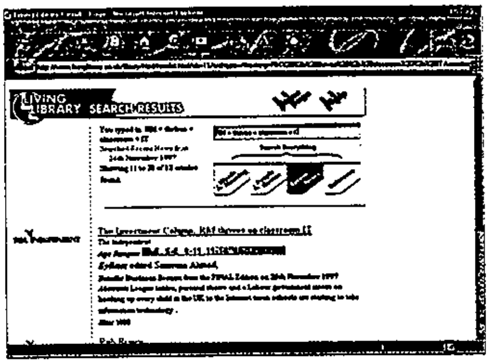
Over the last decade the educational IT market adopted the industry standard PC as a de facto standard. RM was instrumental in this by bringing to education the best industry standard products and then enhancing them for the special rigors of education. This philosophy has resulted in products like the *RM Window Box* and *RM Connect.*

IT is already transforming the lives of school children

### The Future

There is universal acknowledgement that IT is one of the key factors in the future of the education system of this country. The Government's commitment in this area, which started in opposition with Dennis Stevenson's Independent Inquiry into ICT in UK Schools, means that IT in education is entering a new phase.

Living Library - a world of information, easily accessible




The Stevenson Commission concluded that IT is fundamentally important to teaching and learning; that there is an urgent need for teacher development; and that a long-term approach is needed rather than short term hardware funding initiatives. RM endorses these findings and is prepared for more development, innovation and change to bring about the vision set out by Stevenson and his colleagues.

20 YEARS OF EDUCATIONAL IT

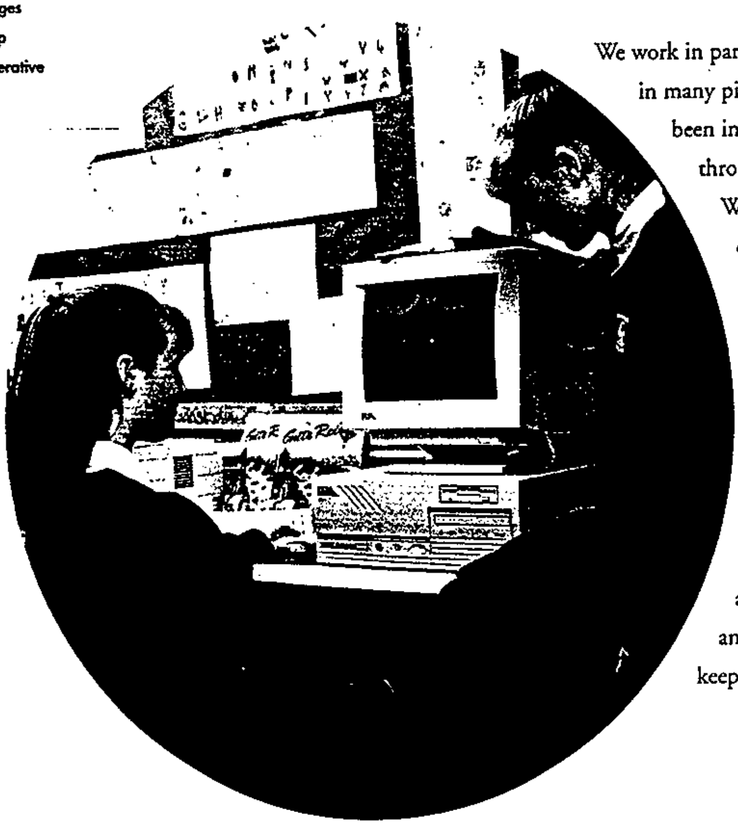
## How did we get here?

There is no doubt that RM is a leader, or rather the leader, in its field. Independent surveys show that we have the most reliable products and that we have clear market leadership in terms of value of sales. RM products continue to win awards and accolades for being the best products for the job they were designed for.

RM is dedicated to the educational IT market. It is our core business. We understand education because we listen and because we have been listening for 20 years. We develop products with our customers not just for our customers, we ask, we listen and we react accordingly.

RM is flexible, if the market demands change then we will change. In the 1980s, when the market was moving towards the industry standard PC platform, we changed accordingly.

IT encourages partnership and co-operative working



We work in partnership with education. We are pioneers in many pilot and experimental programmes. We have been involved in exploring the Internet in schools through the DfEE Superhighways project. We have pioneered the introduction and evaluation of integrated learning systems. And we work with leading partners like Microsoft and Intel to ensure that we bring to education leading edge, world standard products enhanced and suitable for the classroom.

The relationship between RM and its customers is interdependent. Seminar and partnership days, training, support and consultancy services are designed to keep RM and its customers informed.

RM customers use video-conferencing technology for foreign language learning

Understanding the demands of education and finding practical solutions that work in the classroom, the lecture theatre and the study is what RM does best. It is what has got us where we are today, and where we intend to focus our efforts in the future.

## New developments

I have always maintained that RM is both an education business and a software and services business and I have looked to these directions for our future growth.

We have made significant investments in the future of our software businesses including Internet content and learning software because it is these areas where IT will have a transforming impact on education.

## Education at home

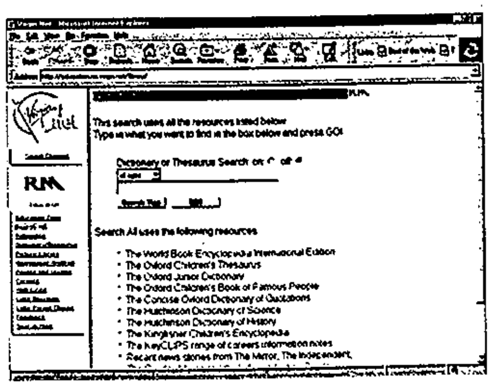
The market for educational IT products for home use is enormous. In order to address this untapped demand, RM has put in place a strategic alliance with Virgin Net. RM supplies on-line educational content to Virgin Net customers.

RM's learning software brings home and school together

We are also developing products that will be well suited to growing links between home and schools, creating a learning community.

## Looking forward

In partnership with innovative educationalists RM is already revolutionising teaching and learning. The next twenty years will see developments that are hard to imagine from where we are now - and RM will be at the heart of them. Above all we will be helping our education partners transform learning using technology.



# DIRECTORS

## and Advisers

*RM plc Board of Directors in RM's Sales Response Centre - Mike Fischer, Richard Girling, John Netherton, Mike O'Regan, Colin Maltby, Mike Greig, John Leighfield, Mark Burrell.*

### John Leighfield
NON EXECUTIVE CHAIRMAN

*John Leighfield (age 59) was appointed non-executive Chairman on 1st October 1994, having joined RM as a non-executive Director in November 1993. He was the Executive Chairman of AT&T Istel until 30th April 1993. He is a non-executive Director of a number of other organisations including Birmingham Midshires Building Society, of which he is Chairman. He was President of the Computing Services and Software Association in 1995/96. He is a member of the Council of Warwick University and is Chairman of the Advisory Board and a visiting professor of Warwick Business School. He was President of The British Computer Society in 1993/94.*

### Richard Girling
CHIEF EXECUTIVE

*Richard Girling (age 46) was appointed Managing Director of Research Machines in July 1997 and Group Chief Executive in November 1997. He was appointed to the Board in June 1996 as Product Division Director, having been responsible for the PC Division since 1992 and Technical Director from 1988 to 1992. Prior to joining RM in 1980 he worked at Thorn Consumer Electronics and Marconi Instruments*

