

Company number 1749877

RM plc

**Annual Report and Financial Statements  
for the year ended 30th September 2000**



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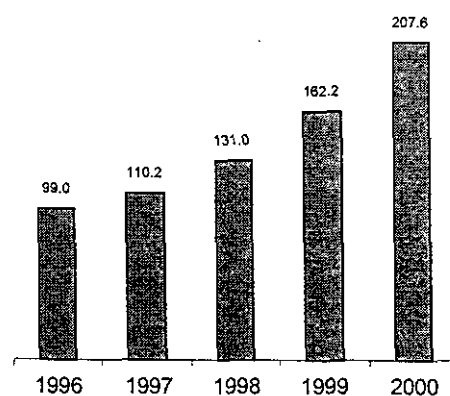
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## **RM plc**

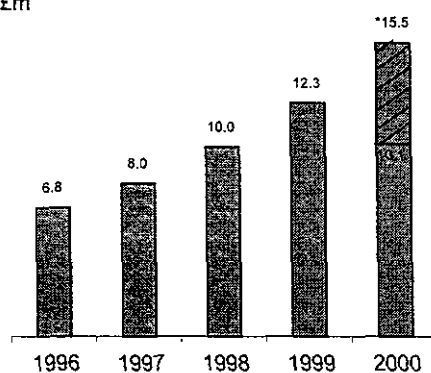
### **Annual Report and Financial Statements for the year ended 30th September 2000**

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TURNOVER  
£m

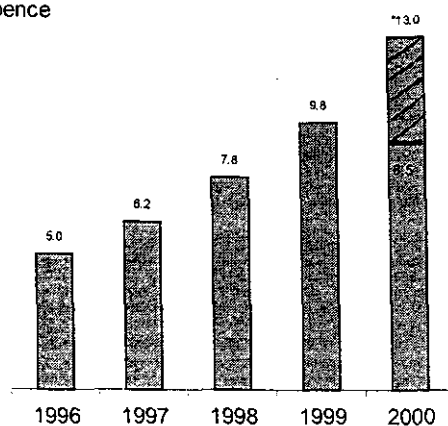


PROFIT ON ORDINARY ACTIVITIES  
BEFORE TAX  
(before amortisation of goodwill)  
£m



\*Before exceptional cost of sales

DILUTED EARNINGS PER SHARE  
(before amortisation of goodwill)  
pence



\*Before exceptional cost of sales

## CHAIRMAN'S STATEMENT

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RM is in the business of improving standards of teaching and learning. Our innovative Information and Communications Technology (ICT) products are used across the country – and increasingly worldwide – to assist in the delivery of education and to manage the business of education establishments.

### **RM's Business**

The year ended 30<sup>th</sup> September 2000 saw RM's turnover increase by 28% to £207.6 million and, over the past five years, our turnover has more than doubled. I believe that this growth record demonstrates the Group's ability to produce products that both genuinely meet our customers' needs and offer sustained competitive advantage.

### **Making a Difference**

After some years of investing in educational ICT largely on the basis of subjective judgement – or even faith – there is now a growing body of objective evidence that shows that ICT can make a real difference to educational achievement. For example, a study published in October 2000 by the Department for Education and Employment shows a strong correlation between the quality of a primary school's ICT and the ability to achieve high educational standards. These findings are echoed by anecdotal and academic research from around the world.

As well as using ICT to support teaching and learning across all curriculum subjects, it is increasingly important that ICT skills themselves are taught. In the UK, ICT is seen as an educational priority not just because of the impact it can have on raising standards, but because of the importance of ICT skills themselves. A strongly developed ICT skills base is necessary if the UK's information industries are to retain their world-leading position.

ICT is playing a major role in modernising the UK's education system. In turn, the UK's education system is building a foundation for the UK's continued success in the information age. At RM we are committed to creating the innovative products and delivering the high quality services that are required to support this. Over many generations of technology the Group has demonstrated an ability to identify key ICT developments and implement those that work – robustly and effectively – in an educational environment.

### **Partnership**

In the UK, RM strives to be seen as a part of the educational community, not simply a supplier to it. We have a very particular role, which is to provide, through managed services, the most effective ICT infrastructure for education establishments and to deliver world-class teaching and learning content.

We believe that the future of education lies in strong partnerships between the public and private sectors; RM is in the vanguard of private sector involvement in education. It is our aim to work in partnership with all elements of the education service – individual education establishments, local government and central government – with the shared goal of improving teaching and learning. Our people – many of whom have direct experience as educationalists – are predisposed naturally to share the broad objectives of all of our customer stakeholders.

### **Sharpening our Customer Focus**

Our immediate customers look to us to provide professional tools that are becoming ever more fundamental to their jobs. Our ultimate customers – learners themselves – rely on us to provide the educational opportunities that new technologies and educational approaches are opening up. The products and services that we provide are now an integral part of the fabric of education and our continued success will depend on delivering very high levels of customer satisfaction.

Delivering an experience that exceeds our customers' expectations is extremely important to RM, but the increasing sophistication of the ICT products used in education makes it ever more challenging. This year, unprecedented demand has made delivering the service levels our customers expect a harder task than ever before. Nonetheless I am pleased with the way our customer service staff have responded to these challenges and used them as a spur to improve their processes and procedures.

## CHAIRMAN'S STATEMENT

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### Providing an Environment in Which People Can Excel

RM's continuing success will depend totally on our ability to recruit, retain and motivate staff of the highest quality. RM's requirements of its people are searching. As well as world-leading technical skills, we need people with an empathy for education and a commitment to customer service.

RM provides an environment in which people can excel and, as a result, we have been successful in recruiting and retaining high quality people. However, during the last year, it has become clear that we need to take the development of our organisation further to provide an environment that stretches – and rewards – our staff in the optimum way for business performance.

To promote this the Board has taken a decisive step to evolve RM's structure. Our new organisation, with accountable operating businesses focusing separately – but in partnership – on specific customer groups and on online content, puts customers first and provides incentives and opportunities for all our staff. It also provides space for the Board to concentrate on the technical, customer and business strategies that will move RM forward to its next stage. I look forward to the continued development of each of our operating businesses and to the creation and implementation of new ideas, approaches and ventures.

### Delivering Excellence for All Of Our Stakeholders

I know that our success depends – and will continue to depend – on having a clear view of what we should provide for our customers, being committed to the highest levels of service and providing incentives and opportunities to retain and motivate the best staff. It is my job at RM to ensure that we continue to do all three and that, as a consequence, we provide good returns for our shareholders.



John Leighfield  
17<sup>th</sup> November 2000

## CHIEF EXECUTIVE'S REVIEW

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The Year 2000 has seen excellent growth for RM with the Group reinforcing its position as the ICT partner of choice for education establishments throughout the UK. The Group's proven ability to meet the complete IT needs of its customers – including infrastructure, online content and training – has allowed it to build a strong position in a growing market.

### Results

RM's results for the year ended 30<sup>th</sup> September 2000 were in line with market expectations. Turnover increased by 28% to £207.6 million (1999: £162.2 million). Order intake grew more rapidly than turnover and the value of the Group's order book (in the form of deferred income and order backlog at the close of the period) was £111 million (1999: £79 million), with approximately £75 million of this representing contracted services to be delivered in future years. As reported at the half-year, increased funding for the National Grid for Learning became available in the government year starting April 2000. This had a significant impact on RM's second half, which saw turnover growth of 42%.

The Group announced in September 2000 that it expected to establish a provision against expenditure incurred during the year in connection with Classroom 2000 (a ten-year project to provide managed ICT services to all schools in Northern Ireland). This provision has now been finalised as an exceptional cost of sales of £5.4 million. Negotiations over Classroom 2000 have been more difficult than expected and Trilith (the RM – ICL joint venture company that has been sole bidder for the project since June 1999) has still not been appointed preferred bidder, despite the investment of considerable time and resources.

Profit before tax (before goodwill amortisation and before the exceptional provision) was £15.5 million (1999: £12.3 million) and diluted earnings per share (stated on the same basis) were 13.0p (1999: 9.8p). After goodwill amortisation of £0.6 million (relating to the acquisition of 3T Productions) and the exceptional provision, profit-before-tax was £9.5 million and diluted earnings-per-share were 7.9p.

At year-end the Group's cash balance was £19.2 million (1999: £17.8 million). Loan notes to the value of £2.3 million were issued as part of the £5.5 million acquisition of 3T Productions.

Gross margin – excluding the exceptional cost of sales – was 25.1% (1999: 27.0%). This reflects lower margins from the Group's PC operations and an increased contribution from the *Learning Schools Programme* (RM's joint venture with the Open University to provide training for teachers.) PC margins were affected by unusual cost increases, including adverse currency fluctuations, over the summer. In addition, the Group took an aggressive pricing stance on certain key products in order to enhance its competitive position. Operating profit margin – excluding the exceptional cost of sales and amortisation of goodwill – was 7.2% (1999: 7.2%).

