

RESEARCH MACHINES plc

**Financial statements 30th September 1996
together with directors' and auditors' reports**

Company number: 1148594



Research Machines plc

Annual Report and Financial Statements for the year ended 30th September 1996

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DIRECTORS AND ADVISERS

**Registered Office and
Principal Location:**

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

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

Registered Number

1148594

Directors :

M.D. Fischer *Chairman*
R.A.G. Girling
J.R.M. Govan
M.D. Greig *Finance Director*
J.R. Netherton
T.R. Pearson
P.J. Perkin
K.A. Spence
R.J. Twibell

Secretary :

V.R. Copestake

Bankers :

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

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

DIRECTORS' REPORT

The Directors present their report on the affairs of the Company together with the financial statements and auditors' report for the year ended 30th September 1996.

1. PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company during the year was the supply of IT solutions to educational markets, based upon PC technology and incorporating networking, software and services. No significant change in the Company's activities is envisaged in the foreseeable future. The Directors expect the general level of trading activity to improve in the forthcoming year.

2. RESULTS AND DIVIDENDS

The Company's profit for the year, after taxation, was £5,014,000 (1995: £3,921,000). The Directors recommend a dividend payment of £1,423,000.

3. RESEARCH AND DEVELOPMENT

The Company 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. CHARITABLE AND POLITICAL DONATIONS

During the year the Company made various charitable donations totalling £97,000 (1995: £41,000). A further £17,000 was given to locally based community support projects (1995: £6,000).

5. CREDITORS PAYMENT POLICY

The Company 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.

6. DIRECTORS AND THEIR INTERESTS

The Directors of the Company at 30th September 1996 together with their interests in the share capital of the ultimate parent company RM plc, were as follows:

	01/10/95*	30/09/96
	Ordinary	Ordinary
	Shares of	Shares of
	10p each	10p each
M.D. Fischer	2,944,133	2,544,333
R.A.G. Girling	60,513	57,713
J.R.M. Govan	4,175	10,464
M.D. Greig	5,690	54,890
J.R. Netherton	418,553	403,753
T.R. Pearson (Appointed 08/05/96)	24,125	18,465
P.J. Perkin	208,013	5,983
K.A. Spence	1,087	1,287
R.J. Twibell (Appointed 20/05/96)	87,107	87,107

*Or at the subsequent date of appointment if later.

T.B. Holland resigned from the Board of Directors on 19th January 1996.

DIRECTORS' REPORT

According to the register of Directors' interests maintained under the Companies Act, the Directors and their immediate families have the following options to subscribe for shares in RM plc:

	Number of options over ordinary shares of 10p each in RM plc				Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
	At 01/10/95*	Granted in year	Exercised in year	At 30/09/96				
M.D. Fischer	Nil	15,000	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
	Nil	30,000	Nil	30,000	£4.01	-	20/12/98	20/12/05
J.R.M. Govan	7,500	Nil	7,500	Nil	£1.30	£4.97	12/11/93	12/11/00
	20,000	Nil	20,000	Nil	£0.65	£4.97	26/03/96	26/03/03
	22,143	Nil	Nil	22,143	£1.51	-	13/07/97	13/07/04
	Nil	15,000	Nil	15,000	£4.01	-	20/12/98	20/12/05
M.D. Greig	100,000	Nil	100,000	Nil	£0.80	£4.01	29/10/92	29/10/99
	42,143	Nil	Nil	42,143	£1.51	-	13/07/97	13/07/04
	Nil	15,000	Nil	15,000	£4.01	-	20/12/98	20/12/05
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
	Nil	15,000	Nil	15,000	£4.01	-	20/12/98	20/12/05
T.R. Pearson	10,000	Nil	Nil	10,000	£1.51	-	13/07/97	13/07/04
	4,500	Nil	Nil	4,500	£4.01	-	20/12/98	20/12/05
P.J. Perkin	100,000	Nil	Nil	100,000	£0.85	-	21/12/92	21/12/99
	42,143	Nil	Nil	42,143	£1.51	-	13/07/97	13/07/04
	Nil	15,000	Nil	15,000	£4.01	-	20/12/98	20/12/05
K.A. Spence	60,000	Nil	60,000	Nil	£0.85	£4.01	06/02/92	06/02/99
	40,000	Nil	40,000	Nil	£0.80	£4.01	29/09/92	29/09/99
	42,143	Nil	Nil	42,143	£1.51	-	13/07/97	13/07/04
	Nil	15,000	Nil	15,000	£4.01	-	20/12/98	20/12/05
R.J. Twibell	4,500	Nil	Nil	4,500	£4.01	-	20/12/98	20/12/05

* Or at the subsequent date of appointment if later.