### Michael Fischer
NON-EXECUTIVE PRESIDENT

*Michael Fischer (age 47) was Chief Executive from 1973, when he co-founded the business with Michael O'Regan, until November 1997. He is a non-executive Director of Madge NV, a networking products company quoted on NASDAQ. Since 1990 he has been part-time Director of Letchworth Community Education Trust Ltd., a leading non-governmental education project.*

### Michael Greig
FINANCE DIRECTOR

*Michael Greig (age 41) joined RM and was appointed a Director in October 1989. He is the Finance Director and Company Secretary. He was previously Finance Director at Case Group plc for three years.*

### John Netherton
CUSTOMERS AND MARKETS DIRECTOR

*John Netherton (age 47) was appointed to the Board in June 1996 as Sales and Marketing Director having been responsible for sales and marketing since joining RM in June 1986. He had previously worked at Barclays Bank and Olivetti and as Sales Director of Philips Business Systems Ltd.*

### Tim Pearson
SOFTWARE AND INTEGRATED SYSTEMS DIRECTOR

*Tim Pearson (age 37) was appointed to the Board on 3rd November 1997, having been responsible for Software and Integrated Systems since 1996. He joined RM straight from University in 1981 and has held a variety of positions in RM's software and services activities.*

### Mark Burrell
NON-EXECUTIVE DIRECTOR

*Mark Burrell (age 60) was appointed to the Board as a non-executive Director on 26th March 1997. Until May 1997 he was an executive Director and Development Director of Pearson plc and a non-executive Director of Lazard Brothers & Co. Limited. He is the non-executive Chairman of Royal Doulton plc and of BSB Holdings.*

### Colin Maltby
NON-EXECUTIVE DIRECTOR

*Colin Maltby (age 46) was appointed to the Board as a non-executive Director on 30th September 1997. He is Chief Investment Officer of Equitas and was Chief Executive of Kleinwort Benson Investment Management and a Director of the Kleinwort Benson Group from 1989 to 1995. He is also a member of the Investment Management Committee of the Church of England's Central Board of Finance and of the Finance Committee of the Funding Agency for Schools*

### Michael O'Regan
NON-EXECUTIVE DIRECTOR

*Michael O'Regan (age 50) co-founded the Company in 1973 and has been a non-executive Director since 1992. He is a non-executive Director of Oxford Technology Venture Capital Trust plc and a number of other companies. In addition, he is joint Director of the Hamilton Maths and Reading Projects and a trustee of PEEP, an Oxford based educational project that he formed in 1994.*

### Michael Smith
NON-EXECUTIVE DIRECTOR

*Michael Smith (age 44) has been a non-executive Director since 1984. He is Chairman and Chief Executive of CVC Capital Partners Limited. He is also a non-executive Director of a number of companies including Vantios plc and SLI plc. He will resign from the Board after the AGM on 28th January 1998*

## Registered Office and Principal Location

RM plc
New Mill House
183 Milton Park
Abingdon
Oxfordshire
OX14 4SE

Telephone: 01235 826000
Fax: 01235 826999
Internet: http://www.rmplc.net

*Registered Number 1749877*

## Directors

| | |
|---|---|
| J.P. Leighfield | *Chairman (Non-Executive)* |
| R.A.G. Girling | *Chief Executive* |
| M.D. Fischer | *President (Non-Executive)* |
| M.D. Greig | *Finance Director* |
| J.R. Netherton | *Customers and Markets Director* |
| T.R. Pearson | *Software and Integrated Systems Director* |
| M.W. Burrell | *Non-Executive Director* |
| C.C. Maltby | *Non-Executive Director* |
| M.R.H.J. O'Regan | *Non-Executive Director* |
| M.D.C. Smith | *Non-Executive Director* |

## Secretary

M.D. Greig

## Bankers

Barclays Bank PLC
92/93 High Street
OXFORD OX1 3HS

## Stockbrokers

SBC Warburg
1 Finsbury Avenue
LONDON EC2M 2PP

## Auditors

Arthur Andersen
Abbots House
Abbey Street
READING RG1 3BD

## Solicitors

Linklaters & Paines
Barrington House
59-67 Gresham Street
LONDON EC2V 7JA

Manches &Co
3 Worcester Street
OXFORD OX1 2PZ

## Registrars

Independent Registrars Group
Bourne House
34 Beckenham Road
Beckenham
KENT BR3 4TU

# Director's Report

The Directors present their report on the affairs of the Company (RM plc) and its principal subsidiary undertakings (together the Group, or RM) and the consolidated financial statements and auditors' reports for the year ended 30th September 1997.

## 1. Principal Activities and Business Review

The principal activities of the Group are the supply of IT solutions to educational markets, based upon PC technology and incorporating networking, software and services. A review of the Group's activities and its prospects for the forthcoming year are contained in the Chairman's Statement and Chief Executive's Review.

## 2. Results and Dividends

The Group's profit for the year, after taxation, was £5,598,000 (1996: £4,560,000). The Directors recommend the payment of a final dividend of 7.2p bringing the total dividend for the year to 9.5p per share. The final dividend is payable on 3rd February 1998 to shareholders on the register on 5th December 1997.

## 3. Research and Development

The Group undertakes a programme of research and development to enhance the performance of existing product areas, to develop new products related to existing markets, and to enhance access to potential new markets. All research and development costs are written off in the year in which they are incurred.

## 4. Directors and Their Interests

The Directors of the Company at 30th September 1997 who served during the year, together with their interests in the share capital of the Company, were as follows:

| | Ordinary Shares of 10p each | |
|---|---|---|
| | 30/09/97 | 01/10/96* |
| M.D. Fischer | 2,344,438 | 2,544,333 |
| R.A.G. Girling | 27,818 | 57,713 |
| M.D. Greig | 34,995 | 54,890 |
| M.W. Burrell | 6,300 | Nil |
| J.P. Leighfield | 25,401 | 25,401 |
| C.C. Maltby | Nil | Nil |
| J.R. Netherton | 203,858 | 403,753 |
| M.R.H.J. O'Regan | 1,149,301 | 1,349,301 |
| M.D.C. Smith | 2,100 | 2,100 |

* Or at the subsequent date of appointment if later.

*M.G. Harrison resigned from the Board of Directors on 20th February 1997. M.W. Burrell and C.C. Maltby were appointed to the Board of Directors on 26th March 1997 and 30th September 1997 respectively. T.R. Pearson was appointed to the Board of Directors on 3rd November 1997.*

*Details of Directors' share options are set out in the Report of the Remuneration Committee on pages 18 to 20.*

*In addition to the interests listed above, M.D. Fischer and M.R.H.J. O'Regan have a non-beneficial interest as trustees of the RML Staff Share Scheme in 68,456 (1996: 111,612) shares.*

*No Director of the Company was materially interested in any contract of significance involving the Company or any of its subsidiary undertakings.*

*The Audit Committee comprises: M.R.H.J. O'Regan (Chairman), M.W. Burrell, J.P. Leighfield, C.C. Maltby and M.D.C Smith.*
*The Remuneration Committee comprises: J.P. Leighfield (Chairman), M.W. Burrell, C.C. Maltby and M.D.C. Smith. The Nominations Committee comprises: J.P. Leighfield (Chairman), M.W. Burrell, M.D. Fischer, C.C. Maltby, M.R.H.J. O'Regan and M.D.C Smith.*

## 5. Annual General Meeting

The Annual General Meeting of the Company will take place at 2.00pm on 28th January 1998 at 135 Milton Park, Abingdon, Oxon OX14 4SE. In addition to the routine business of the meeting there is one special resolution whereby it is proposed that, in accordance with Section 80 of the Companies Act 1985, the Directors be granted authority to issue shares in the capital of the Company up to a nominal amount of £603,846 (33.5% of the issued share capital at 21st November 1997). The Directors have no present intention of allotting further ordinary shares other than in connection with employee share schemes. The resolution also proposes that, pursuant to Section 89 of the Companies Act, the Directors be authorised to allot those shares for cash, other than pro rata to existing shareholders, up to an aggregate amount of £90,576 (5.0% of the issued share capital as at 21st November 1997). The authorities being sought expire on the date of the next Annual General Meeting or, if earlier, 28th April 1999.