The Board is recommending a final dividend of 2.7p per share (1999: 2.2p) payable on 31<sup>st</sup> January 2001 to shareholders on the register at 8<sup>th</sup> January 2001. This makes a full year dividend of 3.5p (1999: 2.86p).

### Markets

Demand for ICT amongst educationalists continues to grow and ICT is now seen as a fundamental part of the fabric of schools and colleges.

The Summer 2000 Comprehensive Spending Review indicated that further funding for education would be made available in the three government years from 2001 to 2004. In September the DfEE (Department for Education and Employment) confirmed that £245 million would be available in 2001/2002 and announced a further £710 million across the two years 2002/2003 and 2003/2004. The £710 million in government years 2002/2003 represents a 58% increase over the two years 2000/2002. The DfEE has also reinforced its view that schools should have autonomous control over their spending and has increased its target for delegation of funds from 85% to 90%.

This year has seen the focus of the DfEE's National Grid for Learning (NGfL) investment move to secondary schools. This has driven growth in the secondary school market and had a particularly significant impact in the second half. The introduction of *RM Community Connect* – an enhancement of the Group's whole-school network solution – further differentiated RM from the competition and allowed it to take advantage of this market growth. The Group has maintained its share of this sector and turnover grew by 20%.

Turnover from the primary school market increased by 18%. The increased competitiveness of the Group's products, combined with significant revenues resulting from the Group's participation in the Tesco Computers for Schools scheme, allowed the Group to retain its position in an enlarged market. Improved Internet support and software enhancements to address changes in UK curricula have made *RM Window Box*® more popular than ever.

## CHIEF EXECUTIVE'S REVIEW

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### Learning Schools Programme

The government's £230 million, lottery funded initiative to provide ICT training for teachers is progressing well. This initiative is enormously important to RM's marketplace. It will significantly enhance teachers' familiarity with and understanding of ICT allowing them to become more confident users and purchasers of technology. It also represents a significant business opportunity both in terms of revenue and by offering a chance to build strong relationships with individual teachers.

The *Learning Schools Programme* – the Group's joint venture with the Open University in response to the lottery funded initiative – is making a significant contribution to the initiative. 100,000 teachers have already signed up for the *Learning Schools Programme*, which represents approximately one third of all teachers who have registered for training so far. 50,000 of these had commenced training by the end of the year.

### Managed Services

RM is the leading provider of managed services to UK education establishments. The Group now manages 20,000 desktops (an increase of 67% over last year) in over 300 establishments ranging from single primary schools, through large colleges, to whole LEAs. The majority of this growth has come from individual education establishments, reflecting the continuing trend of delegation of decision making responsibility to individual schools. Significant managed service contracts won during the year include Scottish Borders Council and Rotherham LEA (a managed broadband learning network).

The Group has always seen its customers as partners, offering the potential of long-term, mutually beneficial relationships. Managed service contracts formalise these relationships and offer predictable multi-year revenue streams. The majority of the Group's managed service business is in the form of multi-year contracts.

Managed services are seen by education establishments as a highly effective mechanism for procuring ICT services because they simplify initial decision making and guarantee a high quality of service. The managed service approach has also been strongly endorsed by government through the introduction of the NGfL Managed Services accreditation scheme – RM is an accredited supplier under this scheme.

### Learning Software and Online Content

Improving standards of literacy and numeracy are key objectives for education and the Group's portfolio of learning software products makes a significant contribution in this area. Turnover from these products increased by over 50% on the previous year.

The installed base for *SuccessMaker®* continues to grow and the long-term distribution agreement RM entered into with its owners – Computer Curriculum Corporation – has proved to be very beneficial. *RM Maths Learning System* is now becoming established as an important numeracy tool for primary schools with the number of schools using the product increasing by approximately one half during the year.

RM's learning software portfolio has been enhanced with the launch of *CCC Destinations™* (a numeracy product aimed at post-16 learners), the launch of *Easiteach™ Maths* (an online whole-class teaching tool) and through a strategic alliance with Riverdeep (which brings a Key Stage 4 mathematics product.) RM now has a complete range of maths learning software covering all ages.

RM's strategic alliance with Riverdeep, which was signed in June, gives RM exclusive UK distribution rights to Riverdeep's highly regarded maths learning product and provides a non-exclusive channel to market for RM's *Living Library* Internet content service in the USA. The Riverdeep maths software is being localised for the UK market and is expected to launch at BETT 2001 in January 2001. In turn, *Living Library* is being localised for the US market and will be delivered through the *riverdeep.net* learning portal.

3T Productions, which the Group acquired in March, is a web design company that specialises in producing educational content. 3T Productions has an excellent reputation and a client base including the DfEE and the Teacher Training Agency. RM had already worked successfully in partnership with 3T Productions to produce the *Explore Parliament* web site. The addition of 3T's web and design expertise positions the Group well to compete for large and significant educational contracts. This has already proved successful with the award of a contract from the DfEE to pilot a Key Stage 3 mathematics learning service in English schools.

## CHIEF EXECUTIVE'S REVIEW

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RM's online content range has developed significantly during the year. *RM Living Library* – the UK's leading premium educational content service – continually evolves and now includes a range of archive film footage sourced from the BBC and British Pathe archive. Also during the year the *Window Box Online (WBOL)* service – which provides an unrivalled range of online lesson plans and teaching resources – was launched. WBOL adds significant value to the *RM Window Box* franchise by extending the core brand benefits of integration and ease-of-use online.

In time, it is the Group's intention to build on its position as the UK's leading education Application Service Provider (ASP) by bringing all of its content activities together and presenting them through a unified online distribution channel. This channel is a natural extension of RM's position as the leading distributor of software and content to the education market in the UK.

### Internet Connections

RM continues to lead the way in providing Internet service connections to education establishments. *Internet for Learning (IfL)* is now Internet Service Provider (ISP) to 11,500 (1999: 10,000) establishments, of whom 8,000 (1999: 6,000) take network connectivity using ISDN, or higher bandwidth, telecommunications. IfL also hosts web sites for over 8,000 schools.

The Group's value-added Internet services have also progressed well. *EasyMail*, a chargeable web email service aimed at schools, now has 700,000 users and delivers 4.5 million page impressions per month. *SecureNet*, a secure communications system designed to allow schools to exchange public examination information with examining boards, now has 410 secondary schools users (approximately 10% of its target market).

### Looking Ahead

The next stage of RM's development will see further growth in the UK education market and significant expansion of the Group's content activities. To facilitate this development the Board has decided to create separate businesses each headed by a managing director reporting to the Group Executive Board. RM Schools will focus on delivering managed services to UK schools, whilst RM Learning will focus on the development of innovative, online learning content. In addition, there will also be a Further and Higher Education business tasked with taking forward RM's leading position in these market sectors, which currently account for 15% of Group turnover.

This new organisational structure will allow RM's senior operational managers both the focus and freedom they need to drive their businesses forward. It will also provide increased opportunities for the Board to focus on the Group's strategic development.

### Prospects

Technology has become a key modernising force in education, with education establishments now routinely using extremely sophisticated ICT systems. Throughout RM's marketplace there is increasing acceptance that the most effective way of exploiting these systems is to work in partnership with an ICT specialist. The Group's expertise in managed service delivery positions it well to benefit from this growing market need.

The market for educational ICT continues to grow. This year has seen the confirmation of three more years of government funding for the NGfL. In addition, the boundaries between technology spend and general education budgets are breaking down, which creates the opportunity for ICT solutions to address a much higher proportion of an establishment's budget. With the growing breadth and capabilities of its online content products, the Group is well placed to benefit from this.

Acceptable commercial terms have still not been agreed for the Classroom 2000 project. The Board believes that terms that would currently be acceptable to the customer do not represent an acceptable balance of risk and reward for the Group. As a consequence, the level of spend on the project has been reduced to be accommodated within the normal level of sales and marketing expenditure and no revenue or contribution from Classroom 2000 has been built into the plan for the current year.

It is too early in RM's annual business cycle to give an indication of the likely outcome for 2001, particularly given the seasonal nature of the Group's business. Nonetheless, the Board is confident that RM will continue to be the ICT partner of choice for the UK's educational establishments and, as a consequence, results for the full year will show good progress.

Richard Girling



## FINANCIAL REVIEW

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2000 was another year of significant organic growth for RM plc. Group turnover was up by 28% to £207.6 million. Operating profit before amortisation of goodwill and before the exceptional cost of sales amounted to £15.0 million, an increase of 28% on 1999.

### Turnover and Profits

Turnover from RM's software and services business grew by a combined 34% with a particularly large growth in the contribution from the Learning Schools Programme. The hardware areas of the business grew turnover by 22% with higher unit growth of 34% reflecting further reductions in average unit selling prices.

During the year, the Group incurred costs of £5.4 million bidding for the Classroom 2000 project under which RM would provide products and services to Trilith, its joint venture with ICL. The costs were incurred in the expectation that Trilith would be appointed preferred bidder before the end of the financial year and, as a result, RM would be able to carry forward the costs. Trilith failed to reach agreement on satisfactory commercial terms before the end of RM's financial year and as a result a provision of £5.4 million has been made against the costs incurred by RM. This provision is shown as an exceptional cost of sales.

