

RM plc

Annual Report and Financial Statements  
for the year ended 30th September 1995

Company number 1749877



**RM plc**

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for the year ended 30th September 1995**

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"Providing IT to schools and colleges is the major part of RM's business. Our systems are used by 3 million students every week; each year we deal with 125,000 support calls from education and make 10,000 visits to schools and colleges. RM is in the business of providing complete solutions to education".

*Mike Fischer, World Conference for Computers in Education, June 1995*



## RM'S BUSINESS

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RM is the leading supplier of IT services, products and resources to education in the UK. RM provides education IT products to primary schools, secondary schools, further education colleges and higher education establishments. RM understands the needs of both teachers and pupils and has developed its products and all important customer support in response to the changing demands of this growing area of education. Teaching staff may have technical queries that need to be resolved in a 15 minute break and RM are set up to cope with that level of support demand. With over 18 years experience in this highly specialised market RM has developed products and services which meet the specific demands of education. New products that have been introduced to meet these demands include systems that easily provide multimedia networking and access to the Internet. RM's products give pupils the opportunity to make the most of the exciting inclusion of IT in their curriculum, while also providing teachers with easy-to-use technology backed-up by reliable customer support.

### RM's History

Founded in 1973 by Mike Fischer and Mike O'Regan to supply electronic equipment for the research and educational markets, RM developed its first microcomputer in 1977. These systems were supplied to pioneering local education authorities and here began a partnership of supplying and developing products to meet the needs of the changing curriculum. Since 1987 all RM computers have been IBM-PC compatible and all new RM products offer the most widely accepted and used IT standards to UK education and are designed to support National Curriculum requirements both in subject-specific areas and across the curriculum. As RM's main unique selling point, software, services and support have grown to become the most important area of the business and the majority of RM's 600 staff are now involved in these activities.

## RM'S BUSINESS

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### Highlights of 1995

1995 has seen the launch of *RM Connect*, based on Microsoft® Windows® NT Server, and the first educational network designed for Windows® 95; the launch of the *RM Infant Window Box™*, a Key Stage 1 version of RM's successful primary product; RM co-sponsoring the World Conference for Computers in Education; the launch of RM's open networking strategy which makes RM's educational enhancements available on all major networking platforms; the launch of RM's Internet for Learning service; RM starts selling *SuccessMaker™*, integrated learning system; RM winning the National Association for Co-ordinators & Teachers of IT awards for both *RM Window Box* and *RM Net LM* and a Computer Weekly/Kew Associates survey again confirms RM as number one IT supplier to education.

## CHAIRMAN'S STATEMENT

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I am very pleased to report that the year to 30th September 1995 was a notably successful one for RM. Profit before tax reached a record £5,023m, up 42% on last year's figure excluding exceptional income, on turnover that grew by 23% to £80.7m. There was an excellent performance from RM's mainstream businesses supplying IT solutions to UK education and, in addition, there has been very satisfactory progress in RM's newer activities that are at the investment stage. These activities, involving new uses of IT in education, are developing rapidly and have significant longer term potential for RM.

Sales to RM's core education markets, which continue to represent over 90% of turnover, grew by 22% against a background of generally tight government funding for education. This growth resulted both from an expansion in the size of the market for IT in education, reflecting a wider acceptance of the increasing benefits which IT offers in comparison to other forms of education expenditure, and from market share gains. Gross profit increased by 20% to £20.0m. Operating costs grew by 17% to £15.4m, and resulted in an operating profit of £4,586m, up 31% on last year. Net interest receivable of £437,000 (£36,000 in 1994) reflected the marked increase in average cash balances. Profit before tax was £5,023,000 (1994: £3,537,000 excluding exceptional income; £3,769,000 including a £232,000 gain on a property disposal).

Fully diluted earnings per share were 18.8p, an increase of 32% on the figure for 1994 excluding exceptional income. The business continued to demonstrate good cash generation; cash, net of finance lease borrowings, was £10.2m at the year end compared to £6.0m a year earlier.

Growth in orders during the year was more rapid than had been anticipated and this provided an opportunity to accelerate investment in developing new activities. The *RM Internet for Learning* service is now established as the leading provider of Internet services for UK schools and colleges. *RM Learning Systems*, which sells the *SuccessMaker* integrated learning system, had a very successful first year of operation with sales reaching £641,000. The Board plans to maintain the rate of investment in the development of new activities over the coming year, believing their longer term potential to be very significant.

The acquisition of Key Solutions in May 1995 has given RM a presence in the significant market for software and services for education management and administration. Building on an excellent product base acquired, we have increased investment in product and services development and also in marketing activities. This expenditure, coupled with an expected seasonally weak contribution from Key Solutions, led to an operating loss of £220,000 on turnover of £308,000 in the post acquisition period. To achieve the same market success as RM's core business will require additional investment in Key Solutions and continuing integration with RM's other activities.