# DIRECTOR'S REPORT

*Continued*

## 6. Substantial Shareholdings

On 17th November 1997 the following were registered as being interested in 3% or more of the Company's ordinary share capital:

| | Number of Shares | Percentage Held |
|---|---|---|
| M.D. Fischer | 2,334,438 | 12.96% |
| Standard Life plc | 1,800,417 | 9.99% |
| 3i Group plc | 1,231,187 | 6.84% |
| M.R.H.J. O'Regan | 1,149,301 | 6.38% |
| Fidelity International Ltd | 1,066,800 | 5.92% |
| Scottish Equitable plc | 623,331 | 3.46% |

## 7. Charitable and Political Donations

During the year the Group made various charitable donations totalling £107,000 (1996: £97,000). A further £4,000 was given to locally based community support projects (1996: £17,000).

## 8. Employees

RM is an equal opportunities employer. Applications for employment are always fully considered irrespective of gender, ethnic origin, race, religion, sexual orientation or disability. In the event of members of staff becoming disabled every effort is made to ensure that their employment continues and that appropriate training is arranged. It is RM's policy that the training, career development and promotion of disabled employees should, so far as is possible, be identical to that of other employees.

RM operates a communications policy which aims to integrate staff into the business and to educate and inform them, encouraging a sense of involvement and keenness to contribute. Technical and personal skills development courses, sourced internally and externally, are available to staff at all levels. Directors and managers receive training in RM's key management methods. Additionally, self-instructed learning through teaching manuals and computer programs provides an important element in the technical training of support staff.

Considerable value is placed on involving staff and keeping them informed on matters affecting them as employees and on the performance of the Company as a whole. This is achieved through formal and informal meetings and the dissemination of written communications directly or via noticeboards.

## 9. Environment

RM recognises the importance of ensuring that its business practices have the minimum possible impact on the environment. Particular attention is paid to such areas as the minimisation of waste, the use of renewable resources and the reduction in the use of energy.

The Company's manufacturing processes do not introduce any polluting emissions into the atmosphere or water sources. Office waste such as paper and toner cartridges are recycled. The Company has already registered, and is committed to meeting its obligations, under the Government's new packaging waste regulations, The Producer Responsibility (Packaging Waste) Regulations 1998.

The Company is a member of the Oxford Business Environmental Group which provides information on national and regional developments.

The Company's products incorporate energy saving measures.

## 10. Creditors Payment Policy

The Group agrees terms and conditions for its business transactions with suppliers. Payment is then made to these terms, subject to them being met by the supplier. Payment runs are made on a weekly basis and, wherever possible, are made using the Bankers' Automated Clearing Service ("BACS"). Trade creditor days of the Group for the year ended 30th September 1997 were 38 days based on the ratio of group trade creditors at the year end to the amounts invoiced during the year by trade creditors.

## 11. Auditors

The Directors will place a resolution before the Annual General Meeting to re-appoint Arthur Andersen as auditors for the ensuing year.

By Order of the Board
M.D. Greig
*Secretary, 21st November 1997*

# Report of The Remuneration Committee

## 1. The Remuneration Committee

The Committee members are J.P. Leighfield (Chairman), M.W. Burrell, C.C. Maltby and M.D.C. Smith, all of whom are independent, non-executive Directors of the Company. Executive Directors may be invited to attend Committee meetings, but will not be present during any discussion of their own pay arrangements.

## 2. Policy on Executive Directors' Remuneration

The next stage of the Company's development will require it to compete further with companies which operate on a global scale. To do so successfully will be heavily dependent on retaining and building a team of individuals whose technology sector specialist skills are scarce and in great demand within the international marketplace.The executive remuneration package as determined by the Committee is intended to attract and retain high quality executives and motivate them to achieve a high level of Company performance in line with the best interests of shareholders, while not being excessive. In framing the policy the Committee has access to internal and external advice. The Company has complied with Section A and has given full consideration to Section B of the best practice provisions annexed to the Stock Exchange listing rules.

## 3. Directors' Remuneration

The total amount for Directors' remuneration and other benefits were as follows:

| | 1997 | 1996 |
|---|---|---|
| | £000 | £000 |
| Emoluments | 668 | 767 |
| Gains on exercise of share options | - | 321 |
| Money purchase contributions | 30 | 29 |
| | 698 | 1,117 |

Directors' remuneration in respect of the Directors of the Company who served during the year ended 30th September 1997 was as follows:

| Name | Fees and other Remuneration | Taxable Benefits | Annual Bonuses | 1997 Total | 1996 Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| M.D. Fischer | 148 | 10 | 8 | 166 | 229 |
| R.A.G. Girling | 121 | 8 | 6 | 135 | 142 |
| M.D. Greig | 102 | 9 | 6 | 117 | 135 |
| M.G. Harrison | 7 | - | - | 7 | 16 |
| J.P. Leighfield | 41 | 7 | - | 48 | 35 |
| J.R. Netherton | 130 | 14 | 7 | 151 | 185 |
| M.R.H.J. O'Regan | 16 | - | - | 16 | 16 |
| M.D.C. Smith | 16 | - | - | 16 | 9 |
| M.W. Burrell | 9 | - | - | 9 | - |
| C.C. Maltby | 3 | - | - | 3 | - |
| | 593 | 48 | 27 | 668 | 767 |

In the case of R.A.G. Girling and J.R. Netherton the 1996 remuneration shown above includes amounts earned prior to their appointment as Directors of RM plc.

## 4. Base Salary

The salaries of executive Directors are reviewed annually on 1st October and are set to reflect the executive's experience, responsibilities and marketability.

## 5. Annual Bonus

The executive Directors are eligible for annual performance related bonuses under which the level of bonus is determined partly by achievement of personal objectives and partly by a formula measuring actual Group profit before tax against targets set at the beginning of each financial year. The bonuses contain an element for above plan profit performance and are capped at 57.5% of base salary for the Chief Executive and 37.5% of base salary for each of the other executive Directors.

## 6. Benefits in Kind

Benefits in kind are in respect of company cars and medical insurance.

## 7. Pensions

The following Directors had accrued entitlements under defined benefit schemes as follows:

| | Increase in accrued pension excluding inflation £000 | Transfer value of increase £000 | Accrued pension 30/09/96 £000 | **Accrued pension 30/09/97 £000** |
|---|---|---|---|---|
| R.A.G. Girling | 7 | 60 | 14 | **22** |
| J.R. Netherton | 4 | 29 | 16 | **21** |
| | 11 | 89 | 30 | **43** |

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less Director's contributions.

