

**Research Machines plc**

**Annual Report and Financial Statements  
for the year ended 30th September 1994**

**Company number 1749877**



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for the year ended 30th September 1994**

<b><u>CONTENTS</u></b>	<b>Page</b>
DIRECTORS AND ADVISERS	1
REPORT OF THE DIRECTORS	2
CONSOLIDATED PROFIT AND LOSS ACCOUNT	4
CONSOLIDATED BALANCE SHEET	5
COMPANY ONLY BALANCE SHEET	6
CONSOLIDATED CASH FLOW STATEMENT	7
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	8
NOTE OF HISTORICAL COST PROFITS AND LOSSES	8
NOTES TO THE FINANCIAL STATEMENTS	9
DIRECTORS' AND AUDITORS' RESPONSIBILITIES	19
REPORT OF THE AUDITORS	19
FIVE YEAR SUMMARY	20

## DIRECTORS AND ADVISERS

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**Registered Office and  
Principal Location:**

Research Machines plc\*  
New Mill House  
183 Milton Park  
Abingdon  
Oxon  
OX14 4SE

Telephone : 01235 826000  
Fax : 01235 826999

Registered in England  
Company number 1749877

\* See note on page 2 regarding change of name.

**Directors :**

J.P. Leighfield *	<i>Chairman (Non-Executive)</i>
M.D. Fischer	<i>Chief Executive</i>
M.D. Greig	<i>Finance Director</i>
P.S.S. Macpherson *	<i>Non-Executive Director</i>
M.R.H.J. O'Regan *	<i>Non-Executive Director</i>
M.D.C. Smith *	<i>Non-Executive Director</i>

\* Members of Audit Committee

**Secretary :**

M.D. Greig

**Locations :**

Abingdon	: 01235 826000
Stockport	: 0161 477 1538
Glasgow	: 0141 332 8589

**Bankers :**

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

**Auditors :**

Arthur Andersen  
Abbots House  
Abbey Street  
READING RG1 3BD

**Solicitors :**

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

## REPORT OF THE DIRECTORS

The Directors present their report on the affairs of the Group together with the consolidated financial statements and auditors' report for the year ended 30th September 1994. In these accounts 'Group' refers to Research Machines plc together with its subsidiary undertakings, and 'Company' refers to Research Machines plc alone.

On 18th November 1994 the Company's shareholders will hold an Extraordinary General Meeting at which it will be proposed that substantially the whole of the Company's assets, liabilities and undertakings be transferred to Research Machines (Finance) Limited, a wholly owned subsidiary of the Company, with effect from 1st October 1994 for a consideration equal to the book value on terms to be decided by the Directors of the Company. It will also be proposed that the Company change its name to RM plc.

Also on 18th November 1994, the shareholders of Research Machines (Finance) Limited will hold an Extraordinary General Meeting at which it will be proposed that the company approves the above transfer and that the company's name be changed to Research Machines plc.

### 1. PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group are the supply of information systems primarily to educational markets, based upon PC technology and incorporating networking, software and services.

The business model introduced following the restructuring in 1992 has continued to deliver benefits. Orders for the Group's core schools market increased by 6%. Whilst turnover declined by 1% to £65.5m, the Company had a significant increase in its year end order book compared to the previous year end.

The services and software and integrated systems product divisions both performed well in their second year as independent business units, contributing to a gross margin £1.5m higher at £16.7m. Overhead costs increased by £0.9m as a result of increased investment in sales and marketing and new product development. Operating profit increased by 20% to £3.5m. Tight control of working capital and good cash generation resulted in net interest income of £36,000. A profit of £232,000 was realised from the disposal of surplus property, giving a profit before tax of £3.8m.

Year end cash balances were £8.5m. There were no bank borrowings and finance leases totalled £0.5m giving a net cash balance of £8.0m, compared to £3.3m a year earlier.

The Directors are confident that the Groups' principle market, that for information technology in education, will continue to grow and the Group is well positioned to take advantage of this growth.

### 2. RESULTS AND DIVIDENDS

The Group's profit for the year, after taxation, was £2,659,000 (1993: £1,889,000). The Directors do not recommend the payment of a final dividend. The total dividend payable for the year was 4.8p (net) per share.