## CHAIRMAN'S STATEMENT

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Following the listing of the company's shares on the London Stock Exchange in December 1994, I was pleased to welcome Mike Harrison to the Board as our fourth non-executive director. Mike Harrison is Regional Vice President of Informix Software and brings valuable additional experience of software and marketing in the IT industry.

The Board will recommend to shareholders at the Annual General Meeting to be held on 26th January 1996 the payment of a final dividend of 4.5p (net) per share. This will make a total dividend for the year of 6.0p (net), an increase of 25% over the total of 4.8p (net) last year. At this level the dividend is covered 3.1 times by fully diluted earnings per share. The final dividend will be payable on 2nd February 1996 to shareholders who were on the register on 28th December 1995.

It is too early in RM's annual business cycle to give an indication of the likely outcome for the year, particularly in view of the seasonal nature of our business. However, the Board believe that growth in turnover will continue in the current year.

The future promises exciting developments in educational computing. There is near universal recognition of the need for the UK to improve the level of education and training of its present and future workforce if it is to be internationally competitive in the next century. The potential contribution of IT to improving the effectiveness of education is also widely recognised and has been accepted by all political parties. Through RM's commitment to bringing mainstream IT developments to education and to working in partnership with all sectors of education, we are uniquely well positioned to contribute to and benefit from this opportunity.

The quality of the team of people who together have made RM what it is today continues to provide the best guarantee that RM will take advantage of these developments to the benefit of our customers and shareholders alike.

John Leighfield  
Chairman  
29th November 1995

## OPERATIONS' REVIEW

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### MARKETS

Education remains the dominant focus of RM's operations, accounting for over 80% of revenues. The 23% growth in turnover in 1995 was driven by growth in RM's core education business. RM supplies complete IT solutions directly to all sectors of UK education. Below is a review of each major market sector.

#### Primary schools

Revenues from primary schools grew by 38% over the prior year. RM increased its market share as a result of the continued success of the *RM Window Box* range of integrated systems with multimedia options which accounts for the majority of primary sector revenues. Over 80 Local Education Authorities are now members of the *RM Window Box* Partnership scheme. Multimedia has become increasingly important to primary schools and two thirds of computers supplied by RM to primary schools now include multimedia capability.

#### Secondary schools

Revenues in our largest market sector grew by 12%. RM's business with 'specialist schools' (previously technology colleges), which receive additional government funding for capital investment, grew particularly well. High quality access to the world's best multimedia resources, as provided by the recently launched *RM Multimedia Server*, has proved to be extremely attractive for many secondary schools.

RM's open networking strategy, introduced during the year, adds features developed by RM specifically for education to a wide range of operating systems and has further enhanced RM's position as the education networking specialist.

#### Further and higher education

Revenues from further and higher education grew by 36% with particularly rapid growth in universities where increased focus on the requirements of this market led to a significant increase in RM's market share. RM maintained its market leadership in colleges of further education.



## OPERATIONS' REVIEW

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### IT SOLUTIONS

RM supplies IT solutions to education comprising products from one or more of RM's product divisions. The range of software solutions we offer to our educational customers was broadened during the year by the addition of two new divisions, RM Learning Systems and Key Solutions RM described below.

Each of RM's product divisions has focused on improving the competitiveness of its product range in the market place. This successfully increased the overall attractiveness of the solutions offered by RM and contributed to the growth in revenue and gross profit for all product divisions. Customers continue to be attracted by the security of dealing with a single supplier able to offer the breadth of RM's product range.

We also made excellent progress, described below, in three new areas that were identified at the time of RM's flotation as providing significant growth opportunities: Multimedia, Integrated Learning Systems and Communications (Superhighways).

#### Software and Integrated Systems

Networks, or 'in-house information superhighways' for schools and colleges, continued to provide the largest part of this division's revenues. *RM Net LM* continued its established success and, in addition, *RM Connect*, RM's fourth generation networking product, was successfully launched towards the end of the year. Over 250 new schools and colleges purchased RM networks during the year thereby ensuring that our market leadership position was enhanced. *RM Connect* combines the benefits of Microsoft Windows NT's 'industrial strength' networking and Windows 95 ease of use with RM's education-specific network enhancement software. Over 150 *RM Multimedia Servers* were sold during the year, each providing unparalleled school-wide network access to up to 16 CD ROM titles.

The *RM Window Box* range of integrated systems which provide a complete solution to a primary school's Curriculum IT needs, had another very successful year. The range has recently been extended with the launch of the *RM Infant Window Box* specifically designed to meet the needs of Key Stage One of the National Curriculum. It includes a range of learning enhancement software available for younger primary school children and has also been adopted for special educational needs.