Members of the scheme have the option to pay Additional Voluntary Contributions; neither any contributions nor the resulting benefits are included in the above table.

Two Directors are members of money purchase schemes. Contributions paid by the Company in respect of such Directors were as follows:

| | **1997 £000** | 1996 £000 |
|---|---|---|
| M.D. Fischer | **18** | 17 |
| M.D. Greig | **12** | 12 |
| | **30** | 29 |

## 8. Directors' Long-term Incentive Schemes

Other than the arrangements relating to share options detailed below, the Company does not operate any long-term incentive schemes.

## 9. Policy on Granting of Share Options

The Committee believes that the grant of share options to executive Directors and key employees is vital in attracting, retaining and motivating high calibre staff in a fiercely competitive market and is the form of incentive which best aligns the interests of employees and shareholders. The Committee also believes that the original limits in the 1994 Executive Share Option Scheme on the proportion of issued ordinary share capital of the Company over which share options could be granted constrained the Company's ability to attract, retain and motivate key staff. Accordingly an Extraordinary General Meeting of the Company in January 1997 passed a resolution amending the scheme rules to permit an additional grant of options ("Super Options"). The exercise of Super Options is conditional upon the achievement of performance criteria considerably more demanding than those for standard options. The Committee believes the use of Super Options is most appropriate for senior executives and intends that where a grant of options is being made to a Director no more than one quarter will be standard options.

*Continued*

## 10. Directors' Share Options

| | Number of options over ordinary shares of 10p each in RM plc | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | At 01/10/96 | Granted in year | Exercised in year | At 30/09/97 | Exercise price | Market price at date of exercise | Date from which exercisable | Expiry date |
| M.D. Fischer | 15,000 | Nil | Nil | 15,000 | £4.01 | - | 20/12/98 | 20/12/05 |
| R.A.G. Girling | 25,000 | Nil | Nil | 25,000 | £1.30 | - | 12/11/93 | 12/11/00 |
| | 42,143 | Nil | Nil | 42,143 | £1.51 | - | 13/07/97 | 13/07/04 |
| | 30,000 | Nil | Nil | 30,000 | £4.01 | - | 20/12/98 | 20/12/05 |
| | Nil | 42,000 | Nil | 42,000 | £6.10 | - | 13/12/99 | 13/12/06 |
| | Nil | 42,000* | Nil | 42,000 | £7.375 | - | 17/02/00 | 17/02/07 |
| M.D. Greig | 42,143 | Nil | Nil | 42,143 | £1.51 | - | 13/07/97 | 13/07/04 |
| | 15,000 | Nil | Nil | 15,000 | £4.01 | - | 20/12/98 | 20/12/05 |
| | Nil | 15,000* | Nil | 15,000 | £7.375 | - | 17/02/00 | 17/02/07 |
| J.R. Netherton | 25,000 | Nil | Nil | 25,000 | £1.30 | - | 12/11/93 | 12/11/00 |
| | 42,143 | Nil | Nil | 42,143 | £1.51 | - | 13/07/97 | 13/07/04 |
| | 15,000 | Nil | Nil | 15,000 | £4.01 | - | 20/12/98 | 20/12/05 |
| | Nil | 25,002* | Nil | 25,002 | £7.375 | - | 17/02/00 | 17/02/07 |

* Super Options.

There have been no changes in the Directors' interests in the shares of the Company during the period 1st October 1997 to 21st November 1997. No options held by Directors lapsed during the year.

The market price of the ordinary shares at 30th September 1997 was £8.325 and the range during the year was £5.825 to £8.825.

## 11. Service Contracts

The executive Directors' service contracts are terminable on the giving of one year's notice. The Committee considers this appropriate given the nature of the Company's business and the skills and expertise of the executives concerned.

## 12. Remuneration Policy of Non-Executive Directors

The remuneration for non-executive Directors is determined by the executive Directors of the Board based on external professional advice and comparitors. Non-executive Directors have fixed term contracts, but are not eligible for pension scheme membership and do not participate in the Company's share schemes.

J.P. Leighfield
*Chairman of the Remuneration Committee, 21st November 1997*

# Corporate Governance

## Directors' Responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 Group and the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Directors' Statement on Corporate Governance

RM complies in full with the Cadbury Code of Best Practice and endorses the principles on which the Code is based.

The Board consists of four executive and six non-executive Directors all of whom have fixed term contracts of employment not exceeding one year. There are three Board Committees, namely Audit, Remuneration and Nominations, of which the Audit and Remuneration Committees comprise solely of non-executive Directors.

The Audit Committee's function is to review the financial information contained in the Annual and Interim Reports and to provide an opportunity for the non-executive Directors to make independent judgements and contributions thus furthering the effectiveness of RM's internal financial controls. The Audit Committee comprises the Company's non-executive Directors and meets at least twice a year. The Company's external auditors and the Finance Director normally attend these meetings.

The Remuneration Committee sets the remuneration of RM's executive Directors and senior management. It also considers grants and performance conditions under the RM Share Option Schemes and reviews RM's employment strategy generally.

The Nominations Committee recommends to the Board candidates for appointment as Directors.

After making enquires and taking into account the Group's cash resources, 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 accounts.

The Board of Directors has overall responsibility for the Group's system of internal financial control. Such a system can provide only reasonable and not absolute assurance of the reliability of financial information and the safeguarding of assets.

The Directors have reviewed the effectiveness of the systems of internal financial control. The key features of the internal financial control system that operated throughout the accounting period are summarised below:

- The Board meets eight times a year and has formally adopted a schedule of matters which are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues.
- The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority to executive management. Individuals are formally made aware of their level of authority and their budgetary responsibility which allow the identification and monitoring of financial performance.
- The Board of the operating company work within strict terms of reference and any matters outside those terms or the agreed business plan are referred to the full Board for decision.
- Executive managers are required to produce a business plan for approval prior to the beginning of each financial year and detailed financial forecasts are formally compiled quarterly and reviewed by the Board. Management accounts are produced each month and results measured against plan and previous year to identify any significant variations.
- The Board continues to review the major risks to the business. These are assessed and responsibility allocated to minimise them and ongoing review is incorporated into the business planning process.
- The Group's treasury function operates within a defined policy designed to control the Group's cash and to minimise its exposure to foreign exchange risk.
- The Group appoints experienced and professional staff of the necessary calibre to fulfil their allotted responsibilities.

# REPORT OF THE AUDITORS

## Report by the Auditors to RM plc on Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the Directors' statements on page 21 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

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

### Opinion

With respect to the Directors' statements on internal financial controls and going concern on page 21, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statement are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and officers of the Company and examination of relevant documents, in our opinion the Directors' statement on page 21 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

ARTHUR ANDERSEN
Arthur Andersen
Chartered Accountants
Abbots House, Abbey Street, Reading RG1 3BD.
21st November 1997

## To the Shareholders of RM plc

We have audited the financial statements on pages 23 to 37 which have been prepared under the historical cost convention and the accounting policies set out on pages 27 and 28. We have also examined the disclosures relating to the emoluments and share options of the Directors which form part of the report to the shareholders by the Remuneration Committee on pages 18 to 20.