### 3. RESEARCH AND DEVELOPMENT

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

### 4. DIRECTORS AND THEIR INTERESTS

The Directors of the Company, who served during the year, and their interests in the share capital of the Company as recorded in the register maintained in accordance with the provisions of the Companies Act 1985 at the end of the year were as follows:

	1993	1994	1993	Options	Options	1994
	Ordinary	Ordinary	Shares	Granted	exercised	Shares
	Shares of	Shares of	subject to	In year	in year	subject to
	10p each	10p each	option			option
M.D. Fischer	3,293,046	3,293,078	Nil	Nil	Nil	Nil
R.A.G. Gilling	6,926	60,058	162,800	42,143	137,500	67,143
M.D. Greig	1,746	2,378	100,000	42,143	Nil	142,143
J.P. Leighfield	Nil	Nil	Nil	Nil	Nil	Nil
P.S.S. Macpherson	Nil	Nil	Nil	Nil	Nil	Nil
J.R. Netherton	6,926	7,558	525,000	42,143	Nil	567,143
M.R.H.J. O'Regan	2,389,301	2,099,301	Nil	Nil	Nil	Nil
P.J. Parkin	6,926	207,558	600,000	42,143	500,000	142,143
D.W. Quysner	Nil	Nil	Nil	Nil	Nil	Nil
M.D.C. Smith	2,100	2,100	Nil	Nil	Nil	Nil
K.A. Spence	2,466	3,098	100,000	42,143	Nil	142,143

## REPORT OF THE DIRECTORS

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D.W. Guyanor resigned from the Board of Directors on the 27th April 1994. R.A.G. Girling, P.J. Perkin, K.A. Spence and J.R. Netherton resigned from the Board of Directors on the 30th September 1994 and were appointed Directors of Research Machines (Finance) Limited.

M.D. Fischer and M.R.H.J. O'Regan have a non beneficial interest as trustees of the RML Staff Share Scheme in 265,519 shares.

The following are members of the Audit Committee: M.R.H.J. O'Regan (Chairman), P.S.S. Macpherson, J.P. Leighfield and M.D.C. Smith.

The following are members of the Remuneration Committee: M.D.C. Smith (Chairman), M.D. Fischer and J. P. Leighfield.

The following are members of the Nominations Committee: J.P. Leighfield (Chairman), M.D. Fischer, M.R.H.J. O'Regan and M.D.C. Smith.

### 5. SUBSTANTIAL SHAREHOLDINGS

On 15th November 1994 the following were registered as being interested in 3% or more of the Company's ordinary share capital:

	Number of Shares	Percentage Held
M.D. Fischer	3,293,678	20.5%
M.R.H.J. O'Regan	2,099,301	13.1%
Citicorp Capital Investors Europe Limited	2,227,700	13.9%
3i plc	1,708,250	10.7%
Bisgenus Nominees Limited	800,000	5.0%
Rothschild Ventures	750,000	4.7%
Eagle Star Assurance Co Ltd	700,000	4.4%

### 6. CHARITABLE DONATIONS

During the year the Group made various charitable donations totalling £15,000 (1993: £1,000). There were no other donations in 1994. In 1993 a further £1,000 was given to other locally based community support projects.

### 7. DISABLED EMPLOYEES

Applications for employment from disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

### 8. EMPLOYEE CONSULTATION

The Group places considerable value on the involvement of its employees and continues to keep them informed on matters affecting them as employees and on the various factors impacting the performance of the Group. This is achieved through formal and informal meetings and the dissemination of written communications directly or via notice boards.

### 9. FIXED ASSETS


An analysis of the movement in tangible fixed assets appears in Note 10 to the financial statements.

### 10. AUDITORS

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

### 11. LIABILITY INSURANCE FOR COMPANY OFFICERS

As permitted by the Companies Act 1985, the Company has purchased insurance cover for the Directors against liabilities in relation to the Company.

  
By Order of the Board  
M.D. Greig, Secretary, Research Machines plc  
New Mill House, 183 Milton Park, Abingdon, Oxon OX14 4SE  
15th November 1994

# **CONSOLIDATED PROFIT AND LOSS ACCOUNT**

*For the year ended 30th September 1994*

	NOTE	1994 £000	1993 £000
<b>TURNOVER</b>	<b>2</b>	<b>65,493</b>	<b>66,212</b>
Cost of sales		(48,794)	(50,987)
<b>GROSS PROFIT</b>		<b>16,699</b>	<b>15,225</b>
Operating expenses			
- Selling & distribution		(7,461)	(8,794)
- Research & development		(2,548)	(2,370)
- Administration		(3,191)	(3,132)
		(13,198)	(12,296)
<b>OPERATING PROFIT</b>	<b>3</b>	<b>3,501</b>	<b>2,929</b>
Exceptional item	4	232	-
Net interest receivable/(payable)	6	33	(404)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>3,766</b>	<b>2,525</b>
Tax charge on profit on ordinary activities	7	(1,110)	(936)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION, BEING PROFIT FOR THE FINANCIAL YEAR</b>		<b>2,656</b>	<b>1,589</b>
Dividends paid and proposed	8	(775)	(383)
<b>RETAINED PROFIT FOR THE YEAR</b>		<b>1,881</b>	<b>1,506</b>
Earnings per ordinary share - Basic	9	17.0p	12.4p
- Fully diluted	9	15.5p	

A statement of movements on reserves is given in Note 17.