#### PC's

The PC division remained the largest division in revenue terms. Over 65% of its revenues arise directly as a result of the purchase of an RM solution. The introduction of Microsoft Windows 95, with its enhanced ease of use, is one of the factors increasing the value of IT in education. These features are particularly attractive for new purchases.

## OPERATIONS' REVIEW

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During the year the standard warranty provided with RM computers was changed to match the general industry norm of a one year warranty, from the three year warranty previously provided to schools customers. The change increased the competitiveness of our computers and resulted in an increase in business won without additional direct sales effort. We continue to offer customers the choice of a wide range of warranty extension options including cover for up to five years.

### RM Distribution

RM's Software, Peripherals and Accessories catalogue, which is now accessible over the Internet, has been developed to enable schools and colleges to fulfil all their IT requirements from RM. It contains a wide range of educationally appropriate products, including five or more appropriate software titles for each area of the curriculum.

Margins on distributed products reduced towards industry norms as demand declined for upgrades to proprietary hardware products which RM used to sell. Revenues from other products grew rapidly enough to offset the effect of this margin decline.

### RM Services

Excluding the effects of the warranty change described earlier, RM Services' revenues grew by 14%. Annually contracted services, which provide support for both hardware and software, grew particularly well and contributed to a 75% growth in customer payments in advance, to £3.5m.

The *RM Internet for Learning* service launched in March 1995 has been an outstanding success in the market place. It quickly established itself as the leader in bringing the Internet to schools, and now has over 1000 schools and colleges connected enabling access for hundreds of thousands of pupils. The *Internet for Learning* 'web site' has established itself as the premier UK schools Internet site with over 15,000 accesses per day. RM is involved in four projects in a recently announced £10m DfEE initiative to bring superhighways to education in partnerships with LEAs, schools and other specialist providers. A trial with TELEWEST Communications plc in Essex and Kent is piloting the educational value of very high speed broadband connections of school networks to the Internet and other on-line services.

Investment in the *RM Internet for Learning* service is planned to continue next year. Existing services with particular value to education - such as call charge capping, filtering of non-suitable material, and providing rapid access to key information - will be further enhanced. Additional content of value to education will also be developed, both on our own and in partnership with a number of educational specialists.

## OPERATIONS' REVIEW

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### RM Learning Systems

RM Learning Systems is the exclusive distributor in the UK of the *SuccessMaker* integrated learning system under a rolling three year agreement with Computer Curriculum Corporation Inc. The learning gains achievable with *SuccessMaker* were confirmed by the government evaluation of a pilot scheme which found that children using the *SuccessMaker* maths course for 15 minutes a day made gains of 20 months in maths in a six month period. *SuccessMaker* is particularly suited to improving the core skills of numeracy and literacy and is therefore attractive for initiatives targeted at improving school effectiveness. The excellent progress made this year has enabled us to accelerate the development of the market and *SuccessMaker* is now in use in over 45 Local Education Authorities with over 5,000 children benefiting from its use.

### Key Solutions

Key Solutions has an excellent range of Windows based education management and administration software. We have been encouraged by the opportunities identified to combine Key Solutions' products with RM's *Curriculum Manager*, one of several new Key Solutions products, was launched following the introduction of the revised National Curriculum. It enables a school to carry out the planning, assessment and reporting of the curriculum in the school. Key Solutions software is available for use in all secondary schools as a result of the contract awarded by the School Curriculum and Assessment Authority (SCAA) for software for Key Stage 3 other activities.

### Operations

Further investments were made to improve customer service. More than half of RM's employees work in customer service or sales and marketing, and the majority use sophisticated customer support and sales systems. Building on client-server computer systems already developed, RM's SAMS sales and marketing system has been significantly developed and now provides knowledgeable and friendly office based sales advisers with access to all the information they need to provide a professional and efficient sales service to our customers.

## FINANCIAL REVIEW

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### Cash Flow

RM's business continued to demonstrate good cash generation; the net cash inflow from operating activities was £8.4m and cash, net of finance lease borrowings, was £10.2m at the year end, compared with £6.0m a year earlier and after £1.1m was spent during the year on the acquisition of Key Solutions.

The pronounced peak in the group's activity prior to the commencement of the academic year contributed to cash balances dropping to a minimum of £1.0m during this period. The seasonal nature of the group's business and the need to maintain flexibility moving forwards, lead the Board to believe that it is appropriate to maintain a conservative balance sheet.

### Flotation

642,857 shares were issued to cover the expenses of the listing of the company's shares on the London Stock Exchange in December 1994. RM's shares were placed at £1.75p per share, valuing the group at £29.5m.