### Respective responsibilities of Directors and auditors

As described on page 21 the Company's Directors are responsible for the preparation of the financial statements and it is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 Company and of the Group at 30th September 1997, and of the Group's profit and cash flows for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
ARTHUR ANDERSEN
Chartered Accountants and Registered Auditors
Abbots House, Abbey Street, Reading RG1 3BD.
21st November 1997

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the year ended 30th September 1997*

| | Note | 1997 £000 | 1996 £000 |
|---|---|---|---|
| **Turnover** | 2 | 110,170 | 99,032 |
| Cost of sales | | (80,862) | (73,174) |
| **Gross Profit** | | 29,308 | 25,858 |
| Operating expenses | | | |
| - Selling & distribution | | (11,893) | (10,150) |
| - Research & development | | (4,473) | (4,030) |
| - Administration | | (5,688) | (5,326) |
| | | (22,054) | (19,506) |
| **Operating Profit** | 3 | 7,254 | 6,352 |
| Net interest receivable | 5 | 764 | 454 |
| **Profit on Ordinary Activities before Taxation** | | 8,018 | 6,806 |
| Tax on profit on ordinary activities | 6 | (2,420) | (2,246) |
| **Profit on Ordinary Activities After Taxation** | | 5,598 | 4,560 |
| Dividends paid and proposed | 7 | (1,707) | (1,423) |
| **Retained Profit for the Year** | 17 | 3,891 | 3,137 |
| Earnings per ordinary share - Basic | 8 | 31.4p | 25.8p |
| - Fully diluted | 8 | 30.8p | 25.1p |

*All operations of the Group continued throughout both periods and no operations were acquired or discontinued.*
*There were no recognised gains or losses other than the profit for each year.*
*The accompanying notes are an integral part of these financial statements.*

# Consolidated Balance Sheet

*As at 30th September 1997*

| | Note | 1997 £000 | 1996 £000 |
|---|---|---|---|
| **Fixed Assets** | | | |
| Intangible fixed assets | 9 | 9,169 | - |
| Tangible fixed assets | 10 | 7,200 | 6,074 |
| | | 16,369 | 6,074 |
| **Current Assets** | | | |
| Stocks | 12 | 5,967 | 5,636 |
| Debtors | 13 | 27,716 | 19,092 |
| Investments - short term deposits | | 7,179 | 7,000 |
| Cash at bank and in hand | | 3,588 | 6,503 |
| | | 44,450 | 38,231 |
| **Creditors** | | | |
| Amounts falling due within one year | 14 | (33,390) | (22,389) |
| **Net Current Assets** | | 11,060 | 15,842 |
| **Total Assets Less Current Liabilities** | | 27,429 | 21,916 |
| **Creditors** | | | |
| Amounts falling due after more than one year | 14 | (3,439) | (1,965) |
| **Provision for Liabilities and Charges** | 15 | - | (106) |
| **Net Assets** | | 23,990 | 19,845 |
| **Capital and Reserves** | | | |
| Called-up share capital | 16 | 1,802 | 1,779 |
| Share premium account | 17 | 5,179 | 4,948 |
| Profit and loss account | 17 | 17,009 | 13,118 |
| **Equity Shareholders' Funds** | 17 | 23,990 | 19,845 |

*These financial statements were approved by the Board of Directors on 21st November 1997.*

R.A.G. Girling
DIRECTOR

M.D. Greig
DIRECTOR

*The accompanying notes are an integral part of these financial statements.*

# Company Balance Sheet

*As at 30th September 1997*

| | Note | 1997 £000 | 1996 £000 |
|---|---|---|---|
| **Fixed Assets** | | | |
| Investment in subsidiary undertakings | *11* | 9,156 | 11,380 |
| **Current Assets** | | | |
| Debtors | *13* | 730 | 2,181 |
| Cash at bank and in hand | | 7 | 15 |
| | | 737 | 2,196 |
| **Creditors** | | | |
| Amounts falling due within one year | *14* | (2,704) | (2,152) |
| **Net Current (Liabilities)/Assets** | | (1,967) | 44 |
| **Total Assets Less Current Liabilities** | | 7,189 | 11,424 |
| **Creditors** | | | |
| Amounts falling due after more than one year | *14* | - | (137) |
| **Net Assets** | | 7,189 | 11,287 |
| **Capital and Reserves** | | | |
| Called-up share capital | *16* | 1,802 | 1,779 |
| Share premium account | *17* | 5,179 | 4,948 |
| Profit and loss account | *17* | 208 | 4,560 |
| **Equity Shareholders' Funds** | *17* | 7,189 | 11,287 |

*These financial statements were approved by the Board of Directors on 21st November 1997.*

R.A.G. Girling
DIRECTOR

M.D. Greig
DIRECTOR

*The accompanying notes are an integral part of these financial statements.*

# Consolidated Cash Flow Statement

*For the year ended 30th September 1997*

| | Note | 1997 £000 | 1996 £000 |
|---|---|---|---|
| **Net Cash Inflow From Operating Activities** | *18* | 9,562 | 8,273 |
| Returns on investments and servicing of finance | *19* | 764 | 455 |
| Taxation | | (2,109) | (1,862) |
| Capital expenditure and financial investment | *20* | (9,704) | (2,750) |
| Equity dividends paid | | (1,503) | (1,105) |
| **Net Cash (Outflow)/Inflow before use of Liquid Resources and Financing** | | (2,990) | 3,011 |
| Management of liquid resources | *21* | (179) | (286) |
| Financing -Issue of shares | *22* | 254 | 294 |
| - Decrease in debt | | - | (187) |
| | | 254 | 107 |
| **(Decrease)/Increase in Cash in the Period** | | (2,915) | 2,832 |

# Reconciliation of Net Cash Flow to Movement in Net Cash

*For the year ended 30th September 1997*

| | Note | 1997 £000 | 1996 £000 |
|---|---|---|---|
| **(Decrease)/Increase in Cash in the Period** | | (2,915) | 2,832 |
| Cash inflow from increase in funds and decrease in lease financing | | - | 187 |
| Cash inflow from change in liquid resources | | 179 | 286 |
| **Change in Net Cash Resulting from Cash Flows** | | (2,736) | 3,305 |
| Net cash brought forward: | | 13,503 | 10,198 |
| **Net Cash Carried Forward** | *23* | 10,767 | 13,503 |

*The accompanying notes are an integral part of these financial statements.*

# Notes To The Financial Statements

## 1. Statement of Principal Accounting Policies

A summary of the principal Group accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

### (a) Basis of Accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

### (b) Basis of Consolidation

The Group financial statements consolidate the financial statements of RM plc and its subsidiary undertakings made up to 30th September 1997. The results of subsidiaries acquired are included in the Group profit and loss account from the effective date of acquisition. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is written off against reserves on consolidation. In the Company's financial statements the investments in subsidiary undertakings are stated at cost less any provision for permanent diminution.

### (c) Turnover and Revenue Recognition

Turnover represents the net value of goods supplied and services provided to third parties. Revenue on product sales is recognised on shipment. Revenue from contracts for maintenance and support is recognised on a pro rata basis over the contract period. Revenue from installation, consultancy and other services is recognised when the service has been provided.

### (d) Tangible Fixed Assets

Tangible fixed assets are shown at cost less accumulated depreciation.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, evenly over each asset's expected useful economic life as follows:

| | |
|---|---|
| Leasehold building improvements | 25 years |
| Plant & equipment | 4-10 years |
| Computers | 2-4 years |
| Vehicles | 2-4 years |

RM's computer units used for the purposes of administration, research and development and customer demonstrations are capitalised at cost.