RM's business normally has a pronounced seasonal pattern, with the majority of revenues and gross margin, and an even greater percentage of profits, arising in the second half of RM's financial year. This year the effect was even more marked than usual as a result of additional government funding for ICT in education becoming available in the second half of RM's financial year. This was the major contributor to a 42% increase in turnover in the second half after a 10% increase in the first half.

### Acquisition

3T Productions Limited was acquired in March for a consideration of £5.5 million. £2.3 million of this was satisfied in shares, £2.3 million in loan notes and £0.4 million in cash. £0.5 million will be paid in loan notes or shares as a result of 3T's profit meeting target. 3T contributed £1.25m to turnover and £266,000 to operating profit in the seven months.

Goodwill of £5.2 million arising on the acquisition of 3T has been capitalised on the balance sheet and is being amortised over five years through the profit and loss account. The charge of £610,000 for the year is included in administration costs.

### Cash Flow

The net cash inflow from operating activities during the year was £13.8 million. This arose from operating profit of £9.1 million (after the exceptional cost of sales), depreciation and amortisation less profit on sale of fixed assets of £8.2 million, less an increase in working capital of £3.5 million. In addition, net interest income and the issue of shares contributed a further inflow of £2.0 million.

Outflows included taxation of £1.7 million, dividends of £2.8 million and net capital expenditure of £9.6 million. £2.3 million of loan notes were issued to finance the acquisition of 3T.

### Balance Sheet

Cash and short-term deposits increased by £1.4 million to £19.2 million. The normal seasonal nature of RM's business leads to a peak in working capital requirement over the summer and results in minimum cash balances being significantly less than at year end. This year, as previously noted, the seasonal pattern was more marked than usual and as a result the working capital peak was larger and continued for longer than usual, leading to unusually high levels of working capital at the year end including trade debtors (£65.2 million), stocks (£20.8 million) and trade creditors (£45.5 million.) Days sales outstanding, a measure of time taken to collect debts from customers were only 48 days at the year-end. Included in stocks is £4.1 million of long-term contract balances relating to the Learning Schools Programme and the Dudley PFI contract. Minimum cash balances during the year ended 30<sup>th</sup> September were £0.1 million and average cash balances were £9.7 million. Net interest receivable was £451,000.

The investment in the Dudley PFI contract increased to £10.1 million at the year end as a result of the extension of the contract to five former grant maintained schools in Dudley.

## **FINANCIAL REVIEW**

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### **Deferred Income**

Deferred income was £21.7 million at the year end, up from £15.9 million a year earlier. This represents customer payments in advance for annually contracted and other services, including InSITE support, Internet services and Internet content subscriptions, maintenance contracts and managed services and training delivered under the Learning Schools Programme.

### **Tax and Treasury**

The tax charge for the year was £2.0 million. This represents a rate of 20% of profit before amortisation of goodwill, compared to 25% in 1999. In addition to a deduction for contributions arising in respect of share option arrangements, the Group benefited from the resolution of prior year matters and a further small reduction in the UK corporation tax rate.

The Board approves significant treasury transactions and reviews treasury policy on a regular basis. Short-term investments are held predominantly in sterling with a defined list of institutions approved by the Board.

### **Share Price**

The mid market share price at the close of business on 30<sup>th</sup> September 2000 was 890p, capitalising the Group at £833 million in comparison with £481 million at the end of the previous year. During the year the mid market share price ranged between 521p and 1047.5p.

### **Accounting and Presentation Changes**

An adjusted earnings per share figure, which excludes the exceptional cost of sales charge and goodwill amortisation has been presented to aid understanding of the underlying performance of the Group. This was 13.0p.

### **Information Systems**

RM has developed an integrated suite of applications that serves the needs of the business based on a single database and a common technology platform. This infrastructure has enabled RM to invest in web-enabling its applications and making information available to customers over the Internet. This is part of a programme to develop a complete web-based business to business (B2B) relationship with RM's customers.

## DIRECTORS

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### DIRECTORS' BIOGRAPHIES

**John Leighfield CBE - Non-Executive Chairman (a) (r) (n)**

John Leighfield (age 62) was appointed non-executive Chairman in October 1994, having joined RM as a non-executive Director in November 1993. He was the Executive Chairman of AT&T Istel until April 1993. He is a non-executive Director of a number of other organisations including Halifax plc and Synstar plc, of which he is non-executive 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 49) 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 (n)**

Michael Fischer (age 50) 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. He is a trustee of the Fischer Family Trust and the Oxford Maritime Trust.

**Michael Greig - Finance Director**

Michael Greig (age 44) joined RM and was appointed a Director in October 1989. He is the Finance Director and is responsible for information systems. He is a non-executive Director of Comino plc. Prior to joining RM he was Finance Director at Case Group plc for three years.

**John Netherton - Customers and Markets Director**

John Netherton (age 50) 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 - Technical Director**

Tim Pearson (age 40) was appointed to the Board in 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. He has responsibility for the international activities of the Group and is a past Chairman of The Internet Service Provider Association.

**Mark Burrell - Senior Non-Executive Director (a) (r) (n)**

Mark Burrell (age 63) was appointed to the Board as a non-executive Director in March 1997. Until May 1997 he was Development Director of Pearson plc and a non-executive Director of Lazard Brothers & Co. Limited. He was the non-executive Chairman of Royal Doulton plc until June 1998. He is the non-executive Chairman of Conafex S.A. and also non-executive Chairman of Merlin Communications International Limited.

**Sherry Coutu - Non-Executive Director (a) (r) (n)**

Sherry Coutu (age 36) was appointed to the Board as a non-executive Director on the 18th October 1999. She is founder and Chairman of Interactive Investor International plc, a leading UK-based financial services company that provides individuals with the ability to buy a wide variety of financial products and services online. She is also a Non-executive Director at the Public Records Office. Prior experience includes establishing and running Internet Securities, being the Director of Strategy for Bell Cablemedia and a consultant with Andersen Consulting.

**Michael O'Regan OBE - Non-Executive Director (a) (n)**

Michael O'Regan (age 53) 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, and of four other educational trusts.

(a) Audit Committee Member

(r) Remuneration Committee Member

(n) Nominations Committee Member

## DIRECTORS' REPORT

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The Directors present their report on the affairs of the Company (RM plc) and its subsidiary undertakings (together the Group, or RM) and the consolidated financial statements and auditors' report for the year ended 30<sup>th</sup> September 2000.

### 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 £7,509,000 (1999: £9,197,000). The Directors recommend the payment of a final dividend of 2.70p bringing the total dividend for the year to 3.50p per share. The final dividend is payable on 31<sup>st</sup> January 2001 to shareholders on the register on 8<sup>th</sup> January 2001.

### 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. Expenditure of £7.4m was incurred in 2000 (1999: £6.7m). 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 30<sup>th</sup> September 2000 who served during the year, together with their interests in the share capital of the Company, were as follows:

	Ordinary Shares of 2p each	
	30/09/00	30/09/99
J.P. Leighfield	123,000	127,005
M.D. Fischer	6,982,190	9,207,190
R.A.G. Girling	355,505	355,405
M.D. Greig	76,115	79,015
J.R. Netherton	574,493	624,393
T.R. Pearson	24,700	24,600
M.W. Burrell	31,500	31,500
M.R.H.J. O'Regan	3,460,000	3,816,505
S.L. Coutu	3,479	-

In addition to the interests listed above, T.R. Pearson has a non-beneficial interest as a trustee of the RML Staff Share Scheme in 114,731 (1999: 144,535) shares.

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

## DIRECTORS' REPORT

### 5. REMUNERATION OF DIRECTORS

#### Policy on Executive Directors' Remuneration

The Company's continued 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 Remuneration 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.

#### Directors' Remuneration

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

	2000 £000	1999 £000
Emoluments	858	968
Gains on exercise of share options	4,038	4,073
Money purchase pension contributions	17	19
	<b>4,913</b>	<b>5,060</b>

Directors' remuneration in respect of the Directors of the Company who served during the year ended 30<sup>th</sup> September 2000 was as follows:

Name	Fees and other Remuneration £000	Taxable Benefits £000	Annual Bonuses £000	2000 Total £000	1999 Total £000
<b>Executive</b>					
R.A.G. Girling	205	-	28	233	271
M.D. Greig	138	-	13	151	168
J.R. Netherton	172	-	16	188	211
T.R. Pearson	136	-	13	149	163
<b>Non-executive</b>					
J.P. Leighfield	43	10	-	53	42
M.W. Burrell	16	-	-	16	16
M.D. Fischer	16	14	-	30	65
M.R.H.J. O'Regan	16	-	-	16	16
S.L. Coutu	22	-	-	22	-
C.C. Maltby	-	-	-	-	16
	<b>764</b>	<b>24</b>	<b>70</b>	<b>858</b>	<b>968</b>

#### Base Salary

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

#### 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 (actually achieved 10%) and 37.5% of base salary for each of the other executive Directors (actually achieved 10%).