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

# **CONSOLIDATED BALANCE SHEET**

*As at 30th September 1994*

	NOTE	1994 £000	1993 £000
<b>FIXED ASSETS</b>			
Tangible fixed assets	10	5,108	5,890
<b>CURRENT ASSETS</b>			
Freehold property held for resale		-	1,270
Stocks	12	5,708	4,694
Debtors	13	11,148	13,881
Cash at bank and in hand		6,542	6,652
		23,398	26,497
<b>CREDITORS</b>			
Amounts falling due within one year	14	(12,430)	(17,753)
<b>NET CURRENT ASSETS</b>		<b>10,968</b>	<b>8,744</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>16,074</b>	<b>14,634</b>
<b>CREDITORS</b>			
Amounts falling due after more than one year	14	(1,136)	(1,720)
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	15	<b>(104)</b>	<b>(242)</b>
		<b>14,834</b>	<b>12,672</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	1,604	1,531
Share premium account	17	4,485	4,200
Revaluation reserve	17	-	403
Profit and loss account	17	8,765	6,418
		<b>14,834</b>	<b>12,672</b>

These financial statements were approved by the Board of Directors on 15th November 1994.

M.D. Fischer      M.D. Greig  
DIRECTOR      DIRECTOR

*M.D. Fischer*      *M.D. Greig*

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

# COMPANY ONLY BALANCE SHEET

As at 30th September 1994

	NOTE	1994 £000	1993 £000
<b>FIXED ASSETS</b>			
Tangible fixed assets	10	5,108	5,836
Investment in subsidiary undertakings	11	1,508	1,508
		<b>6,616</b>	<b>7,344</b>
<b>CURRENT ASSETS</b>			
Freehold property held for resale		-	1,270
Stocks	12	5,708	4,694
Debtors	13	11,115	14,012
Cash at bank and in hand		6,542	6,646
		<b>23,365</b>	<b>26,622</b>
<b>CREDITORS</b>			
Amounts falling due within one year	14	(16,612)	(21,925)
<b>NET CURRENT ASSETS</b>		<b>6,753</b>	<b>4,697</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>13,369</b>	<b>12,041</b>
<b>CREDITORS</b>			
Amounts falling due after more than one year	14	(1,136)	(1,720)
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	15	(104)	(242)
		<b>12,129</b>	<b>10,079</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	1,004	1,531
Share premium account	17	4,465	4,260
Reserve for depreciation	17	-	463
Profit and loss account	17	6,060	3,825
		<b>12,129</b>	<b>10,079</b>

These financial statements were approved by the Board of Directors on 15th November 1994.

M.D. Fischer

M.D. Greig

DIRECTOR

DIRECTOR

*M.D. Fischer*

*M.D. Greig*

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



## CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 30th September 1994*

	NOTE	1994 £000	1993 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	18 a	2,243	10,178
NET CASH OUTFLOW FROM EXCEPTIONAL ITEM IN 1992	18 b	-	(2,047)
		2,243	8,131
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		108	39
Interest paid		(75)	(253)
Interest element of finance lease rental		(126)	(184)
Dividends paid		(543)	-
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(546)	(368)
TAXATION			
Corporation tax paid (including advance corporation tax)		(271)	-
Corporation tax refunded		109	533
NET CASH (OUTFLOW)/INFLOW FROM TAXATION		(102)	533
INVESTING ACTIVITIES			
Payments to acquire tangible fixed assets		(1,686)	(1,464)
Receipts from sales of tangible fixed assets		498	271
Proceeds from sale of land and buildings	18 b	2,027	-
Loan to employee share trust		-	(37)
Repayment of loan from employee share trust		37	-
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		876	(1,230)
NET CASH INFLOW BEFORE FINANCING		2,471	7,036
FINANCING			
Issue of ordinary share capital		278	45
Loan repayment		(1,700)	(800)
Capital element of finance lease rental	18 d	(1,159)	(840)
NET CASH OUTFLOW FROM FINANCING		(2,581)	(1,595)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	18 c	(110)	5,441