### (e) Intangible Fixed Assets

Intangible fixed assets are shown at cost less amortisation. Amortisation is provided at rates to write off the cost of the asset on a straight line basis over a period of ten years.

### (f) Research and Development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

### (g) Stocks

Stocks are stated at the lower of cost and net realisable value. Costs include all direct costs incurred in bringing stocks to their present state and location, including an appropriate proportion of overheads. Provision is made for obsolete, slow moving and defective items where appropriate.

### (h) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recoverable against current corporation tax liabilities.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the financial statements and by the tax authorities) is calculated on the liability method. Deferred tax is provided on timing differences which will probably reverse at the rates of tax likely to be in force at the time of reversal.

# NOTES TO THE FINANCIAL STATEMENTS

*Continued*

### (i) Foreign Currency

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate of exchange ruling at the balance sheet date or, where appropriate, at the rate of exchange in a related forward contract. Foreign currency transactions are translated at the rate ruling on the date of the transaction or, where appropriate, at the rate in a related forward exchange contract. Exchange gains and losses are charged or credited to the profit and loss account as they occur.

### (j) Leases

Assets held under finance leases are initially reported at the fair value of the asset, with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability, and allocated to operating expenses as appropriate.

Rentals under operating leases are charged on a straight-line basis over the lease term.

### (k) Pension Costs

It is the general policy of the Group to provide for and to fund pension liabilities on the advice of external actuaries, by payment to independent trusts. Independent actuarial valuations are carried out every three years. The amount charged to the profit and loss account ('the regular pension cost') is calculated so as to produce a substantially level percentage of current and future pensionable payroll. Variations from the regular pension cost are allocated to the profit and loss account over the average remaining service lives of current members.

Any differences between amounts charged in the profit and loss account and paid to the pension funds are shown in the balance sheet as a liability or asset.

## 2. Segment Information

All of the Group's turnover and profit arose from the Group's main activities which are based principally in the United Kingdom. Export sales of £338,000 (1996: £713,000) included Europe £302,000 (1996: £596,000) and other countries £36,000 (1996: £117,000).

## 3. Operating Profit

The operating profit is stated after charging:

| | | 1997 £000 | 1996 £000 |
|---|---|---|---|
| Depreciation | - owned assets | 2,393 | 1,822 |
| | - assets held under finance leases and hire purchase contracts | - | 143 |
| Operating leases | - land and buildings | 892 | 792 |
| | - plant and machinery | 457 | 378 |
| Auditors' remuneration | - audit services | 62 | 59 |
| | - other professional services | 97 | 67 |

## 4. Staff Costs

| Particulars of employee costs (including Directors) are shown below. | 1997 | 1996 |
|---|---|---|
| | £000 | £000 |
| Staff costs comprise: | | |
| Wages and salaries | 17,637 | 14,803 |
| Social security costs | 1,476 | 1,228 |
| Other pension costs | 988 | 774 |
| Employee share scheme | 138 | 65 |
| | 20,239 | 16,870 |

| The average monthly number of persons employed by the Group during the year was as follows: | 1997 Number Employed | 1996 Number Employed |
|---|---|---|
| Sales and marketing | 204 | 171 |
| Services | 256 | 210 |
| Finance and administration | 107 | 96 |
| Product development | 97 | 85 |
| Distribution and assembly | 205 | 170 |
| Total | 869 | 732 |

Directors' remuneration

| Staff costs include the following remuneration in respect of Directors: | 1997 | 1996 |
|---|---|---|
| | £000 | £000 |
| Fees | 51 | 41 |
| Remuneration (excluding bonus payments) | 507 | 310 |
| Bonus payments | 27 | 146 |
| Contributions to money purchase pension scheme | 30 | 29 |
| | 615 | 526 |

Further information in relation to the Directors' remuneration and share options is given in the report of the Remuneration Committee on pages 18 to 20.

# NOTES TO THE FINANCIAL STATEMENTS

*Continued*

## 5. Net Interest Receivable

| | 1997 £000 | 1996 £000 |
|---|---|---|
| Interest receivable and similar income | 787 | 484 |
| Less: Interest payable | | |
| On bank loans and overdrafts: | | |
| - Repayable within 5 years other than by instalments | (23) | (20) |
| Under finance leases | - | (10) |
| | 764 | 454 |

## 6. Tax Charge on Profit on Ordinary Activities

| | 1997 £000 | 1996 £000 |
|---|---|---|
| UK corporation tax charge for the year | 2,559 | 2,162 |
| Deferred tax arising from: | | |
| Capital allowances | 157 | 83 |
| Other timing differences | (224) | 67 |
| | 2,492 | 2,312 |
| Adjustments in respect of previous years: | | |
| Corporation tax | 103 | (66) |
| Deferred tax | (175) | - |
| | 2,420 | 2,246 |

## 7. Dividends Paid and Proposed

| | 1997 £000 | 1996 £000 |
|---|---|---|
| Ordinary shares: | | |
| - Interim paid of 2.3p per share (1996: 1.8p) | 410 | 320 |
| - Final proposed of 7.2p per share (1996: 6.2p) | 1,297 | 1,103 |
| | 1,707 | 1,423 |

## 8. Earnings per Ordinary Share

Basic earnings per ordinary share is based on the Group's profit for the financial year of £5,598,000 (1996: £4,560,000) and on 17,852,021 (1996: 17,678,158) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Certain Directors and employees have been granted options to subscribe for ordinary shares at variable prices (see Note 16). During the year to 30th September 1997 options to subscribe for a weighted average of 968,736 ordinary shares had been granted. The fully diluted earnings per ordinary share is based on adjusted earnings of £5,789,000 (1996: £4,640,000) on the assumption that the options had been exercised on 1st October 1996 and the proceeds invested in 2.5% consolidated stock at a yield of 5.35% (less corporation tax) and on a weighted average of 18,820,757 (1996: 18,472,962) ordinary shares issued and issuable.

*Continued*

## 9. Intangible Fixed Assets

The intangible fixed assets acquired in the year represents payments relating to RM's manufacturing and distribution rights for certain software products for a period of 10 years.

The movement in the year was as follows:

| Group | Licence £000 |
|---|---|
| Cost: | |
| Beginning of year | - |
| Additions | 9,220 |
| End of year | 9,220 |
| Amortisation: | |
| Beginning of year | - |
| Charged in year | 51 |
| End of year | 51 |
| Net book value at end of year | 9,169 |

## 10. Tangible Fixed Assets

The movement in the year was as follows:

| Group | Total £000 | Short Leasehold Improvements £000 | Plant & Equipment £000 | Computers £000 | Vehicles £000 |
|---|---|---|---|---|---|
| Cost: | | | | | |
| Beginning of year | 10,412 | 1,143 | 3,358 | 3,156 | 2,755 |
| Additions | 3,774 | 1 | 1,105 | 1,210 | 1,458 |
| Disposals | (1,571) | (96) | (405) | (418) | (652) |
| End of year | 12,615 | 1,048 | 4,058 | 3,948 | 3,561 |
| Depreciation: | | | | | |
| Beginning of year | 4,338 | 290 | 1,643 | 1,517 | 888 |
| Charged in year | 2,342 | 49 | 579 | 811 | 903 |
| Disposals | (1,265) | (96) | (371) | (322) | (476) |
| End of year | 5,415 | 243 | 1,851 | 2,006 | 1,315 |
| Net book value at end of year | 7,200 | 805 | 2,207 | 1,942 | 2,246 |
| Net book value at beginning of year | 6,074 | 853 | 1,715 | 1,639 | 1,867 |

# NOTES TO THE FINANCIAL STATEMENTS

*Continued*

## 11. Investment in Subsidiary Undertakings

| | 1997 | 1996 |
|---|---|---|
| | £000 | £000 |
| Investments comprise: | | |
| Equity investments in subsidiary undertakings at cost | 1,508 | 2,943 |
| Loans to subsidiary undertakings | 7,648 | 8,437 |
| | 9,156 | 11,380 |

| The movement in the year was as follows: | Equity Investments £000 | Loans £000 | Total £000 |
|---|---|---|---|
| Beginning of year | 2,943 | 8,437 | 11,380 |
| Provision made in year | (1,435) | (895) | (2,330) |
| Loans advanced in year (net) | - | 106 | 106 |
| Net book value of investments at year end | 1,508 | 7,648 | 9,156 |

The Company's principal subsidiary undertaking is Research Machines plc which operates in the United Kingdom and is wholly owned.