#### Benefits in Kind

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

## DIRECTORS' REPORT

### 5. REMUNERATION OF DIRECTORS (Continued)

#### Pensions

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

	Accrued pension 30/09/99 £000	Increase in accrued pension excluding inflation £000	Accrued pension 30/09/00 £000	Transfer value of increase £000
R.A.G. Girling	35	6	41	41
J.R. Netherton	28	4	32	39
T.R. Pearson	22	4	26	18
	85	14	99	98

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:

	2000 £000	1999 £000
M.D. Fischer	2	6
M.D. Greig	15	13
	17	19

#### 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.

#### Policy on Granting of Share Options

The Remuneration 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 Remuneration 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. RM currently requires that, in order to exercise options under the Super Option Scheme, there should be a percentage growth in the EPS of the Company which exceeds the percentage growth in the Retail Price Index by 10% per annum compounded over three years. The Remuneration 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. No consideration has been given to the Company's performance relative to a group of comparator companies because of the difficulty of establishing the identity of comparators. RM share options are not offered at a discount.

Following the expiry of the current Option Scheme during the year and review of market practice and the competitiveness of the scheme, it is the Remuneration Committee's intention to seek approval for a new share option scheme.

## DIRECTORS' REPORT

### 5. REMUNERATION OF DIRECTORS (Continued)

#### Directors' Share Options

	Number of options over ordinary shares of 2p each in RM plc				Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
	At 01/10/99	Granted in year	Exercised in year	At 30/09/00				
M.D. Fischer	75,000	Nil	75,000	Nil	£0.802	£5.900	20/12/98	20/12/05
R.A.G. Girling	*210,000	Nil	210,000	Nil	£1.220	£7.950	13/12/99	13/12/06
	*210,000	Nil	70,000	140,000	£1.475	£6.500	17/02/00	17/02/07
	*47,500	Nil	Nil	47,500	£2.933	-	20/05/01	20/05/08
	*21,750	Nil	Nil	21,750	£4.415	-	04/12/01	04/12/08
	*40,002	Nil	Nil	40,002	£5.000	-	21/05/02	21/05/09
	Nil	*17,500	Nil	17,500	£7.615	-	06/12/02	06/12/09
	Nil	*36,000	Nil	36,000	£5.600	-	24/05/03	24/05/10
M.D. Greig	*75,000	Nil	25,000	50,000	£1.475	£6.500	17/02/00	17/02/07
	*50,010	Nil	Nil	50,010	£1.635	-	03/12/00	03/12/07
	*47,500	Nil	Nil	47,500	£2.933	-	20/05/01	20/05/08
	*21,750	Nil	Nil	21,750	£4.415	-	04/12/01	04/12/08
	*40,002	Nil	Nil	40,002	£5.000	-	21/05/02	21/05/09
	Nil	*17,500	Nil	17,500	£7.615	-	06/12/02	06/12/09
	Nil	*36,000	Nil	36,000	£5.600	-	24/05/03	24/05/10
J.R. Netherton	*125,010	Nil	Nil	125,010	£1.475	-	17/02/00	17/02/07
	*50,010	Nil	Nil	50,010	£1.635	-	03/12/00	03/12/07
	*47,500	Nil	Nil	47,500	£2.933	-	20/05/01	20/05/08
	*21,750	Nil	Nil	21,750	£4.415	-	04/12/01	04/12/08
	*40,002	Nil	Nil	40,002	£5.000	-	21/05/02	21/05/09
	Nil	*17,500	Nil	17,500	£7.615	-	06/12/02	06/12/09
	Nil	*36,000	Nil	36,000	£5.600	-	24/05/03	24/05/10
T.R. Pearson	*210,000	Nil	210,000	Nil	£1.220	£7.950	13/12/99	13/12/06
	*210,000	Nil	70,000	140,000	£1.475	£6.500	17/02/00	17/02/07
	*47,500	Nil	Nil	47,500	£2.933	-	20/05/01	20/05/08
	*21,750	Nil	Nil	21,750	£4.415	-	04/12/01	04/12/08
	*40,002	Nil	Nil	40,002	£5.000	-	21/05/02	21/05/09
	Nil	*17,500	Nil	17,500	£7.615	-	06/12/02	06/12/09
	Nil	*36,000	Nil	36,000	£5.600	-	24/05/03	24/05/10

\* Super Options.

There have been no changes in the Directors' interests in the shares of the Company during the period 1<sup>st</sup> October 2000 to 17<sup>th</sup> November 2000. No options held by Directors lapsed during the year.

The market price of the ordinary shares at 30<sup>th</sup> September 2000 was £8.90 and the range during the year was £5.21 to £10.475.

## DIRECTORS' REPORT

### 5. REMUNERATION OF DIRECTORS (Continued)

#### 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.

#### 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, other than the President, have fixed term contracts, are not eligible for pension scheme membership and do not participate in the Company's share schemes.

### 6. ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will take place at 2.00pm on 24<sup>th</sup> January 2001 at 135 Milton Park, Abingdon, Oxon OX14 4SB.

Two Directors are retiring and offering themselves for re-election. T.R. Pearson and J.R. Netherton are retiring as, under the Articles of Association, one third of all Directors are required to do so, each year. This is done on a rotational basis unless a Director has been appointed during the year. The Directors who are proposed for re-election at the next annual general meeting have service contracts which expire as follows.

<i>Director</i>	<i>Expiry Date</i>
T.R. Pearson	One year notice period
J.R. Netherton	One year notice period

Biographical details for each of these Directors are on Page 9.

In addition to the routine business of the meeting there is an ordinary resolution proposing approval of the RM plc 2001 Executive Share Option Scheme and to authorise the Directors to do all such acts and things as may be necessary or desirable to carry the same into effect. There are also three special resolutions. The first resolution proposes 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 £624,127 (33.33% of the issued share capital at 15<sup>th</sup> November 2000). The second resolution proposes that, pursuant to Section 95 of the Companies Act, the Directors be authorised to allot those shares for cash, by way of a rights issue, and, other than by way of a rights issue, up to an aggregate amount of £93,628 (5.0% of the issued share capital as at 15<sup>th</sup> November 2000). The Directors have no present intention of allotting further ordinary shares other than in connection with employee share schemes. The authorities being sought expire on the date of the next Annual General Meeting or, if earlier, 28<sup>th</sup> April 2002. The third resolution proposes the alteration of the articles of association of the Company so that any executive holding office as an executive Chairman or as Managing Director or Joint Managing Director or as Chief Executive, will submit himself or herself for re-election once every three years in compliance with Section A.6.2 of the Combined Code of The Listing Rules of the London Stock Exchange dated January 1999, which requires, inter alia, that all directors should be subject to re-election by shareholders at intervals of no more than three years.

### 7. SUBSTANTIAL SHAREHOLDINGS

On 17<sup>th</sup> November 2000 the following were registered as being interested in 3% or more of the Company's ordinary share capital:

	Number of Shares	Percentage Held
Fidelity International Ltd	9,085,891	9.71%
M.D. Fischer	6,982,190	7.46%
Standard Life plc	5,625,160	6.01%
3i Group plc	3,952,735	4.23%
M.R.H.J. O'Regan	3,460,000	3.70%
Legal & General	3,438,011	3.68%
CGNU plc	3,263,330	3.49%

### 8. CHARITABLE AND POLITICAL DONATIONS

During the year the Group made various charitable donations totalling £84,000 (1999: £152,000). A further £2,000 was given to locally based community support projects (1999: £13,000). The Group made no political donations during the year.



## DIRECTORS' REPORT

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### 9. 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, dissemination of written communications directly or via noticeboards and the Company Intranet.

### 10. ENVIRONMENT

RM recognises the importance of ensuring that its business practices have the minimum possible adverse impact on the environment. Particular attention is paid to such areas as the minimisation of waste, the use of renewable resources and 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 and the Company is complying fully with The Producer Responsibility (Packaging Waste) Regulations 1998.

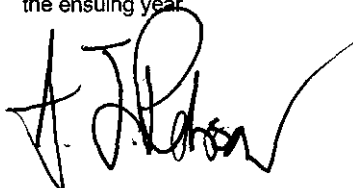
The Company's products incorporate energy saving measures.

### 11. 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 30<sup>th</sup> September 2000 were 71 days (1999: 46 days) based on the ratio of group trade creditors at the year end to the amounts invoiced during the year by suppliers. The increase in trade creditor days can be attributed to the accentuation of the seasonal nature of the Group's business, which results in higher trade creditors during the final quarter of the year.

### 12. 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  
A.J. Robson, Secretary  
17<sup>th</sup> November 2000

## CORPORATE GOVERNANCE

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### 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.

### Compliance with the Combined Code

In June 1998 the Hampel Committee and London Stock Exchange published the Combined Code on corporate governance. This combines the Cadbury Code on corporate governance, the Greenbury Code on directors' remuneration and new requirements arising from the findings of the Hampel Committee.

The Company has complied throughout the year with the provisions of the code of Best Practice set out in section 1 of the Combined Code except for the following matters:

A.6.1 - The president does not have a fixed term contract.