### Acquisition

Details of the Key Solutions acquisition are given in note 12 to the accounts. The purchase consideration and acquisition costs totalled £2.1m, £1.1m of which was expended during the year. Deferred consideration of £1.0m is payable up to June 1998 subject to performance conditions being met. A payment of £0.6m, payable in shares or loan notes in June 1998, is conditional on revenue exceeding £1.5m and profit before taxation exceeding £50,000 in the year to 31st May 1998. Goodwill of £1.7m arose on the acquisition and has been written off against retained earnings.

### Profit and Loss

The warranty changes described earlier have had the short term effect of reducing revenues as revenue for optional extended warranties is now being deferred, whereas previously revenue was recognised on shipment and a provision made for the cost of delivering the warranty.

This change, combined with additional sales of PC's particularly to universities, contributed to a decline in gross margins from 25.6% to 24.7%.

Operating expenses declined as a percentage of revenue from 20.2% to 19.1%. Research and development expenditure which relates primarily to software and integrated systems was £2.757m. Significant expenditure was incurred in establishing new activities. £430,000 was invested in the development of the *RM Internet for Learning* service, generating revenues of £130,000 and a loss of £300,000. In addition, initial losses of £200,000 were incurred on turnover of £640,000 in RM Learning Systems, and of £220,000 on revenues of £308,000 in the Key Solutions business.

## DIRECTORS AND ADVISERS

**Registered Office and  
Principal Location:**

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

Telephone : 01235 826000  
Fax : 01235 826990  
Internet : <http://www.rmplc.co.uk>

**Registered Number**

1749877

**Directors :**

J.P. Leighfield  
M.D. Fischer  
M.D. Greig  
M.G. Harrison  
M.R.H.J. O'Regan  
M.D.C. Smith

*Chairman (Non-Executive)*  
*Chief Executive*  
*Finance Director*  
*Non-Executive Director*  
*Non-Executive Director*  
*Non-Executive Director*

**Secretary :**

M.D. Greig

**Bankers :**

Barclays Bank PLC  
62/63 High Street  
OXFORD OX1 3HS

**Stockbrokers:**

SBC Warburg  
1 Finsbury Avenue  
LONDON EC2M 2PP

**Auditors :**

Arthur Andersen  
Abbots House  
Abbey Street  
READING RG1 3BD

**Solicitors :**

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

Manches & Co  
3 Worcester Street  
Oxford  
OX1 2PZ

### Directors' Biographies

John Leighfield (age 57) was appointed non-executive Chairman on 1st October 1994, having joined RM as a non-executive Director in November 1993. He was the Executive Chairman of AT&T Intel until 30th April 1993. He is a non-executive Director of a number of other organisations including Birmingham Midshires Building Society and he is the President of the Computing Services and Software Association. He is a member of the Council of Warwick University and a member of the Advisory Board and a visiting professor at Warwick Business School. He was president of The British Computer Society in 1993/94.

Michael Fletcher (age 45) has been the Chief Executive since 1975, when he co-founded the business with Michael O'Regan. He is a non-executive Director of Madge NV, a networking products company quoted on NASDAQ. Since 1990 he has been part-time Director of Hertfordshire 2000, a leading non-governmental education project.

Michael Greig (age 39) joined RM and was appointed a Director in October 1990. He is the Finance Director and Company Secretary. He was previously Finance Director at Cass Group plc for three years.

Michael Harrison (age 50) was appointed a non-executive Director on 18 February 1995. He is the Regional Vice President of Informix Software for Northern Europe, the Middle East and Africa. He is also a member of the board of the Federation Against Software Theft.

Michael O'Regan (age 48) co-founded the Company in 1975 and has been a non-executive Director since 1992. He is a trustee of a number of educational charitable trusts including the Peter Early Educational Partnership, an Oxford based project that he formed in 1994. In addition he is a non-executive Director of a number of other companies.

Michael Smith (age 42) has been a non-executive Director since 1994. He is Chairman and Chief Executive of CVC Capital Partners Limited. He is also a non-executive Director of a number of companies including Oceanhaven Limited and Intem plc.

## DIRECTORS' REPORT

The Directors present their report on the affairs of the Company (RM plc) and its principal subsidiary undertakings (together the Group, or RM) and the consolidated financial statements and auditors' report for the year ended 30th September 1995.