The principal activities of Research Machines plc is the supply of software, services and systems to meet the specialist requirements of the education market. During the year the principle activity of Key Solutions RM Limited was the provision of education management and administration software and on the 29th July 1997 the trade and certain assets of this company were sold to Research Machines plc.

## 12. Stocks

| | Group 1997 £000 | Group 1996 £000 | Company 1997 £000 | Company 1996 £000 |
|---|---|---|---|---|
| Components | 4,185 | 3,615 | - | - |
| Work in progress | 73 | 159 | - | - |
| Finished goods | 1,709 | 1,862 | - | - |
| | 5,967 | 5,636 | - | - |

## 13. Debtors

| Due within one year: | Group 1997 £000 | Group 1996 £000 | Company 1997 £000 | Company 1996 £000 |
|---|---|---|---|---|
| Trade debtors | 25,121 | 17,315 | - | - |
| Other debtors: | | | | |
| - ACT recoverable | 303 | 330 | 303 | 758 |
| - Other | 872 | 47 | - | - |
| Prepayments and accrued income | 539 | 768 | - | - |
| Proposed dividend | - | - | - | 1,423 |
| | 26,835 | 18,460 | 303 | 2,181 |
| Due after one year: | | | | |
| Trade Debtors | 454 | 367 | - | - |
| ACT recoverable | 427 | 265 | 427 | - |
| | 27,716 | 19,092 | 730 | 2,181 |

*Continued*

## 14. Creditors

| Due within one year: | Group 1997 £000 | Group 1996 £000 | Company 1997 £000 | Company 1996 £000 |
|---|---|---|---|---|
| Trade creditors | 9,248 | 5,864 | - | - |
| Amounts owed to subsidiary undertaking | - | - | 839 | 535 |
| Other creditors: | | | | |
| - UK corporation tax payable | 2,656 | 2,189 | - | - |
| - ACT on dividends | 427 | 342 | 427 | 342 |
| - Social Security and PAYE | 574 | 500 | - | - |
| - VAT | 2,990 | 2,184 | - | - |
| - Other | 1,103 | 762 | - | - |
| Proposed dividends | 1,297 | 1,103 | 1,297 | 1,103 |
| Accruals and deferred income | 15,095 | 9,445 | 141 | 172 |
| | 33,390 | 22,389 | 2,704 | 2,152 |

| Due after more than one year: | 1997 £000 | 1996 £000 | 1997 £000 | 1996 £000 |
|---|---|---|---|---|
| - within 1-2 years - accruals and deferred income | 2,621 | 1,881 | - | 137 |
| - within 2-5 years - accruals and deferred income | 409 | 84 | - | - |
| - over 5 years - accruals and deferred income | 409 | - | - | - |
| | 3,439 | 1,965 | - | 137 |

## 15. Provision for Liabilities and Charges

| | Group 1997 £000 | Group 1996 £000 | Company 1997 £000 | Company 1996 £000 |
|---|---|---|---|---|
| Excess of tax allowances over book depreciation of tangible fixed assets | 61 | 472 | - | - |
| Short term timing differences | (61) | (99) | - | - |
| Other timing differences | - | (104) | - | - |
| ACT recoverable | - | (163) | - | - |
| | - | 106 | - | - |
| The movement on deferred tax comprises: | | | | |
| Beginning of year | 106 | 119 | - | - |
| (Credited)/charged to profit and loss - current year | (67) | 150 | - | - |
| - prior year | (175) | - | - | - |
| Transferred to/(from) current tax | 136 | (163) | - | - |
| End of year | - | 106 | - | - |

The Group has a deferred tax asset of £195,000 in relation to short term timing differences which has not been recognised.

*Continued*

## 16. Share Capital

| | 1997 £000 | 1996 £000 |
|---|---|---|
| Authorised: | | |
| 25,000,000 Ordinary Shares of 10p each (1996: 25,000,000) | 2,500 | 2,500 |
| Allotted, called up and fully paid: | | |
| 18,015,380 Ordinary Shares of 10p each (1996: 17,791,094) | 1,802 | 1,779 |

| During the year the following Ordinary Shares of 10p each were allotted for cash: | Number of Shares | Premium Arising £000 |
|---|---|---|
| - Issued on exercise of options | 224,286 | 231 |

### RML Staff Share Scheme

The RML Staff Share Scheme is an Inland Revenue approved employee share scheme constituted under a trust deed. As at 30th September 1997 the trustees of the scheme held 68,456 shares (1996: 111,612) on behalf of the employees which had a market value on that date of £569,896 (1996: £664,000).

### The Employee Share Ownership Trust

The Employee Share Ownership Trust owns 2,858 shares of RM plc (1996: 2,858) and has waived rights to the dividend on these shares. On 30th September 1997 these shares had a market value of £23,793 (1996: £17,000).

### Share Option Schemes

As at 30th September 1997 the following options granted in respect of ordinary shares of 10p each were outstanding:

| Share Option Scheme | Calendar Year of Issue | Number of Shares | Period of Option | Exercise Price per Share |
|---|---|---|---|---|
| **a) Research Machines Limited 1984** | 1989 | 2,500 | 10 years | £0.85 |
| | 1990 | 50,000 | 10 years | £1.30 |
| | 1993 | 15,000 | 10 years | £0.65 |
| | 1994 | 220,715 | 10 years | £1.51 |
| | | 288,215 | | |
| **b) RM plc 1994 Executive** | 1995 | 205,500 | 10 years | £4.01 |
| | 1996 | 141,600 | 10 years | £6.10 |
| | 1997 | 319,869 | 10 years | £7.375 |
| | | 666,969 | | |

# Notes To The Financial Statements

*Continued*

## 17. Reserves and Reconciliation of Movements in Shareholders' Funds

The Company has taken advantage of Section 230 of the Companies Act 1985 and has not presented its own profit and loss account.

| | Share Capital £000 | Share Premium Account £000 | Profit and Loss Account £000 | 1997 Total Shareholders' Funds £000 | 1996 Total Shareholders' Funds £000 |
|---|---|---|---|---|---|
| **Group:** | | | | | |
| Beginning of the year | 1,779 | 4,948 | 13,118 | 19,845 | 16,414 |
| Retained profit for the year | - | - | 3,891 | 3,891 | 3,137 |
| Shares issued during the year | 23 | 231 | - | 254 | 294 |
| Deferred consideration on acquisition | - | - | - | - | (600) |
| Goodwill (written off) adjustment | - | - | - | - | 600 |
| End of the year | 1,802 | 5,179 | 17,009 | 23,990 | 19,845 |
| **Company:** | | | | | |
| Beginning of the year | 1,779 | 4,948 | 4,560 | 11,287 | 11,811 |
| (Loss)/profit for the year | - | - | (2,645) | (2,645) | 1,205 |
| Dividends paid and proposed | - | - | (1,707) | (1,707) | (1,423) |
| Shares issued during the year | 23 | 231 | - | 254 | 294 |
| Deferred consideration on acquisition | - | - | - | - | (600) |
| End of the year | 1,802 | 5,179 | 208 | 7,189 | 11,287 |

The total amount of goodwill written off to reserves is £1,111,000 (1996: £1,111,000).