A.6.2 - It is a requirement of the Code that all directors be required to submit themselves for re-election at regular intervals and at least every three years. Although RM plc's articles of association currently exclude the Chief Executive from this requirement a special resolution will be proposed at the AGM in January 2001 to include the Chief Executive.

The Company has applied the Principles of Good Governance set out in section 1 of the Code. Further explanation of how the Principles have been applied is set out below and, in connection with directors' remuneration, in the relevant section of the Directors' report.

### Board of Directors

The Board consists of four Executive Directors and five Non-Executive Directors. Of the five Non-Executive Directors, three are considered to be independent according to the requirements of the Code namely, John Leighfield, Mark Burrell and Sherry Coutu.

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. Directors receive an information pack one week before each Board meeting which contains background papers on all the agenda items. Executive managers are regularly invited to Board meetings to present and discuss strategic topics with the Directors.

### Board Committees

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** comprises four Non-Executive Directors, is chaired by Mark Burrell, and meets at least twice a year. The Company's external auditors and the Finance Director normally attend part of these meetings. It is responsible for reviewing the accounting policies, internal control assessment and the financial information contained in the Annual and Interim Reports. It provides an opportunity for the Non-Executive Directors to make independent judgements and contributions thus furthering the effectiveness of RM's internal financial controls.

**The Remuneration Committee** comprises three Non-Executive Directors and is chaired by Sherry Coutu. It 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. Executive Directors may be invited to attend Committee meetings, but will not be present during any discussion of their own pay arrangements.

**The Nominations Committee** comprises five Non-Executive Directors and is chaired by John Leighfield. It recommends to the Board candidates for appointment as Directors.

## CORPORATE GOVERNANCE

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### Relations with Shareholders

The Company's Chief Executive and Finance Director meet regularly with institutional shareholders, fund managers and analysts as part of an active investor relations program to discuss long-term issues and obtain feedback. Private investors are encouraged to participate in the Annual General Meeting.

### Internal Financial Control

In applying the principle that the Board should maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets, the Directors recognise that they have overall responsibility for ensuring that the Group maintains a system of internal control to provide it with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. However, there are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance.

The Group will have established during the financial year 2001 the procedures necessary to implement the guidance on internal control issued by the Turnbull Committee. In the meantime, the Group has adopted the transitional approach permitted by the London Stock Exchange and reviewed the effectiveness of the system of internal control in accordance with the previous guidance.

Accordingly, the disclosures below are restricted to internal financial controls. The Group will report in accordance with the Turnbull guidance in the next annual report.

The key features of the internal financial control system that operated throughout the period covered by the accounts are described below.

**Control environment** - 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 enables them to identify and monitor financial performance. There are established policies and procedures, which are subject to regular review. The Board of the operating company works within strict terms of reference and any matters outside those terms or the agreed business plan are referred to the full Board for decision. The Group's selection and recruitment procedures are set to exacting criteria and the performance management process is supportive of these same criteria.

**Identification and evaluation of business risks and control objectives** - The Board has the primary responsibility for identifying the major business risks facing the Group and developing appropriate policies to manage those risks. The Board of the operating company meets weekly with an agenda of specific operational measures for review and meets more formally on a monthly basis to review key measures and strategic items.

**Information systems** - Executive managers are required to produce a business plan for approval at 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.

**Main control procedures** - The financial systems and procedures established lead the Board to a high level of confidence in the completeness and accuracy of financial transactions. The well established processes in place and the level of analytical detail given within the management accounts facilitate the identification of unreliable data. 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.

**Monitoring** - The Board has an established Audit Committee that meets periodically to review reports from management and Arthur Andersen, the external auditors, so as to derive reasonable assurance on behalf of the Board that financial control procedures are in place and operate effectively. During this year an internal audit function was established which reports directly to the Audit Committee and which has terms of reference agreed by the Audit Committee.

### Going Concern

After making enquiries 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 the accounts.

## REPORT OF THE AUDITORS

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### TO THE SHAREHOLDERS OF RM plc:

We have audited the accounts on pages 19 to 34, which have been prepared under the historical cost convention and the accounting policies set out on pages 23 and 24. We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive scheme interests and pension benefits of the Directors which form part of the Directors' Report on pages 10 to 15.

#### Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Report including, as described on page 16, preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the corporate governance statement on pages 16 and 17 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

#### Basis of audit 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 accounts. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of 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 accounts 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 accounts.

#### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 30<sup>th</sup> September 2000 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  
17<sup>th</sup> November 2000

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30<sup>th</sup> September 2000

	Note	2000 £000	1999 £000
<b>TURNOVER</b>	<b>2</b>		
Existing operations		206,309	162,210
Acquisitions		1,251	-
<b>Total Turnover</b>		<b>207,560</b>	<b>162,210</b>
Cost of sales before exceptional items		(155,364)	(118,367)
Exceptional cost of sales		(5,359)	-
<b>Total cost of sales</b>		<b>(160,723)</b>	<b>(118,367)</b>
<b>GROSS PROFIT</b>		<b>46,837</b>	<b>43,843</b>
Operating expenses			
Selling & distribution		(23,377)	(18,777)
Research & development		(7,365)	(6,651)
Administration		(7,018)	(6,685)
		<b>(37,760)</b>	<b>(32,113)</b>
<b>OPERATING PROFIT</b>	<b>3</b>	<b>9,077</b>	<b>11,730</b>
<b>Operating profit analysed between:</b>			
Existing operations before exceptional cost of sales		14,780	11,730
Exceptional cost of sales		(5,359)	-
Operating profit for existing operations		9,421	11,730
Acquisitions		266	-
Amortisation of goodwill		(610)	-
		(344)	-
<b>Total Operating profit</b>		<b>9,077</b>	<b>11,730</b>
Net interest receivable	5	451	532
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>9,528</b>	<b>12,262</b>
<b>Profit on ordinary activities before taxation analysed between:</b>			
Profit on ordinary activities before taxation, amortisation of goodwill and exceptional cost of sales		15,497	12,262
Exceptional cost of sales		(5,359)	-
Amortisation of goodwill		(610)	-
		9,528	12,262
Tax charge on profit on ordinary activities	6	(2,019)	(3,065)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>7,509</b>	<b>9,197</b>
Dividends paid and proposed	7	(3,273)	(2,633)
<b>RETAINED PROFIT FOR THE YEAR</b>	<b>17</b>	<b>4,236</b>	<b>6,564</b>
Earnings per ordinary share			
Basic	8	8.1p	10.0p
Diluted	8	7.9p	9.8p
Diluted – before amortisation of goodwill and exceptional cost of sales	8	13.0p	9.8p

All activities relate to continuing operations, which include the results of the acquisition in the year, consolidated into the Group.

There were no recognised gains or losses other than the profit for each year.

The accompanying notes are an integral part of this consolidated profit and loss account.

## CONSOLIDATED BALANCE SHEET

As at 30<sup>th</sup> September 2000

	Note	2000 £000	1999 £000
<b>FIXED ASSETS</b>			
Intangible fixed assets	9	11,465	7,837
Tangible fixed assets	10	26,093	23,032
		37,558	30,869
<b>CURRENT ASSETS</b>			
Stocks	12	20,817	10,171
Debtors	13	67,754	35,948
Cash at bank and short term deposits		19,182	17,794
		107,753	63,913
<b>CREDITORS</b>			
Amounts falling due within one year	14	(93,203)	(53,578)
<b>NET CURRENT ASSETS</b>		14,550	10,335
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		52,108	41,204
<b>CREDITORS</b>			
Amounts falling due after more than one year	14	(5,375)	(3,531)
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	15	(1,601)	(1,130)
<b>NET ASSETS</b>		45,132	36,543
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	16 & 17	1,873	1,842
Share premium account	17	16,368	6,029
Other reserve	17	500	-
Profit and loss account	17	26,391	28,672
<b>EQUITY SHAREHOLDERS' FUNDS</b>	17	45,132	36,543

These financial statements were approved by the Board of Directors on 17<sup>th</sup> November 2000.

  
R.A.G. Girling  
DIRECTOR

  
M.D. Greig  
DIRECTOR

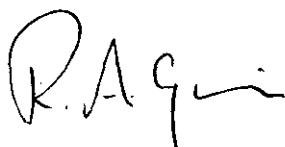
The accompanying notes are an integral part of this consolidated balance sheet.

# COMPANY BALANCE SHEET

As at 30<sup>th</sup> September 2000

	Note	2000 £000	1999 £000
<b>FIXED ASSETS</b>			
Investment in subsidiary undertakings	11	14,037	8,585
<b>CURRENT ASSETS</b>			
Debtors	13	28,862	4,089
Cash at bank and in hand		27	47
		28,889	4,136
<b>CREDITORS</b>			
Amounts falling due within one year	14	(3,485)	(2,043)
<b>NET CURRENT ASSETS</b>		<b>25,404</b>	<b>2,093</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>39,441</b>	<b>10,678</b>
<b>CREDITORS</b>			
Amounts falling due after more than one year	14	(1,437)	-
<b>NET ASSETS</b>		<b>38,004</b>	<b>10,678</b>
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	16 & 17	1,873	1,842
Share premium account	17	16,368	6,029
Other reserve	17	500	-
Profit and loss account	17	19,263	2,807
<b>EQUITY SHAREHOLDERS' FUNDS</b>	17	<b>38,004</b>	<b>10,678</b>

These financial statements were approved by the Board of Directors on 17<sup>th</sup> November 2000.