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

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

*For the year ended 30th September 1994*

	Group	Group	Company	Company
	1994	1993	1994	1993
	£000	£000	£000	£000
Profit for the financial year attributable to shareholders	2,659	1,889	2,547	1,991
Unrealised deficit on revaluation of properties	-	(394)	-	(394)
<b>Total recognised gains and losses relating to the year</b>	<b>2,659</b>	<b>1,495</b>	<b>2,547</b>	<b>1,597</b>

## NOTE OF HISTORICAL COST PROFITS AND LOSSES

*For the year ended 30th September 1994*

	Group	Group	Company	Company
	1994	1993	1994	1993
	£000	£000	£000	£000
Reported profit on ordinary activities before taxation	3,769	2,525	3,654	2,627
Realisation of property revaluation gains of previous years	716	-	716	-
Difference between a historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	-	10	-	10
<b>Historical cost profit on ordinary activities before taxation</b>	<b>4,485</b>	<b>2,535</b>	<b>4,370</b>	<b>2,637</b>
<b>Historical cost profit for the year retained after taxation and dividends</b>	<b>2,800</b>	<b>1,516</b>	<b>2,488</b>	<b>1,618</b>

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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

#### (a) Basis of Accounting

The financial statements are prepared under the historical cost convention, modified where appropriate to include freehold land and buildings at valuation, and in accordance with applicable accounting standards.

#### (b) Basis of Consolidation

The Group financial statements consolidate the financial statements of Research Machines plc and its subsidiary undertakings made up to 30th September 1994. In the Company's financial statements the investment in the subsidiary undertakings is stated at cost.

#### (c) Turnover and Revenue Recognition

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

#### (d) Tangible Fixed Assets

Freehold land and buildings are shown at original historical cost or subsequent valuation, less accumulated depreciation. Other tangible fixed assets are shown at cost less accumulated depreciation.

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

Freehold buildings	20-50 years
Leasehold building improvements	25 years
Plant & equipment	4-10 years
Computers	2-4 years
Vehicles	2-4 years

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

#### (e) Research and Development

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

#### (f) 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 or defective items where appropriate.

#### (g) Taxation

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### (h) 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 to or credited to profit and loss as they occur. The overseas subsidiary undertakings results are translated at the average exchange rate for the year for the profit and loss account and the year end closing exchange rate for the balance sheet.

### (i) Leases

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

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

### (j) 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 is shown in the balance sheet as a liability or asset. The pension costs for the year are shown in Note 5 to the financial statements.

## 2. SEGMENT INFORMATION

All of the Group's turnover and profit arose from the Group's principal activities which are based principally in the United Kingdom. Export sales of £401,000 (1993: £323,000) included £119,000 (1993: £130,000) made to the Middle East.

## 3. OPERATING PROFIT

The operating profit is stated after charging:

		1994 £000	1993 £000
Depreciation	- owned assets	1 125	875
	- assets held under finance leases and hire purchase contracts	441	544
Operating leases	- land and buildings	654	656
	- plant and machinery	216	241
Auditors' remuneration	- audit services	48	42
	- other professional services	17	11

## 4. EXCEPTIONAL ITEM

The exceptional item represents the gain on the disposal of the Group's freehold properties in Oxford. There is no tax charge associated with this gain.

## NOTES TO THE FINANCIAL STATEMENTS

### 5. STAFF COSTS

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

	1994 £000	1993 £000
Staff costs comprise:		
Wages and salaries		
Social security costs	10,530	10,430
Other pension costs (see Note 19)	918	911
Employee share scheme	557	531
	70	80
	<b>12,073</b>	<b>11,952</b>

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

	1994 Number Employed	1993 Number Employed
Sales and marketing		
Services	130	121
Finance and administration	158	142
Personnel	58	55
Product development	9	9
Manufacturing and assembly	52	51
Total	<b>92</b>	<b>75</b>
	<b>499</b>	<b>453</b>

Directors' remuneration:

Staff costs include the following remuneration in respect of Directors:

	1994 £000	1993 £000
Fees		
Remuneration (excluding bonus payments)	52	43
Bonus payments	604	584
Pension contributions	161	75
	<b>57</b>	<b>57</b>
	<b>574</b>	<b>759</b>

Fees are paid only to Non-Executive Directors. The emoluments of the Executive Directors are determined by the Non-Executive Remuneration Committee. The Executive Directors all participate in an annual bonus plan, under which the amount of bonus is determined partly by achieving personal objectives and partly by the performance of the Group. The bonuses shown above for each year reflect both elements and are normally paid in January of the following year. Details of Directors' interests in the Company's shares are set out in section 4 of the Report of the Directors. In addition to the fees shown above, M R H J O'Regan invoices the Group for the provision of consultancy services. The total amount invoiced in the year ended 30th September 1994 was £18,000 (1993: £14,000).