On 18th November 1994 the Group was restructured in preparation for the listing of RM plc's shares on the London Stock Exchange. On that date, the Company's shareholders held an Extraordinary General Meeting and resolved that, with effect from 1st October 1994, substantially the whole of the Company's assets, liabilities and undertakings were transferred to Research Machines (Finance) Limited, a wholly owned subsidiary, for a consideration equal to their book value and on terms to be decided by the Board of Directors. It was further resolved that the Company's name be changed to RM plc. Also on 18th November 1994, the shareholders of the wholly owned subsidiary held an Extraordinary General Meeting at which it was resolved that the transfer of business be approved and that its name be changed from Research Machines (Finance) Limited to Research Machines plc. RM plc's shares were listed on the London Stock Exchange on 14th December 1994.

### 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 Operations Review.

### 2. RESULTS AND DIVIDENDS

The Group's profit for the year, after taxation, was £3,365,000 (1994: £2,650,000). The Directors recommend the payment of a final dividend of 4.5p (not) bringing the total dividend for the year to 6.0p (not) per share. The final dividend is payable on 2nd February 1996 to shareholders on the register on 28th December 1995. Accordingly, a retained profit for the year of £2,327,000 (1994: £1,864,000) has been transferred to reserves.

### 3. RESEARCH AND DEVELOPMENT

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

### 4. DIRECTORS AND THEIR INTERESTS

The Directors of the Company at 30th September 1995 who served during the year, together with their interests in the share capital of the Company, were as follows:

	Ordinary Shares of 10p each	
	01/10/94*	30/09/95
M.D. Fischer	3,293,676	2,044,133
M.D. Greig	2,378	5,090
M.G. Harrison	Nil	Nil
J.P. Leighfield	Nil	22,857
M.R.H.J. O'Regan	2,029,301	1,099,301
M.D.C. Smith	2,100	2,100

\*Or at the subsequent date of payment if later.

Of the directors listed above only M.D. Greig has ordinary shares in RM plc subject to option. These comprise 100,000 shares at an exercise price of £0.00, exercisable from 20/10/92 with an expiry date of 20/10/99 and 42,143 shares at an exercise price of £1.51, exercisable from 13/07/97 with an expiry date of 13/07/04. No options were granted or exercised during the year. The market price of the ordinary shares at 30th September 1995 was £3.18 and the range during the year was £1.75 to £3.16.

There have been no changes in the Directors' interests in the shares of the Company during the period 1st October 1995 to 20th November 1995.

P.S.S. Macpherson resigned from the Board of Directors on the 21st November 1994. M.G. Harrison was appointed to the Board of Directors on the 16th February 1995.

In addition to the interests listed above, M.D. Fischer and M.R.H.J. O'Regan have a non-beneficial interest as trustees of the RML Staff Share Scheme in 250,007 shares.

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

## DIRECTORS' REPORT

### 5. ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will take place at 10.00am on 26th January 1996 at the Innovations Centre, 68 Milton Park, Abingdon, Oxon OX14 4RX. In addition to the routine business of the meeting there are two special resolutions. Firstly, it is proposed that, in accordance with section 80 of the Companies Act 1985, the Directors be granted authority to issue shares in the capital of the Company up to a nominal amount of £485,000 (27.8% of the issued share capital at 20th November 1995). The Directors have no present intention of allotting further ordinary shares other than in connection with employee share schemes and, potentially, in connection with the recent acquisition of the Key Solutions business (details of which are set out at note 12 to the financial statements). The resolution also proposes that, pursuant to Section 89 of the Companies Act, the Directors be authorised to allot those shares for cash, other than pro rata to existing shareholders, up to an aggregate amount of £87,000 (5% of the issued share capital as at 20th November 1995). The authorities sought expire on the date of the next Annual General Meeting or, if earlier, 26th April 1995. The second special resolution proposes that certain amendments be made to the Articles of Association including amendments to enable the Company to take advantage of technological developments, to comply with the latest Stock Exchange requirements and in order to reflect the proposed change to the authorised share capital.

### 6. CLOSE COMPANY STATUS

The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

### 7. SUBSTANTIAL SHAREHOLDINGS

On 20th November 1995 the following were registered as being interested in 3% or more of the Company's ordinary share capital:

	Number of Shares	Percentage Held
M.D. Fischer	2,944,133	18.9%
M.R.H.J. O'Regan	1,699,301	9.8%
3i plc	1,281,187	7.4%
Citicorp Capital Investors Europe Limited	1,247,700	7.2%
Universities Superannuation Fund Scheme Limited	640,000	3.7%

### 8. CHARITABLE AND POLITICAL DONATIONS

During the year the Group made various charitable donations totalling £41,000 (1994: £15,000). A further £8,000 was given to other locally based community support projects (1994: Nil).

### 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 and the dissemination of written communications directly or via noticeboards.

### 10. FIXED ASSETS

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

### 11. AUDITORS

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

### 12. 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  
29th November 1995

## CORPORATE GOVERNANCE

### DIRECTORS' RESPONSIBILITIES

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

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

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

### DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

RM is now in full compliance with the Cadbury Code of Best Practice and endorses the principles on which the Code is based. The contracts of two of the non-executive directors were brought fully in line with the Cadbury Code following the end of the reporting year.