R.A.G. Girling  
DIRECTOR



M.D. Greig  
DIRECTOR

The accompanying notes are an integral part of this balance sheet.

## CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 30<sup>th</sup> September 2000*

	Note	2000 £000	1999 £000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	18	<b>13,778</b>	<b>22,116</b>
Returns on investments and servicing of finance	19	451	532
Taxation		(1,742)	(3,569)
Capital expenditure and financial investment	20	(9,591)	(16,693)
Acquisition of subsidiary	21	(296)	-
Equity dividends paid		(2,770)	(2,243)
<b>NET CASH (OUTFLOW)/INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING</b>		<b>(170)</b>	<b>143</b>
Management of liquid resources	22	(3,364)	1,314
Financing	23	1,558	687
<b>(DECREASE)/INCREASE IN CASH IN THE YEAR</b>		<b>(1,976)</b>	<b>2,144</b>

*The accompanying notes are an integral part of this consolidated cash flow statement.*

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

*For the year ended 30<sup>th</sup> September 2000*

	Note	2000 £000	1999 £000
<b>(DECREASE)/INCREASE IN CASH IN THE YEAR</b>		<b>(1,976)</b>	<b>2,144</b>
Cash outflow from decrease in lease financing		6	-
Cash inflow/(outflow) from change in liquid resources		3,364	(1,314)
Change in net cash resulting from cash flows		1,394	830
New finance leases		(58)	-
Issue of loan notes		(2,278)	-
<b>MOVEMENT IN NET FUNDS IN THE YEAR</b>		<b>(942)</b>	<b>830</b>
Net cash brought forward		17,794	16,964
<b>NET FUNDS CARRIED FORWARD</b>	24	<b>16,852</b>	<b>17,794</b>



## NOTES TO THE FINANCIAL STATEMENTS

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### 1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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

#### **Basis of Accounting**

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

#### **Basis of Consolidation**

The Group financial statements consolidate the financial statements of RM plc and its subsidiary undertakings made up to 30th September 2000. The results of subsidiaries acquired are included in the Group profit and loss account from the date on which control passed. Goodwill arising on acquisitions prior to 30<sup>th</sup> September 1998 was written off to a separate goodwill reserve in accordance with the accounting standards then in force. In the Company's financial statements investments in subsidiary undertakings are stated at cost less any provision for impairment where appropriate.

#### **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. Revenue on long-term contracts is ascertained in a manner appropriate to the stage of completion of the contract.

#### **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	2-5 years
Vehicles	2-4 years

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

#### **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 between five and ten years. Provision is made for impairment where appropriate.

#### **Derivative Financial Instruments**

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk. The Group does not hold or issue derivative financial instruments for speculative purposes.

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Group's accounts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

#### **Research and Development**

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

#### **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.

## NOTES TO THE FINANCIAL STATEMENTS

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### Long-Term Contracts

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances in stock.

### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

### 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.

### Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

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

### 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. Sales to non UK countries of £1,501,000 (1999: £533,000) included Europe £536,000 (1999: £154,000), Australasia £794,000 (1999: £293,000) and other countries £171,000 (1999: £86,000).

## NOTES TO THE FINANCIAL STATEMENTS

### 3. OPERATING PROFIT

The operating profit is stated after charging:	2000 £000	1999 £000
Depreciation of tangible fixed assets:		
- owned	6,778	3,889
- held under finance leases and hire purchase contracts	10	-
Amortisation of Intangibles		
- licences	990	951
- goodwill	610	-
Operating leases:		
- land and buildings	1,603	1,253
- plant and machinery	975	1,043
Auditors' remuneration:		
- audit services	113	85
- other professional services	133	180
Research and development	7,365	6,651

### 4. STAFF COSTS

The average monthly number of persons (including Directors) employed by the Group during the year was as follows:	2000 Number Employed	1999 Number Employed
Sales and marketing	334	250
Services	481	442
Finance and administration	181	149
Product development	295	193
Distribution and assembly	280	288
	1,571	1,322
Their aggregate remuneration comprised:	2000 £000	1999 £000
Wages and salaries	37,656	30,462
Social security costs	3,660	2,538
Other pension costs	2,222	1,710
Employee share scheme	243	196
	43,781	34,906
Directors' remuneration		
Staff costs include the following remuneration in respect of Directors:	2000 £000	1999 £000
Fees	48	48
Remuneration (excluding bonus payments)	672	653
Bonus payments	70	204
Contributions to money purchase pension schemes	17	19
	807	924

In addition to the above remuneration, £44,000 (1999: £30,000) was paid in respect of consultancy fees.

Further information in relation to the Directors' remuneration and share options is given in the Directors' Report on pages 10 to 15.

## NOTES TO THE FINANCIAL STATEMENTS

### 5. NET INTEREST RECEIVABLE

	2000 £000	1999 £000
Interest receivable and similar income	484	537
Interest payable on bank overdrafts	(33)	(5)
	451	532

### 6. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	2000 £000	1999 £000
The tax charge comprised:		
UK corporation tax	1,553	2,747
Deferred taxation arising from:		
Capital allowances	203	874
Other timing differences	143	(226)
	1,899	3,395
Adjustments in respect of previous years:		
Current taxation	(5)	(522)
Deferred taxation	125	192
	2,019	3,065

### 7. DIVIDENDS PAID AND PROPOSED

	2000 £000	1999 £000
Ordinary shares:		
Interim paid of 0.80p (1999: 0.66p) per share	745	607
Final proposed of 2.70p (1999: 2.20p) per share	2,528	2,026
	3,273	2,633

### 8. EARNINGS PER SHARE

Basic earnings per share are calculated on the Group's profit after taxation of £7,509,000 (1999: £9,197,000) divided by the weighted average number of shares in issue during the year, being 92,941,901 shares (1999: 91,650,665). Diluted earnings per share takes into account the dilutive effect of share options.

A reconciliation of basic earnings per share with diluted earnings per share is as follows:

	2000 Profit after tax £000	2000 No. of Shares (‘000)	2000 Pence per share	1999 Profit after tax £000	1999 No. of Shares (‘000)	1999 Pence per share
Basic earnings per share	7,509	92,942	8.1	9,197	91,651	10.0
Impact of share options	-	2,742	(0.2)	-	2,706	(0.2)
Diluted earnings per share	7,509	95,684	7.9	9,197	94,357	9.8
Supplementary earnings per share before amortisation of goodwill and exceptional cost of sales:						
Diluted earnings per share	7,509	95,684	7.9	9,197	94,357	9.8
Effect of amortisation of goodwill	610	-	0.6	-	-	-
Diluted earnings per share before amortisation of goodwill	8,119	95,684	8.5	9,197	94,357	9.8
Effect of exceptional cost of sales	4,287	-	4.5	-	-	-
Diluted earnings per share before amortisation of goodwill and exceptional cost of sales	12,406	95,684	13.0	9,197	94,357	9.8

## NOTES TO THE FINANCIAL STATEMENTS

### 9. INTANGIBLE FIXED ASSETS

The movement in the year was as follows:

Group	Licence £000	Goodwill £000	Total £000
Cost:			
Beginning of the year	9,643	-	9,643
Additions	-	5,228	5,228
End of the year	9,643	5,228	14,871
Amortisation:			
Beginning of the year	1,806	-	1,806
Charged in the year	990	610	1,600
End of the year	2,796	610	3,406
Net book value at the end of the year	6,847	4,618	11,465
Net book value at the beginning of the year	7,837	-	7,837

The licence represents payments relating to Research Machines' rights to use or otherwise deal with software products.

The goodwill relates to the acquisition of 3T Productions Limited by the Group on 10<sup>th</sup> March 2000 and is being amortised over five years.

### 10. TANGIBLE FIXED ASSETS

The movement in the year was as follows:

Group	Short Leasehold Improvements £000	Plant & Equipment £000	Computers £000	Vehicles £000	Total £000
Cost:					
Beginning of the year	2,396	5,791	17,356	6,129	31,672
Acquisition of subsidiary	-	46	-	56	102
Additions	146	1,261	7,310	1,496	10,213
Disposals	(2)	(214)	(1,097)	(1,436)	(2,749)
End of the year	2,540	6,884	23,569	6,245	39,238
Depreciation:					
Beginning of the year	420	3,103	3,019	2,098	8,640
Charged in the year	135	757	4,328	1,568	6,788
Disposals	(1)	(203)	(997)	(1,082)	(2,283)
End of the year	554	3,657	6,350	2,584	13,145
Net book value at the end of the year	1,986	3,227	17,219	3,661	26,093
Net book value at the beginning of the year	1,976	2,688	14,337	4,031	23,032

The net book value of leased vehicles is £46,000 (1999: Nil)

### 11. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2000 £000	1999 £000
Equity investments in subsidiary undertakings at cost:		
Beginning of the year	1,508	1,508
Investments during the year	5,452	-
End of the year	6,960	1,508
Loans to subsidiary undertakings	7,077	7,077
	14,037	8,585

## NOTES TO THE FINANCIAL STATEMENTS

### 11. INVESTMENT IN SUBSIDIARY UNDERTAKINGS (Continued)

The Company's principal subsidiary undertakings operating in the United Kingdom are Research Machines plc and 3T Productions Limited, both of which are wholly owned. RM Australasia Pty Ltd was incorporated in Australia and the Company subscribed for 100% of the issued share capital.