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

£	£	1994 Number	1993 Number	£	£	1994 Number	1993 Number
0	to 5,000	1	-	120,001	to 125,000	1	-
5,001	to 10,000	1	2	140,001	to 145,000	-	1
10,001	to 15,000	3	2	145,001	to 150,000	-	1
15,001	to 20,000	-	3	155,001	to 160,000	1	-
20,001	to 25,000	2	-	170,001	to 175,000	1	-
25,001	to 30,000	1	1				

The Chairman earned remuneration (excluding bonus payment) of £122,000 (1993: £115,000) and a bonus of £51,000 (1993: £28,000). The highest paid Director earned remuneration (excluding bonus payment) of £129,000 (1993: £130,000) and a bonus of £31,000 (1993: £19,000). The emoluments shown above do not include any amounts for the values of share options granted to Directors.

## NOTES TO THE FINANCIAL STATEMENTS

### 6. NET INTEREST RECEIVABLE/(PAYABLE)

	1994 £000	1993 £000
On bank loans and overdrafts:		
- Repayable within 5 years other than by instalments	(57)	(259)
Interest payable under finance leases	(128)	(184)
	(185)	(443)
Less: Interest receivable and similar income	219	39
	36	(404)

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

	1994 £000	1993 £000
UK corporation tax charge for the year at 33.0% (1993: 33.0%)	1,288	283
Deferred tax arising from:		
Capital allowances	(157)	200
Other timing differences	35	93
Adjustments in respect of previous years:	1,164	636
Corporation tax	(80)	-
Deferred tax	28	-
	1,110	636

### 8. DIVIDENDS PAID AND PROPOSED

	1994 £000	1993 £000
Ordinary shares:		
- 1994 interim paid of 1p per share (1993: Nil)	100	-
- 1994 second interim proposed of 3.8p per share (1993: Nil)	615	-
- 1993 final proposed of 2.5p per share	-	383
	775	383

### 9. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share are based on the consolidated profit for the financial year of £2,659,000 (1993: £1,889,000) and on 15,630,101 (1993: 15,255,095) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Certain Directors and employees have been granted options to subscribe for ordinary shares at variable prices (see Note 10). At 30th September 1994 options to subscribe for a weighted average of 1,871,767 ordinary shares had been granted. The fully diluted earnings per ordinary share is based on adjusted earnings of £2,711,000 on the assumption that the options had been exercised on 1st October 1993 (or date of issue if later) and the proceeds invested in 2.5% consolidated stock at a yield of 7.16% (less corporation tax) and on a weighted average of 17,507,868 ordinary shares issued and issuable.

## NOTES TO THE FINANCIAL STATEMENTS

### 10. TANGIBLE FIXED ASSETS

a) The movement in the year was as follows:-

Group	Total £000	Land & Buildings £000	Plant & Equipment £000	Computers £000	Vehicles £000
Cost or Valuation:					
Beginning of year	9,156	1,564	2,956	2,579	2,057
Additions	1,897	8	183	912	794
Disposals	(2,490)	(525)	(120)	(892)	(953)
End of year, at cost	8,563	1,047	3,019	2,599	1,898
Depreciation:					
Beginning of year	3,268	105	1,117	1,239	805
Charged in year	1,568	61	398	583	524
Disposals	(1,377)	-	(88)	(678)	(600)
End of year	3,455	166	1,417	1,143	729
Net book value at end of year	5,108	881	1,602	1,456	1,169
Net book value at beginning of year	5,890	1,459	1,839	1,340	1,252

Company	Total £000	Land & Buildings £000	Plant & Equipment £000	Computers £000	Vehicles £000
Cost or Valuation:					
Beginning of year	9,095	1,564	2,931	2,579	2,021
Additions	1,897	8	183	912	754
Disposals	(2,429)	(525)	(95)	(892)	(917)
End of year, at cost	8,563	1,047	3,019	2,599	1,858
Depreciation:					
Beginning of year	3,259	105	1,115	1,239	800
Charged in year	1,532	61	393	583	505
Disposals	(1,330)	-	(81)	(678)	(576)
End of year	3,455	166	1,417	1,143	729
Net book value at end of year	5,108	881	1,602	1,456	1,169
Net book value at beginning of year	5,836	1,459	1,818	1,340	1,221

b) Freehold properties held at valuation:

At 30th September 1993, freehold properties (which were being marketed) were revalued down to £1,800,000, a Directors' valuation taking into account the offers received. The disposal of certain land and buildings was anticipated within one year and, accordingly, £1,270,000 was transferred to current assets. All freehold land and buildings were disposed of during the year ended 30th September 1994 giving rise to a profit of £232,000. At 30th September 1994 all remaining land and buildings are held on leases with terms of less than 50 years.

c) Assets held under finance lease:

Plant and Equipment, Computers and Vehicles include the following assets which are held under finance leases:

	30th September 1994		30th September 1993	
	Computers £000	Vehicles £000	Computers £000	Vehicles £000
Cost	378	1401	855	1,874
Accumulated depreciation	(151)	(627)	(177)	(760)
Net book value	225	774	478	1,114

## NOTES TO THE FINANCIAL STATEMENTS

### 11. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company 1994 £000	Company 1993 £000
Research Machines (Financo) Limited	1,487	1,487
Research Machines GmbH	21	21
Biridell Limited	-	-
Oxford Learning Systems Limited	-	-
	1,508	1,508

Research Machines (Financo) Limited is wholly owned, dormant and registered in England.

Research Machines GmbH is wholly owned and is incorporated in Germany. Its principal activity is the marketing of Research Machines' product range in Germany.

Biridell Limited is wholly owned and registered in England. It is the trustee of the employee share ownership trust.

Oxford Learning Systems Limited is wholly owned, dormant and was registered in England on 15th April 1994.

### 12. STOCKS

	1994 £000	1993 £000
The following are included in the net book value of stocks for the Group and the Company:		
Components	2,712	3,510
Work in progress	163	3
Finished goods	2,833	1,181
	5,708	4,694

### 13. DEBTORS

	Group 1994 £000	Group 1993 £000	Company 1994 £000	Company 1993 £000
Due within one year:				
Trade debtors	10,483	13,290	10,433	13,277
Other debtors:				
- Amounts owed by subsidiary undertaking	-	-	-	146
- Other	125	174	125	172
- Loan to employee share trust	-	37	-	37
Prepayments and accrued income	336	380	507	380
	11,144	13,881	11,115	14,012



## NOTES TO THE FINANCIAL STATEMENTS

14. CREDITORS	Group	Group	Company	Company
	1994	1993	1994	1993
	£000	£000	£000	£000
Due within one year:				
Obligations under finance leases	304	770	304	770
Bank loan (secured)	-	1,700	-	1,700
Trade creditors	2,851	7,416	2,851	7,410
Amounts owed to subsidiary undertaking	-	-	4,182	4,182
Other creditors:				
- UK corporation tax payable	1,209	148	1,209	148
- ACT on dividends	193	111	193	111
- Social Security and PAYE	388	367	388	367
- VAT	1,752	1,647	1,752	1,684
- Other	236	230	236	209
Proposed dividends	615	383	615	383
Accruals and deferred income	4,882	4,981	4,882	4,981
	12,430	17,753	16,612	21,925
Due after more than one year:				
	1994	1993	1994	1993
	£000	£000	£000	£000
- within 1-2 years				
- obligations under finance leases	218	680	218	680
- accruals and deferred income	691	585	691	585
- within 2-5 years				
- obligations under finance leases	25	170	25	170
- accruals and deferred income	202	285	202	285
	1,136	1,720	1,136	1,720

## 15. PROVISION FOR LIABILITIES AND CHARGES

1994  
£000

1993  
£000

Provision for liabilities and charges comprises deferred tax for the Group and Company as follows:

Excess of tax allowances over book depreciation of tangible fixed assets	328	459
Short term timing differences	(69)	(108)
ACT recoverable	(153)	(111)
	104	242
The movement on deferred tax comprises:	1994	1993
	£000	£000
Beginning of year	242	-
(Credited)/Charged to profit and loss	(98)	353
ACT recoverable transferred to current tax	111	-
ACT on proposed dividend	(153)	(111)
End of year	104	242

There are no unprovided deferred tax liabilities (1993: £Nil).

## NOTES TO THE FINANCIAL STATEMENTS

<b>1h. SHARE CAPITAL</b>	<b>1994</b>	<b>1993</b>
	<b>£000</b>	<b>£000</b>
Authorised:		
22,000,000 Ordinary Shares of 10p each (1993:22,300,000)	2,230	2,230
Allotted, called up and fully paid:		
18,035,737 Ordinary Shares of 10p each (1993:15,313,237)	1,804	1,531
	<b>Number</b>	<b>Premium</b>
	<b>of Shares</b>	<b>Arising</b>
		<b>£000</b>
During the year the following Ordinary Shares of 10p each were allotted for cash:		
- Issued on exercise of options	722,500	205

### RML Staff Share Scheme

The RML Staff Share Scheme is an Inland Revenue approved employee share scheme constituted under a trust deed. As at 30th September 1994 the trustees of the scheme held 265,519 shares on behalf of the employees.