## 18. Reconciliation of Operating Profit to Operating Cash Flows

| | 1997 £000 | 1996 £000 |
|---|---|---|
| Operating profit | 7,254 | 6,352 |
| Depreciation charge | 2,342 | 1,965 |
| Amortisation of intangible fixed assets | 51 | - |
| Loss/(profit) on sale of fixed assets | 131 | (47) |
| (Increase)/Decrease in stock | (331) | 1,219 |
| Increase in debtors | (8,489) | (2,504) |
| Increase in creditors | 8,604 | 1,288 |
| **Net cash inflow from operating activities** | 9,562 | 8,273 |

## 19. Returns on Investments and Servicing of Finance

| | 1997 £000 | 1996 £000 |
|---|---|---|
| Interest received | 787 | 484 |
| Interest paid | (23) | (19) |
| Interest element of finance lease rental payments | - | (10) |
| **Net cash inflow from returns on investments and servicing of finance** | 764 | 455 |

# NOTES TO THE FINANCIAL STATEMENTS

*Continued*

## 20 Capital Expenditure and Financial Investment

| | 1997 £000 | 1996 £000 |
|---|---|---|
| Purchase of tangible fixed assets | (3,774) | (3,139) |
| Purchase of intangible fixed assets | (6,105) | - |
| Sale of plant and equipment | 175 | 389 |
| **Net cash outflow from capital expenditure and financial investment** | (9,704) | (2,750) |

## 21 Management of Liquid Resources

| | 1997 £000 | 1996 £000 |
|---|---|---|
| Increase in short term deposit | (179) | (286) |
| **Net cash outflow from management of liquid resources** | (179) | (286) |

## 22 Financing

| | 1997 £000 | 1996 £000 |
|---|---|---|
| Issue of ordinary share capital | 254 | 294 |
| | 254 | 294 |

## 23 Analysis of Net Funds

| | At 30 Sept 1996 | Cash Flow | At 30 Sept 1997 |
|---|---|---|---|
| Cash in hand, at bank | 6,503 | (2,915) | 3,588 |
| Current asset investments | 7,000 | 179 | 7,179 |
| | 13,503 | (2,736) | 10,767 |

*Continued*

## 24. Pension Scheme

The Group's principal pension scheme provides benefits based on both final pensionable salary and the value of individual accounts. The assets of the Scheme are held separately from those of the Group in a trustee administered fund. Contributions to the Scheme are charged to the Profit and Loss Account so as to spread the cost of pensions over the employees' working lives with the Group. The contributions are determined on the advice of a qualified actuary on the basis of valuations carried out at least every three years.

The most recent valuation for accounting purposes was carried out as at 1st June 1995 and used the projected unit method of funding. The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that investment returns would be 9% p.a., that salary increases would average 8% p.a., and that present and future pensions would increase at the rate of 3% p.a. Assets were assumed to be invested in a notional portfolio comprising 62% stocks underlying the FT-SE Actuaries' All Share Index, 28% stocks underlying the FT/S&P Actuaries World Index (excluding UK) and 10% Index Linked Gilts. UK equity dividend growth was assumed to be 4.5% p.a. with overseas equity dividend growth assumed at 6.5% p.a.

At the time of valuation the market value of the Scheme's assets was £7,837,000 and the actuarial value of these assets represented 101% of the benefits that had accrued to members, after allowing for expected future increases in salaries. The valuation also showed that the expected long term cost of the Scheme to the Group was 9.0% of Pensionable Salaries which equated to the then current Company contributions.

The Group also makes payments to defined contribution pension schemes on behalf of certain employees of the Group.

The pension charge for the year is disclosed in Note 4.

Included in creditors falling due within one year are outstanding pension contributions of £151,000 (1996: £22,000).

## 25. Contingencies and Commitments

### (a) Commitments under operating leases

The Group leases certain assets under operating leases, the terms of which are subject to renegotiation at various intervals as specified in the lease agreements and is committed to the following payments in the coming year:

| 1997 | **Land & Buildings** | **Others** |
|---|---|---|
| | **£000** | **£000** |
| Leases expiring within 1 year | **9** | **42** |
| Leases expiring within 2-5 years | **41** | **119** |
| Leases expiring after more than 5 years | **1,029** | **-** |
| | **1,079** | **161** |

| 1996 | Land & Buildings | Others |
|---|---|---|
| | £000 | £000 |
| Leases expiring within 1 year | 9 | 62 |
| Leases expiring within 2-5 years | - | 144 |
| Leases expiring after more than 5 years | 1,026 | - |
| | 1,035 | 206 |

### (b) Capital Commitments

The Group has the following capital expenditure commitments:

| | **1997** | 1996 |
|---|---|---|
| | **£000** | £000 |
| Authorised and Contracted | **470** | 324 |

# Five Year Summary

| £000 (except where otherwise stated) | 30 Sept 1993 | 30 Sept 1994 | 30 Sept 1995 | 30 Sept 1996 | **30 Sept 1997** |
|---|---|---|---|---|---|
| **Turnover** | 66,212 | 65,493 | 80,691 | 99,032 | 110,170 |
| **Operating Profit** | 2,929 | 3,501 | 4,586 | 6,352 | 7,254 |
| **Profit on Ordinary Activities Before Taxation** | 2,525 | 3,537* | 5,023 | 6,806 | 8,018 |
| **Profit After Taxation** | 1,889 | 2,659 | 3,365 | 4,560 | 5,598 |
| **Earnings per Share** (Fully diluted) | 11.3p | 14.2p* | 18.8p | 25.1p | 30.8p |
| **Dividends per Share** | 2.5p | 4.8p | 6.0p | 8.0p | 9.5p |
| **Balance Sheet:** | | | | | |
| **- Capital Employed** | 9,340 | 8,839 | 6,216 | 6,342 | 13,223 |
| **- Net Cash** | 3,332 | 5,995 | 10,198 | 13,503 | 10,767 |
| **- Shareholders' Funds** | 12,672 | 14,834 | 16,414 | 19,845 | 23,990 |
| **Operating Profit as a percentage of:** | | | | | |
| - Turnover | 4.4% | 5.3% | 5.7% | 6.4% | 6.6% |
| - Average Capital Employed | 24.2% | 38.5% | 60.9% | 101.2% | 74.2% |
| **Net Cash as a percentage of Shareholders' Funds** | 26.3% | 40.4% | 62.1% | 68.0% | 44.9% |

* Excludes exceptional income of £232,000.

RM

20 YEARS OF
EDUCATIONAL IT

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