The Board consists of two executive and four non-executive directors all of whom now have fixed term contracts of employment not exceeding three years. Since 1st October 1994 the roles of Chairman and Chief Executive have been split between John Leighfield and Mike Fischer respectively. There are three Board Committees, namely the Audit, Remuneration and Nominations Committees, of which the Audit and Remuneration Committees comprise solely of non-executive directors.

The Audit Committee was established in 1990. Its function is to review the financial information contained in the Annual and Interim Reports and to provide an opportunity for the non-executive directors to make independent judgements and contributions thus furthering the effectiveness of RM's internal financial controls.

The Remuneration Committee, formed in 1990, sets the remuneration of RM's executive directors and senior management. It also considers grants and performance conditions under the RM 1994 Share Option Scheme and reviews RM's employment strategy generally.

The Nominations Committee, formed in 1994, recommends to the Board candidates for appointment as Directors.

The Board meets regularly and retains full and effective control over the Company. Executive managers are required to produce a business plan for approval at the beginning of each financial year. Management accounts are then produced each month and results are monitored against plan. The boards of the operating companies work within strict terms of reference and any matters outside those terms or the agreed business plan are referred to the Board for decision.

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 accounts.

The requirement to report on internal financial controls becomes effective in the next financial year. A statement on such controls will be made in the next annual report.

### REPORT BY THE AUDITORS TO RM plc ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the Directors' statement above on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not already disclosed.

We carried out our review in accordance with Bulletin 1993/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the Company's corporate governance procedures nor on the ability of the Group to continue in operational existence.

#### Opinion

With respect to the Directors' statement on going concern above, in our opinion the Directors have provided the disclosures required by paragraph 4.8 of the Code (as supplemented by the related guidance for Directors) and such statement is not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and officers of the Company and examination of relevant documents, in our opinion the Directors' statement above appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.



ARTHUR ANDERSEN  
Chartered Accountants and Registered Auditors  
Abbots House, Abbey Street, Reading RG1 3ED  
29th November 1995



## CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the year ended 30th September 1995*

	Notes	1995 £000	1994 £000
TURNOVER	2 & 12	80,691	65,493
Cost of sales		(80,725)	(48,794)
<b>GROSS PROFIT</b>		<b>19,966</b>	<b>16,699</b>
Operating expenses			
- Selling & distribution		(8,424)	(7,461)
- Research & development		(2,757)	(2,546)
- Administration		(4,189)	(3,101)
		(15,380)	(13,188)
<b>OPERATING PROFIT</b>	3 & 12	<b>4,586</b>	<b>3,501</b>
Exceptional item	4	-	232
Net interest receivable	6	437	36
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>5,023</b>	<b>3,769</b>
Tax on profit on ordinary activities	7	(1,658)	(1,110)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>3,365</b>	<b>2,659</b>
Dividends paid and proposed	8	(1,038)	(775)
<b>RETAINED PROFIT FOR THE YEAR</b>		<b>2,327</b>	<b>1,884</b>
Earnings per ordinary share - Basic	9	20.0p	17.0p
- Fully diluted	9	13.8p	15.5p
Adjusted earnings per ordinary share			
- Fully diluted	9	18.8p	14.2p

A statement of movements on reserves is given in Note 10.  
There were no recognised gains or losses other than the profit for the year.  
The accompanying notes are an integral part of these financial statements.

## NOTE OF HISTORICAL COST PROFITS AND LOSSES

*For the year ended 30th September 1995*

	Group	Group
	1995 £000	1994 £000
Reported profit on ordinary activities before taxation	5,023	3,769
Realisation of property revaluation gains of previous years	-	716
<b>Historical cost profit on ordinary activities before taxation</b>	<b>5,023</b>	<b>4,485</b>
<b>Historical cost profit for the year retained after taxation and dividends</b>	<b>2,327</b>	<b>2,600</b>

# **CONSOLIDATED BALANCE SHEET**

*As at 30th September 1995*

	Note	1995 £000	1994 £000
<b>FIXED ASSETS</b>			
Tangible fixed assets	10	5,241	5,108
<b>CURRENT ASSETS</b>			
Stocks	13	6,855	5,708
Debtors	14	16,408	11,146
Cash at bank and in hand		10,385	6,542
		<b>33,648</b>	<b>23,396</b>
<b>CREDITORS</b>			
Amounts falling due within one year	15	(20,687)	(12,430)
<b>NET CURRENT ASSETS</b>		<b>12,779</b>	<b>10,966</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>18,020</b>	<b>16,074</b>
<b>CREDITORS</b>			
Amounts falling due after more than one year	15	(1,487)	(1,136)
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	16	<b>(118)</b>	<b>(104)</b>
<b>NET ASSETS</b>		<b>16,414</b>	<b>14,834</b>
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	17	1,744	1,604
Other reserve	18	600	-
Share premium account	18	4,688	4,465
Profit and loss account	18	9,381	8,765
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<b>16,414</b>	<b>14,834</b>

These financial statements were approved by the Board of Directors on 23rd November 1995.