There have been no changes in the Directors' interests in the shares of the Company during the period 1st October 1996 to 22nd November 1996. No options held by Directors lapsed during the year.

RM plc's mid market share price at the close of business on 30th September 1996 was £5.95. The range of the mid market price during the year was £3.16 to £6.25.

7. EMPLOYEES

Research Machines plc 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 Research Machines plc'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.

Research Machines plc 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 Research Machines plc'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.

DIRECTORS' REPORT

8. AUDITORS

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


9. DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 Company will continue in business.

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

By Order of the Board


V.R. Copestake
Secretary
New Mill House
183 Milton Park
Abingdon
Oxon OX14 4SE
22nd November 1996

PROFIT AND LOSS ACCOUNT

For the year ended 30th September 1996

	Note	1996 £000	1995 £000
TURNOVER	2	97,377	80,383
Cost of sales		(72,696)	(60,643)
GROSS PROFIT		24,681	19,740
Operating expenses			
- Selling & distribution		(9,607)	(8,195)
- Research & development		(3,652)	(2,630)
- Administration		(4,615)	(3,863)
		(17,874)	(14,688)
OPERATING PROFIT	3	6,807	5,052
Net interest receivable	5	453	436
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		7,260	5,488
Tax on profit on ordinary activities	6	(2,246)	(1,567)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		5,014	3,921
Proposed dividend on equity shares		(1,423)	-
RETAINED PROFIT FOR THE YEAR		3,591	3,921

A statement of movements on reserves is given in Note 13.

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.

BALANCE SHEET

As at 30th September 1996

	Note	1996 £000	1995 £000
FIXED ASSETS			
Tangible fixed assets	7	5,919	5,126
CURRENT ASSETS			
Stocks	8	5,611	6,827
Debtors	9	18,011	16,033
Cash at bank and in hand		13,483	10,165
		37,105	33,025
CREDITORS			
Amounts falling due within one year	10	(29,264)	(28,481)
NET CURRENT ASSETS		7,841	4,544
TOTAL ASSETS LESS CURRENT LIABILITIES		13,760	9,670
CREDITORS			
Amounts falling due after more than one year	10	(1,671)	(1,322)
PROVISION FOR LIABILITIES AND CHARGES	11	(396)	(246)
NET ASSETS		11,693	8,102
CAPITAL AND RESERVES			
Called-up share capital	12	200	200
Profit and loss account	13	11,493	7,902
SHAREHOLDERS' FUNDS		11,693	8,102
Equity interests		11,593	8,002
Non-equity interests		100	100
TOTAL CAPITAL EMPLOYED		11,693	8,102

These financial statements were approved by the Board of Directors on 22nd November 1996.

Signed on behalf of the Board



M.D. Greig
Director
22nd November 1996

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 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.

No cash flow statement has been provided as the Company is a wholly owned subsidiary undertaking of RM plc. A consolidated cash flow statement, which includes the cash flows of the Company, is provided in the consolidated accounts of RM plc.

(b) 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.

(c) 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

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

(d) Research and Development

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

(e) 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.

(f) 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

(g) 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.

(h) 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.

(i) Pension Costs

It is the general policy of the Company 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 Company's turnover and profit arose from the Company's main activities which are based principally in the United Kingdom. Export sales of £333,000 (1995: £68,000) included Europe £216,000 (1995: £67,000) and other countries £117,000 (1995: £1,000).

3. OPERATING PROFIT

The operating profit is stated after charging:

		1996	1995
		£000	£000
Depreciation	- owned assets	1,722	1,120
	- assets held under finance leases and hire purchase contracts	143	404
Operating leases	- land and buildings	792	657
	- plant and machinery	306	182
Auditors' remuneration	- audit services	53	40
	- other professional services	67	47

NOTES TO THE FINANCIAL STATEMENTS

4. STAFF COSTS

Particulars of employee costs (including Directors) are shown below.