### The employee share ownership trust

The employee share ownership trust owns 2,850 shares in Research Machines plc.

### The Research Machines Limited 1984 Share Option Scheme

As at 30th September 1994 the following options granted under the Research Machines Limited 1984 Share Options Scheme in respect of ordinary shares of 10p each were outstanding:

Calendar Year of Issue	Number of Shares	Period of Option	Price per Share
1985	10,000	10 years	£0.40
1986	625,000	10 years	£0.32
1987	55,000	10 years	£0.40
1988	5,000	10 years	£0.50
1989	175,000	10 years	£0.80
1990	205,000	10 years	£0.85
1991	135,000	10 years	£1.30
1992	135,000	10 years	£0.65
1993	350,001	10 years	£1.51
	<u>1,695,001</u>		

## NOTES TO THE FINANCIAL STATEMENTS

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

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

	Share capital account £000	Share premium account £000	Revaluation reserve £000	Profit and loss account £000	1994 Total shareholders' funds £000	1993 Total shareholders' funds £000
<b>Group:</b>						
Beginning of the year	1,531	4,260	463	6,418	12,672	11,515
Retained profit for the year	-	-	-	1,884	1,884	1,508
Transfer of reserve	-	-	(463)	463	-	-
Revaluation of land and buildings	-	-	-	-	-	-
Shares issued during the year	73	205	-	-	-	(394)
End of the year	1,604	4,465	-	8,765	14,834	12,672
<b>Company:</b>						
Beginning of the year	1,531	4,260	463	3,825	10,079	8,820
Retained profit for the year	-	-	-	1,772	1,772	1,608
Transfer of reserve	-	-	(463)	463	-	-
Revaluation of land and buildings	-	-	-	-	-	-
Shares issued during the year	73	205	-	-	-	(394)
End of the year	1,604	4,465	-	6,060	12,129	10,079

The Revaluation reserve was transferred to the Profit and Loss account during the year following the sale of the properties to which the reserve related.

### 18. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	1994 £000	1993 £000
<b>(a) Reconciliation of operating profit to net cash inflow from operating activities</b>		
Operating profit	3,501	2,929
Depreciation charge	1,418	1,419
Loss/(Profit) on disposal of tangible fixed assets	10	(38)
(Increase)/Decrease in stock	(1,011)	2,906
Decrease in debtors	2,700	2,590
(Decrease)/Increase in creditors	(4,800)	282
<b>Net cash inflow from operating activities</b>	<b>2,243</b>	<b>10,178</b>
<b>(b) Reconciliation of exceptional item to net cash inflow/(outflow) from exceptional item</b>		
Exceptional item	232	-
Profit on disposal of exceptional item	(232)	-
Decrease in creditors relating to 1992 exceptional item	-	(2,047)
Proceeds on disposal of exceptional item	2,027	-
<b>Net cash inflow/(outflow) from exceptional item</b>	<b>2,027</b>	<b>(2,047)</b>
<b>(c) Analysis of changes in cash and cash equivalents</b>		
Balance at beginning of year	6,152	7,211
Net cash (outflow)/inflow	(110)	5,441
<b>Balance at end of year</b>	<b>6,042</b>	<b>6,652</b>
<b>(d) Analysis of changes in finance lease rentals during the year</b>		
Balance at beginning of year	7,120	2,022
Inception of finance lease contracts	294	550
Termination of finance lease contracts	(208)	(112)
Capital element of finance lease rental	(1,158)	(640)
<b>Balance at end of year</b>	<b>6,047</b>	<b>1,820</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 19. 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. Contributions to the Scheme are charged to the Profit and Loss Account so as to spread the cost of pensions over the employees' working lives with the Group. The contributions are determined on the advice of a qualified actuary on the basis of valuations carried out at least every three years. The most recent valuation for accounting purposes was carried out as at 1st July 1994 and used the Projected Unit method of funding. The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that investment returns would be 9% p.a., that salary increases would average 8% p.a., and that present and future pensions would increase at the rate of 3% p.a.. Assets were assumed to be invested in a National Portfolio comprising equities matching the Financial Times - Actuaries All Share Index. Dividends were assumed to increase at 4.5% p.a. At the time of valuation the market value of the Scheme's assets was £6,215,000 and the actuarial value of these assets represented 98% of the benefits that had accrued to members, after allowing for expected future increases in salaries. The valuation also showed that the expected long term cost of the Scheme to the Group was 9.0% of Pensionable Salaries. Company contributions have been paid at the rate of 9.8% of Pensionable Salaries to 31st January 1994 and at the rate of 8.8% thereafter. The reduction reflects an increase in the level of member contributions payable from this date, from 4.0% to 5.0% of Pensionable Salaries.