*R. D. Fischer*

M.D. Fischer  
DIRECTOR

*M.D. Greig*

M.D. Greig  
DIRECTOR

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

# COMPANY BALANCE SHEET

As at 30th September 1995

	Note	1995 £000	1994 £000
<b>FIXED ASSETS</b>			
Tangible fixed assets	10	-	5,108
Investment in subsidiary undertakings	11	12,648	1,508
		<b>12,648</b>	<b>6,616</b>
<b>CURRENT ASSETS</b>			
Stocks	13	-	5,708
Debtors	14	413	11,115
Cash at bank and in hand		224	6,542
		<b>637</b>	<b>23,365</b>
<b>CREDITORS</b>			
Amounts falling due within one year	15	(1,509)	(10,012)
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<b>(872)</b>	<b>0,753</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>11,076</b>	<b>13,369</b>
<b>CREDITORS</b>			
Amounts falling due after more than one year	15	(165)	(1,136)
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	16	-	(104)
<b>NET ASSETS</b>		<b>11,011</b>	<b>12,129</b>
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	17	1,744	1,604
Other reserve	18	500	-
Share premium account	18	4,669	4,465
Profit and loss account	18	4,778	6,060
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<b>11,011</b>	<b>12,129</b>

These financial statements were approved by the Board of Directors on 28th November 1995.

*M. D. Fischer*

M.D. Fischer  
DIRECTOR

*M. D. Greig*  
M.D. Greig  
DIRECTOR

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

# **CONSOLIDATED CASH FLOW STATEMENT**

*For the year ended 30th September 1995*

	Note	1995 £000	1994 £000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>19 a</b>	<b>8,378</b>	<b>2,243</b>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		488	198
Interest paid		(20)	(75)
Interest element of finance lease rentals		(24)	(126)
Dividends paid		(888)	(543)
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		<b>(430)</b>	<b>(546)</b>
<b>TAXATION</b>			
Corporation tax paid (including advance corporation tax)		(1,326)	(271)
Corporation tax refunded		38	169
<b>NET CASH OUTFLOW FROM TAXATION</b>		<b>(1,288)</b>	<b>(102)</b>
<b>INVESTING ACTIVITIES</b>			
Payments to acquire tangible fixed assets		(2,089)	(1,686)
Acquisition of the Key Solutions business	12	(1,088)	-
Receipts from sales of tangible fixed assets		336	498
Proceeds from sale of land and buildings	19 b	-	2,027
Repayment of loan from employee share trust		-	37
<b>NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES</b>		<b>(2,821)</b>	<b>876</b>
<b>NET CASH INFLOW BEFORE FINANCING</b>		<b>5,127</b>	<b>2,471</b>
<b>FINANCING</b>			
Issue of ordinary shares		1,425	278
Placing expenses		(1,061)	-
Loan repayment		-	(1,700)
Capital element of finance lease rentals	19 d	(360)	(1,159)
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING</b>		<b>4</b>	<b>(2,581)</b>
<b>INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>19 c</b>	<b>2,310</b>	<b>(110)</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

### 1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

A summary of the principal Group accounting policies, all of which have been applied consistently throughout the year and 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 RM plc and its subsidiary undertakings made up to 30th September 1995. The results of subsidiaries acquired are included in the Group profit and loss account from the effective date of acquisition. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is written off against reserves on consolidation. In the Company's financial statements the investments in subsidiary undertakings are stated at cost less any provision for permanent diminution.

#### (c) Turnover and Revenue Recognition

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

#### (d) Tangible Fixed Assets

Tangible fixed assets are shown at cost less accumulated depreciation.

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

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

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

#### (e) 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 and 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 where recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recoverable against current corporation tax liabilities.

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

## NOTES TO THE FINANCIAL STATEMENTS

### (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 or credited to the profit and loss account as they occur.

### (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 are shown in the balance sheet as a liability or asset.

## 2. SEGMENT INFORMATION

All of the Group's turnover and profit arose from the Group's main activities which are based principally in the United Kingdom. Export sales of £68,000 (1994: £401,000) included Europe £67,000 (1994: £282,000) and other countries £1,000 (1994: £119,000).