	1996 £000	1995 £000
Staff costs comprise:		
Wages and salaries	14,191	11,303
Social security costs	1,170	982
Other pension costs	770	658
Employee share scheme	65	80
	16,196	13,023

The average monthly number of persons employed by the Company during the year was as follows:

	1996 Number Employed	1995 Number Employed
Sales and marketing	164	125
Services	195	152
Finance and administration	87	74
Product development	75	61
Distribution and assembly	168	130
Total	689	542

Directors' remuneration in respect of the Directors of the Company who served during the year ended 30th September 1996 was as follows:

	1996					1995	
Name	Other remuneration £000	Bonus £000	Benefits in kind £000	Total emoluments excluding pension contributions £000	Pension contributions £000	Aggregate emoluments £000	Aggregate emoluments £000
M.D. Fischer*	141	83	5	229	17	246	196
R.A.G. Girling	94	40	8	142	8	150	111
J.R.M. Govan	80	29	3	112	7	119	90
M.D. Greig	91	36	8	135	12	147	121
T.B. Holland	26	-	2	28	2	30	96
J.R. Netherton	126	45	14	185	10	195	158
T.R. Pearson	30	6	-	36	3	39	-
P.J. Perkin	101	34	-	135	9	144	138
K.A. Spence	96	35	-	131	7	138	113
R.J. Twibell	34	10	3	47	3	50	-
	819	318	43	1,180	78	1,258	1,023

*Chairman.

In addition to his emoluments shown above T.B. Holland was paid £121,000 by the Company as compensation for loss of office as Director following his resignation from the Board on 19th January 1996.

The emoluments of the executive Directors are determined by the Remuneration Committee of RM plc. The executive Directors participate in an annual bonus plan, under which the amount of bonus is determined partly by achieving personal objectives and partly by the performance of the RM Group. Benefits in kind are in respect of company cars and medical insurance.

NOTES TO THE FINANCIAL STATEMENTS

The emoluments (excluding pension contributions but including bonuses and benefits in kind) of the Directors fell within the following ranges:

		1996	1995			1996	1995
		Number	Number			Number	Number
£	£			£	£		
25,001	to 30,000	1	-	125,001	to 130,000	-	1
35,001	to 40,000	1	-	130,001	to 135,000	2	-
45,001	to 50,000	1	-	135,001	to 140,000	1	-
85,001	to 90,000	-	1	140,001	to 145,000	1	-
90,001	to 95,000	-	1	145,001	to 150,000	-	1
100,001	to 105,000	-	1	175,001	to 180,000	-	1
105,001	to 110,000	-	2	180,001	to 185,000	1	-
110,001	to 115,000	1	-	225,001	to 230,000	1	-

5. NET INTEREST RECEIVABLE	1996	1995
	£000	£000
Interest receivable and similar income	481	487
Less: Interest payable		
On bank loans and overdrafts:		
- Repayable within 5 years other than by instalments	(18)	(27)
Under finance leases	(10)	(24)
	453	436

6. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES	1996	1995
	£000	£000
UK corporation tax charge for the year	2,162	1,578
Deferred tax arising from:		
Capital allowances	83	82
Other timing differences	67	(59)
	2,312	1,601
Adjustments in respect of previous years:		
Corporation tax	(66)	-
Deferred tax	-	(34)
	2,246	1,567

NOTES TO THE FINANCIAL STATEMENTS

7. TANGIBLE FIXED ASSETS

The movement in the year was as follows:

	Total	Short Leasehold Improvements	Plant & Equipment	Computers	Vehicles
	£000	£000	£000	£000	£000
Cost:					
Beginning of the year	8,357	1,047	2,570	2,485	2,255
Additions	2,980	76	611	1,028	1,265
Disposals	(1,190)	-	(57)	(357)	(776)
End of the year	10,147	1,123	3,124	3,156	2,744
Depreciation:					
Beginning of the year	3,231	227	1,158	1,070	776
Charged in year	1,865	61	434	701	669
Disposals	(868)	-	(53)	(254)	(561)
End of the year	4,228	288	1,539	1,517	884
Net book value at end of the year	5,919	835	1,585	1,639	1,860
Net book value at beginning of the year	5,126	820	1,412	1,415	1,479

The net book value of assets held under finance leases was Computers £Nil (1995: £147,000) and Vehicles £Nil (1995: £283,000).