The principal activity of Research Machines plc and RM Australasia Pty Ltd is the supply of software, services and systems to meet the specialist requirements of the education market. The principal activity of 3T Productions Limited comprises the development and sale of bespoke interactive and multimedia software predominantly for education.

The following table sets out the book values of the identifiable assets and liabilities acquired on the acquisition of 3T Productions Limited:

	Book Value £000
Tangible fixed assets	102
Debtors	279
Amounts recoverable on contracts	145
Creditors	(302)
Net assets acquired	224
Goodwill arising on acquisition	5,228
Total consideration	5,452
Satisfied by:	
Shares/ Loan notes	5,156
Cash	296
	5,452

The consideration paid or payable is as follows:

- An initial cash consideration of £0.3m.
- An initial consideration in RM shares of £2.3m.
- An initial consideration in loan notes of £2.3m.
- Further consideration of £0.5m payable either in RM shares or loan notes and £0.1m payable in cash, dependent upon short-term profit meeting financial performance targets.

### 12. STOCKS

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Components	12,447	7,131	-	-
Work in progress	134	49	-	-
Finished goods	4,185	1,511	-	-
	16,766	8,691	-	-
Long-term contract balances – net costs less foreseeable losses	4,051	1,480	-	-
	20,817	10,171	-	-

### 13. DEBTORS

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Amounts falling due within one year:				
Trade debtors	65,221	33,763	-	-
Other debtors	713	571	-	-
Prepayments and accrued income	1,820	1,610	-	-
Amounts owed from subsidiary undertaking	-	-	8,862	1,089
Dividends receivable	-	-	20,000	3,000
	67,754	35,944	28,862	4,089
Amounts falling due after more than one year:				
Trade debtors	-	4	-	-
	67,754	35,948	28,862	4,089

## NOTES TO THE FINANCIAL STATEMENTS

14. CREDITORS	Group	Group	Company	Company
	2000	1999	2000	1999
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade creditors	45,450	18,200	-	-
Other creditors:				
- UK corporation tax payable	1,220	1,414	-	-
- Social Security and PAYE	1,670	1,181	-	-
- VAT	4,625	4,139	-	-
- Other	1,005	1,582	-	18
Loan Notes	841	-	841	-
Finance Leases	24	-	-	-
Proposed dividends	2,528	2,025	2,528	2,025
Accruals	17,467	11,973	116	-
Deferred income	18,373	13,064	-	-
	93,203	53,578	3,485	2,043

Amounts falling due after more than one year:

Loan Notes:				
- between two and five years	1,437	-	1,437	-
Finance Leases:				
- between one and two years	22	-	-	-
- between two and five years	6	-	-	-
	28	-	-	-
Accruals				
- between one and two years	136	176	-	-
- between two and five years	409	410	-	-
- after five years	-	136	-	-
	545	722	-	-
Deferred income:				
- between one and two years	2,137	1,766	-	-
- between two and five years	1,228	1,043	-	-
	3,365	2,809	-	-
	5,375	3,531	1,437	-

15. PROVISION FOR LIABILITIES AND CHARGES	Group	Group	Company	Company
	2000	1999	2000	1999
	£000	£000	£000	£000
Deferred taxation:				
Excess of tax allowances over book depreciation of tangible fixed assets	1,901	1,627	-	-
Short term timing differences	(300)	(497)	-	-
	1,601	1,130	-	-

The movement on deferred tax comprises:

Beginning of year	1,130	56	-	-
Charged to profit and loss:				
current year	346	648	-	-
prior year	125	192	-	-
ACT recoverable transferred to current tax	-	234	-	-
End of the year	1,601	1,130	-	-

The Group has no unprovided deferred taxation (1999: Nil).

## NOTES TO THE FINANCIAL STATEMENTS

16. SHARE CAPITAL	2000 £000	1999 £000
Authorised:		
125,000,000 Ordinary Shares of 2p each (1999: 125,000,000 at 2p each)	2,500	2,500
Allotted, called up and fully paid:		
93,628,447 Ordinary Shares of 2p each (1999: 92,082,975 at 2p each)	1,873	1,842
	Number of Shares	Premium Arising £000
During the year the following Ordinary Shares of 2p each were allotted for cash:		
Issued on exercise of options	1,286,830	1,538
Other Issues	258,642	2,284
	1,545,472	3,822

### RML Staff Share Scheme

The RML Staff Share Scheme is an Inland Revenue approved employee share scheme constituted under a trust deed. As at 30<sup>th</sup> September 2000 the trustees of the scheme held 114,731 shares (1999: 144,535) on behalf of the employees which had a market value on that date of £1,021,000 (1999: £755,000).

### The Employee Share Ownership Trust

The Employee Share Ownership Trust owns 14,290 shares of RM plc (1999: 14,290) and has waived rights to the dividend on these shares. On 30<sup>th</sup> September 2000 these shares had a market value of £127,000 (1999: £75,000).

### Share Option Schemes

As at 30<sup>th</sup> September 2000 the following options granted in respect of ordinary shares of 2p each were outstanding:

Scheme	Calendar Year of Issue	Number of Shares	Period of Option	Exercise Price per Share
a) RM plc 1994 Executive - Ordinary	1995	50,000	10 years	£0.802
	1996	20,000	10 years	£1.22
	1998	202,000	10 years	£4.415
	1999	249,000	10 years	£5.00
	1999	81,500	10 years	£7.615
	2000	173,612	10 years	£5.60
		<u>776,112</u>		
b) RM plc 1994 Executive - Super	1997	1,042,070	10 years	£1.475
	1997	525,060	10 years	£1.635
	1998	1,206,250	10 years	£2.933
	1998	286,500	10 years	£4.415
	1999	920,415	10 years	£5.00
	1999	515,000	10 years	£7.615
	2000	1,043,568	10 years	£5.60
		<u>5,538,863</u>		

In 1993, the Company established an Employee Benefit Trust ('EBT') to operate in connection with the Company's executive share schemes. The trustee of the EBT is RM Employee Share Schemes Trustee Limited, a wholly owned subsidiary of the Company. A total of 1,286,830 new ordinary shares have been allotted for use by the EBT during the year, all of which have been transferred to employees exercising options under the relevant share option scheme. (See note 17).



## NOTES TO THE FINANCIAL STATEMENTS

### 17. RESERVES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital	Share Premium Account	Other Reserve Account	Profit and Loss Account	2000 Total Shareholders' Funds	1999 Total Shareholders' Funds
	£000	£000	£000	£000	£000	£000
<b>Group:</b>						
Beginning of the year	1,842	6,029	-	28,672	36,543	29,292
Retained profit for the year	-	-	-	4,236	4,236	6,564
Share issues	31	3,822	-	-	3,853	687
Transfer in respect of issue of shares to employee trusts	-	6,517	-	(6,517)	-	-
Other	-	-	500	-	500	-
End of the year	1,873	16,368	500	26,391	45,132	36,543
<b>Company:</b>						
Beginning of the year	1,842	6,029	-	2,807	10,678	9,987
Profit for the year	-	-	-	19,729	19,729	2,637
Dividends paid and proposed	-	-	-	(3,273)	(3,273)	(2,633)
Share issues	31	10,339	-	-	10,370	687
Other	-	-	500	-	500	-
End of the year	1,873	16,368	500	19,263	38,004	10,678

The total amount of goodwill written off to reserves is £1,111,000 (1999: £1,111,000)

The Other Reserve Account of £500k represents consideration payable with regard to the acquisition of 3T Productions, dependent upon short-term profit meeting financial performance targets.

As permitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

### 18. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2000 £000	1999 £000
Operating profit	9,077	11,730
Depreciation charge	6,788	3,889
Amortisation of intangible fixed assets	1,600	951
Profit on sale of fixed assets	(156)	(91)
Increase in stocks	(10,646)	(1,644)
Increase in debtors	(31,381)	(1,574)
Increase in creditors	38,496	8,855
<b>Net cash inflow from operating activities</b>	<b>13,778</b>	<b>22,116</b>

### 19. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2000 £000	1999 £000
Interest received	484	537
Interest paid	(25)	(5)
Interest element of finance lease rental payments	(8)	-
<b>Net cash inflow</b>	<b>451</b>	<b>532</b>

## NOTES TO THE FINANCIAL STATEMENTS

20. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	2000 £000	1999 £000
Purchase of tangible fixed assets	(10,213)	(17,533)
Purchase of intangible fixed assets	-	(1,039)
Sale of plant and equipment	622	1,879
<b>Net cash outflow</b>	<b>(9,591)</b>	<b>(16,693)</b>

21. ACQUISITIONS AND DISPOSALS	2000 £000	1999 £000
Investment in subsidiary	(296)	-

22. MANAGEMENT OF LIQUID RESOURCES	2000 £000	1999 £000
Cash (placed in)/withdrawn from deposit accounts	(3,364)	1,314

23. FINANCING	2000 £000	1999 £000
Issue of ordinary share capital	1,564	687
Capital element of finance lease rental payments	(6)	-
<b>Net cash outflow</b>	<b>1,558</b>	<b>687</b>

24. ANALYSIS OF NET FUNDS	Other Non Cash Charges £000	Finance Leases Acquired £000	Cash Flow £000	At 30 Sept 2000 £000	At 30 Sept 1999 £000
Cash in hand, at bank	-	-	(1,976)	6,981	8,957
Current asset investments	-	-	3,364	12,201	8,837
<b>Cash at bank and short term deposits</b>	<b>-</b>	<b>-</b>	<b>1,388</b>	<b>19,182</b>	<b>17,794</b>
Debt due after 1 year	(1,437)	-	-	(1,437)	-
Debt due within 1 year	(841)	-	-	(841)	-
Finance leases	-	(58)	6	(52)	-
<b>Net funds</b>	<b>(2,278)</b>	<b>(58)</b>	<b>1,394</b>	<b>16,852</b>	<b>17,794</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 25. FINANCIAL INSTRUMENTS

The Group's financial instruments, other than derivatives, comprise cash, liquid resources and various items, such as trade debtors, trade creditors etc. that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. The Group also enters into derivatives transactions in the form of forward foreign currency contracts. The purpose of such transactions is to manage the currency risks arising from the Group purchasing significant amounts in US Dollars to enable payment of raw materials purchased. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Board reviews and agrees policies on a regular basis for managing each of these risks and they are summarised below.

#### *Interest Rate Risk*

The Group finances its operations through retained profits. The Group's policy is to maintain only the minimum foreign currency balances required to pay its suppliers. Any surplus sterling balances are invested on the money market, or with financial institutions on terms maturing from 7 days to 3 months.

#### *Foreign Currency Risk*

The Group's policy is to eliminate material currency exposures on committed purchases through short-term forward foreign currency contracts.

As permitted by FRS 13, short term debtors and creditors have been excluded from disclosures, other than the currency risk disclosures.

#### **Financial Assets**

	Floating Rate 2000 £000	Interest Free 2000 £000	Total 2000 £000
Sterling	17,988	1,042	19,030
US Dollar	-	8	8
Australian Dollar	143	-	143
Yen	-	-	-
Euro	-	1	1
	<b>18,131</b>	<b>1,051</b>	<b>19,182</b>

	Floating Rate 1999 £000	Interest Free 1999 £000	Total 1999 £000
Sterling	15,887	944	16,831
US Dollar	-	119	119
Australian Dollar	837	-	837
Yen	-	5	5
Euro	-	2	2
	<b>16,724</b>	<b>1,070</b>	<b>17,794</b>

#### **Fair Values**

The Group's floating rate financial assets comprise cash deposits on money markets, or with financial institutions on terms maturing from 7 days to 3 months. As all are short term, the fair value of the assets is not considered to be materially different from the book value. In addition the Group held US Dollar forward purchase contracts with a maturing value of £23.2m, all of which mature in less than one year from the year end. There is no material difference between the fair value and the book value of these forward contracts.

#### **Currency Exposures**

As at 30<sup>th</sup> September 2000, after taking into account the effects of forward exchange contracts the Group had no significant currency exposures. There are no material unrecognised gains or losses as at 30<sup>th</sup> September 2000.

#### **Borrowing Facilities**

The Group has undrawn committed borrowing facilities at 30<sup>th</sup> September 2000, expiring in one year or less, of £14.2m.

## NOTES TO THE FINANCIAL STATEMENTS

### 26. 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 determined by a qualified actuary on the basis of triennial valuations. They are charged to the Profit and Loss Account so as to spread these costs over employees' working lives with the Group.

The most recent valuation of the scheme for SSAP24 purposes was carried out as at 1<sup>st</sup> June 1998 using 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., salaries would increase by 8% p.a., and pensions would increase by 3% p.a. in respect of service accrued before 1<sup>st</sup> April 1997, and by 4% p.a. in respect of service accrued on or after 1<sup>st</sup> April 1997. Assets were assumed to be in a notional portfolio comprising 90% stocks underlying the FT-SE Actuaries' All Share Index and 10% in Index Linked Gilts. UK equity dividend growth was assumed to be 5.5% p.a. on net dividends.

At 1<sup>st</sup> June 1998 the market value of the Scheme's assets was estimated to be £19,284,801 and the actuarial value of these assets represented 99% of the benefits that had accrued to the 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 9.2% of pensionable salaries in respect of the over-25 section and 3.3% of pensionable salaries in respect of the under-25 section. These compare with Group contribution rates over the year of 9.3% up to 28<sup>th</sup> February 1999 and 9.7% thereafter in respect of the over-25 section and 3% in respect of the under-25 section. Until 28<sup>th</sup> February 1999, premiums for insured death benefits were paid by the Group in addition to its regular 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 £342,000 (1999: £297,000).

### 27. CONTINGENCIES AND COMMITMENTS

#### 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.

2000	Land & Buildings £000	Other £000
Expiry date:		
- within one year	8	8
- between two and five years	147	28
- after five years	1,908	-
	<u>2,063</u>	<u>36</u>
1999	Land & Buildings £000	Other £000
Expiry date:		
- within one year	21	464
- between two and five years	-	43
- after five years	1,267	-
	<u>1,288</u>	<u>507</u>
<b>Capital Commitments</b>		
The Group has the following capital expenditure commitments:	2000 £000	1999 £000
Contracted for but not provided for	<u>2,717</u>	<u>2,141</u>

## FIVE YEAR SUMMARY

£000 (except where otherwise stated)	1996	1997	1998	1999	2000
TURNOVER	99,032	110,170	130,996	162,210	207,560
OPERATING PROFIT	6,352	7,254	9,522	11,730	9,077
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6,806	8,018	10,037	12,262	9,528
PROFIT AFTER TAXATION	4,560	5,598	7,223	9,197	7,509
EARNINGS PER SHARE* (Diluted)†	5.0p	6.2p	7.8p	9.8p	7.9p
DIVIDENDS PER SHARE*	1.6p	1.9p	2.34p	2.86p	3.50p
CLOSING SHARE PRICE*	£1.19	£1.67	£3.80	£5.22	£8.90
BALANCE SHEET:					
- CAPITAL EMPLOYED	6,342	13,223	12,328	18,749	25,950
- NET CASH	13,503	10,767	16,964	17,794	19,182
- SHAREHOLDERS' FUNDS	19,845	23,990	29,292	36,543	45,132
OPERATING PROFIT AS A PERCENTAGE OF:					
- Turnover	6.4%	6.6%	7.3%	7.2%	4.4%
- Average Capital Employed	101.2%	74.2%	74.5%	75.5%	40.6%
AVERAGE No. OF EMPLOYEES	732	869	1,044	1,322	1,571

**Notes:**

\*There was a 5 for 1 subdivision of shares in June 1998. Per share figures for 1998 and prior years have been adjusted to reflect this.

†Earnings per share figures for 2000 and prior years have been calculated using FRS14 Earnings per Share.

## SHAREHOLDER INFORMATION

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### Financial Calendar

Annual General Meeting	24 January 2001
Payment of 2000 final dividend	31 January 2001
Announcement of 2001 interim results	May 2001
Announcement of 2001 final results	November 2001

### Corporate Website

Information about the Company's activities and financial information is available on the corporate website at <http://www.rm.com>

### Investor Information

Is available via the Company website at <http://www.rm.com/investors>. Enquiries can be directed to the Investor Relations Manager at the address below.

### Directors

J.P. Leighfield	<i>Chairman (Non-Executive)</i>
R.A.G. Girling	<i>Chief Executive</i>
M.D. Fischer	<i>President (Non-Executive)</i>
M.D. Greig	<i>Finance Director</i>
J.R. Netherton	<i>Customers &amp; Markets Director</i>
T.R. Pearson	<i>Technical Director</i>
M.W. Burrell	<i>Senior Non-Executive Director</i>
S.L. Coutu	<i>Non-Executive Director</i>
M.R.H.J. O'Regan	<i>Non-Executive Director</i>

### Group Head Office and Registered Office

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### Advisers

#### Bankers

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Corporate Banking  
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Napier Road  
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#### Stockbrokers

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1 Finsbury Avenue  
LONDON EC2M 2PP

#### Solicitors

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#### Auditors

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#### Registrars

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