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

The pension charge for the year is disclosed in note 5.

Included in creditors falling due within one year are outstanding pension contributions of £91,000 (1993:£99,000).

### 20. CONTINGENCIES AND COMMITMENTS

#### (a) Commitments under operating leases

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

The Group and Company are committed to the following payments in the coming year in respect of operating leases:

1994	Group Land & Buildings £000	Group Others £000	Company Land & Buildings £000	Company Others £000
Leases expiring within 1 year	7	21	7	21
Leases expiring within 2-5 years	31	61	31	61
Leases expiring after more than 5 years	596	-	596	-
	<b>634</b>	<b>82</b>	<b>634</b>	<b>82</b>

1993	Group Land & Buildings £000	Group Others £000	Company Land & Buildings £000	Company Others £000
Leases expiring within 1 year	-	39	-	39
Leases expiring within 2-5 years	77	97	64	97
Leases expiring after more than 5 years	605	-	605	-
	<b>682</b>	<b>136</b>	<b>669</b>	<b>136</b>

#### (b) Capital Commitments

The Group and Company have the following capital expenditure commitments:

	1994 £000	1993 £000
Authorised, not yet contracted for	670	189

## DIRECTORS' AND AUDITORS' RESPONSIBILITIES

### 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.

### Auditors' responsibilities

Company law requires auditors to form an independent opinion on the financial statements presented by the Directors based on their audit and to report their opinion to the shareholders. The Companies Act 1985 also requires auditors to report to the shareholders if the following requirements are not met:

- that the companies in the Group have maintained proper accounting records;
- that the financial statements are in agreement with the accounting records;
- that Directors' emoluments and other transactions with the Directors are properly disclosed in the financial statements; and
- that the auditors have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of their audit.

The auditors' opinion does not encompass the report of the Directors on pages 2 and 3. However, the Companies Act 1985 requires auditors to report to the shareholders if the matters contained in the report of the Directors are inconsistent with the financial statements.

## REPORT OF THE AUDITORS

### To the shareholders of Research Machines plc

We have audited the financial statements on pages 4 to 18 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 9 and 10.

### Respective responsibilities of Directors and auditors

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

### Scope of opinion

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

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

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 30th September 1994, 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  
Chartered Accountants and Registered Auditors  
Abbots House, Abbey Street, Reading, RG1 3BD  
15th November 1994

## FIVE YEAR SUMMARY

£000 (except where stated)	30 Sept 1990	30 Sept 1991	30 Sept 1992	30 Sept 1993	30 Sept 1994
TURNOVER	62,929	62,200	65,087	68,212	65,493
OPERATING PROFIT/(LOSS)	4,306	2,384	(279)	2,929	3,501
Profit/(loss) on ordinary activities before exceptional items and taxation	3,254	2,260	(827)	2,525	3,537
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	3,254	2,051	(6,575)	2,525	3,769
PROFIT/(LOSS) AFTER TAXATION	2,034	1,328	(4,881)	1,883	2,659
EARNINGS PER SHARE *					
(Fully diluted)					
Including exceptional items	13.0p	8.1p	(27.4p)	11.3p	15.5p
Excluding exceptional items	13.0p	8.8p	(5.8p)	11.3p	14.2p
DIVIDENDS PER SHARE (net) *	1.2p	1.3p	--	2.5p	4.8p
CAPITAL EMPLOYED:					
- Shareholders' funds	15,523	16,861	11,515	12,672	14,834
- Net borrowings/(Net cash) (including finance leases)	2,301	144	3,311	(3,332)	(5,995)
TOTAL	17,824	17,005	14,826	9,340	8,839
OPERATING PROFIT/(LOSS) AS A PERCENTAGE OF :					
- Turnover	6.8%	3.8%	(0.4)%	4.4%	5.3%
- Average Capital Employed	23.9%	13.7%	(1.8)%	24.2%	38.5%
NET BORROWINGS / (NET CASH) AS A PERCENTAGE OF SHAREHOLDERS' FUNDS	14.8%	0.9%	28.8%	(26.3)%	(40.4)%

\*1990 has been adjusted to reflect the 9 for 1 bonus issue in 1991.

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