8. STOCKS

	1996 £000	1995 £000
Components	3,615	3,651
Work in progress	159	124
Finished goods	1,837	3,052
	5,611	6,827

9. DEBTORS

	1996 £000	1995 £000
Due within one year:		
Trade debtors	16,708	15,197
Amounts owed by other Group undertakings	547	239
Other debtors	38	156
Prepayments and accrued income	718	441
	18,011	16,033

NOTES TO THE FINANCIAL STATEMENTS

10. CREDITORS

Due within one year:	1996 £000	1995 £000
Obligations under finance leases	-	166
Trade creditors	5,757	7,309
Other creditors:		
- UK corporation tax payable	2,189	1,693
- Social Security and PAYE	476	474
- VAT	2,178	2,888
- Other	772	244
Amounts owed to other Group undertakings	9,249	9,105
Accruals and deferred income	8,643	6,602
	<u>29,264</u>	<u>28,481</u>
Due after more than one year:	1996 £000	1995 £000
- within 1-2 years		
- obligations under finance leases	-	21
- accruals and deferred income	1,586	885
- within 2-5 years		
- accruals and deferred income	85	416
	<u>1,671</u>	<u>1,322</u>

11. PROVISION FOR LIABILITIES AND CHARGES

	1996 £000	1995 £000
Deferred Taxation		
Excess of tax allowances over book depreciation of tangible fixed assets	489	406
Short term timing differences	(93)	(160)
	<u>396</u>	<u>246</u>
The movement on deferred tax comprises:		
Beginning of year	246	-
Transferred from RM plc	-	257
Credited to profit and loss	150	(11)
End of year	<u>396</u>	<u>246</u>

There are no unprovided deferred tax liabilities (1995: £Nil).

NOTES TO THE FINANCIAL STATEMENTS

12. SHARE CAPITAL

	1996	1995
	£000	£000
Authorised:		
650,000 Ordinary Shares of £1 each (1995: 650,000)	650	650
100,000 2% non-cumulative, non participating preference shares of £1 each (1995: 100,000)	100	100
	750	750
Allotted, called-up and fully paid:		
100,000 Ordinary Shares of £1 each (1995: 100,000)	100	100
100,000 2% non-cumulative, non participating preference shares of £1 each (1995: 100,000)	100	100
	200	200

Non-equity shareholders' funds relate entirely to the 2% non-cumulative irredeemable preference shares. These shares carry an entitlement to dividend at the rate of 2p per share per annum. The holders of the preference shares have no voting rights but have the right, on winding-up, to receive, in priority to any other class of shares, the sum of £1 per share.

The preference shareholders have waived their right to a dividend for the year.

13. RESERVES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital	Profit and Loss Account	1996 Total Shareholders' Funds £000	1995 Total Shareholders' Funds £000
	£000	£000	£000	£000
Beginning of the year	200	7,902	8,102	4,181
Retained profit for the year	-	3,591	3,591	3,921
End of the year	200	11,493	11,693	8,102

14. PENSION SCHEME

The Company'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 Company 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 Company. 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 Company was 9.0% of Pensionable Salaries which equates to the current Company contributions.

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

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

Included in creditors falling due within one year are outstanding pension contributions of £22,000 (1995: £8,000).

NOTES TO THE FINANCIAL STATEMENTS

15. CONTINGENCIES AND COMMITMENTS

(a) Commitments under operating leases

The Company lease certain assets under operating leases, the terms of which are subject to renegotiation at various intervals as specified in the lease agreements.

The Company is committed to the following payments in the coming year in respect of operating leases:

1996	Land & Buildings £000	Others £000
Leases expiring within 1 year	9	44
Leases expiring within 2-5 years	-	22
Leases expiring after more than 5 years	1,026	-
	1,035	66

1995	Land & Buildings £000	Others £000
Leases expiring within 1 year	11	34
Leases expiring within 2-5 years	-	11
Leases expiring after more than 5 years	596	-
	607	45

(b) Capital Commitments

The Company has the following capital expenditure commitments:

	1996 £000	1995 £000
Authorised and contracted	324	114

16. ULTIMATE PARENT COMPANY

The immediate and ultimate parent company of the Company is RM plc, which heads the only group in which the results of Research Machines plc are consolidated. The consolidated accounts of this group are available to the public and may be obtained from RM plc, New Mill House, 183 Milton Park, Abingdon, Oxon, OX14 4SE.

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF RESEARCH MACHINES plc

We have audited the financial statements on pages 5 to 14 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of Directors and auditors

As described on page 4 the Company's Directors are responsible for the preparation of the financial statements and it is our responsibility to form an independent opinion 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, 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 Company's state of affairs at 30th September 1996, and of its profit for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



ARTHUR ANDERSEN
Chartered Accountants and Registered Auditors
Abbots House, Abbey Street, Reading RG1 3BD
22nd November 1996

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