## 3. OPERATING PROFIT

The operating profit is stated after charging:

		1995 £000	1994 £000
Depreciation	- owned assets	1,134	1,125
	- assets held under finance leases and hire purchase contracts	404	441
Operating leases	- land and buildings	657	684
	- plant and machinery	197	216
Auditors' remuneration	- audit services	61	46
	- other professional services	47	17

In addition to the above auditors' remuneration, non-audit fees of £131,000 were incurred during the year ended 30th September 1995 in connection with the flotation of the Company. These costs have been charged against the share premium account.

## 4. EXCEPTIONAL ITEM

The 1994 exceptional item represents the gain on the disposal of the Group's freehold properties in Oxford. There was no tax charge associated with this gain.

## NOTES TO THE FINANCIAL STATEMENTS

### 5. STAFF COSTS

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

	1995 £000	1994 £000
Staff costs comprise:		
Wages and salaries	11,551	10,530
Social security costs	1,000	916
Other pension costs (see Note 20)	667	657
Employee share scheme	60	70
	<b>13,278</b>	<b>12,073</b>

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

	1995 Number Employed	1994 Number Employed
Sales and marketing	132	107
Services	158	158
Finance and administration	83	67
Product development	68	52
Distribution and assembly	132	115
Total	<b>573</b>	<b>499</b>

Directors' remuneration in respect of the Directors of the Company who served during the year ended 30th September 1995 was as follows:

	1995				1994		
Name	Fees and other remuneration £000	Bonus £000	Benefits in kind £000	Total emoluments excluding pension contributions £000	Pension contributions £000	Aggregate emoluments £000	Aggregate emoluments £000
M.D. Fischer	125	51	4	180	16	196	188
M.D. Greig	51	21	8	110	11	121	116
M. Harrison	10	-	-	10	-	10	-
J. P. Leighfield	31	-	6	37	-	37	13
M.R.H.J. O'Regan	21	-	-	21	-	21	30
M.D.C. Smith	8	-	-	8	-	8	8
P.S.G. Macpherson	1	-	-	1	-	1	14
	<b>217</b>	<b>72</b>	<b>18</b>	<b>307</b>	<b>27</b>	<b>334</b>	<b>309</b>

Fees are paid only to non-executive Directors. The emoluments of the executive Directors are determined by the Remuneration Committee. The executive Directors participate in an annual bonus plan, under which the amount of bonus is determined partly by achieving personal objectives and partly by the performance of the Group. Benefits in kind are in respect of company cars and medical insurance. Other Directors in 1994 received aggregate remuneration of £505,000.

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

	1995 Number		1994 Number			1995 Number		1994 Number	
£		£			£		£		
0 to 5,000	1		1		105,001 to 110,000	1		1	
5,001 to 10,000	2		1		120,001 to 125,000	-		1	
10,001 to 15,000	-		3		155,001 to 160,000	-		1	
20,001 to 25,000	1		-		170,001 to 175,000	-		1	
35,001 to 40,000	1		-		175,001 to 180,000	1		-	
100,001 to 105,000	-		2						

## NOTES TO THE FINANCIAL STATEMENTS

<b>6. NET INTEREST RECEIVABLE</b>	<b>1995</b>	<b>1994</b>
	<b>£000</b>	<b>£000</b>
Interest receivable and similar income	488	219
Less: Interest payable		
On bank loans and overdrafts:		
- Repayable within 5 years other than by instalments	(27)	(57)
Under finance leases	(24)	(126)
	<b>437</b>	<b>36</b>

<b>7. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES</b>	<b>1995</b>	<b>1994</b>
	<b>£000</b>	<b>£000</b>
UK corporation tax charge for the year at 33% (1994: 33%)	1,704	1,286
Deferred tax arising from:		
Capital allowances	82	(157)
Other timing differences	32	35
	<b>1,818</b>	<b>1,164</b>
Adjustments in respect of previous years:		
Corporation tax	(126)	(80)
Deferred tax	(34)	26
	<b>1,658</b>	<b>1,110</b>

<b>8. DIVIDENDS PAID AND PROPOSED</b>	<b>1995</b>	<b>1994</b>
	<b>£000</b>	<b>£000</b>
Ordinary shares:		
- Interim paid of 1.5p per share (1994: 1p)	253	160
- 1994 second interim proposed of 3.8p per share	-	615
- Final proposed of 4.5p per share (1994: Nil)	785	-
	<b>1,038</b>	<b>775</b>

### 9. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share is based on the Group's profit for the financial year of £3,365,000 (1994: £2,659,000) and on 18,360,328 (1994: 18,838,101) 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 17). At 30th September 1995 options to subscribe for a weighted average of 1,384,908 ordinary shares had been granted. The fully diluted earnings per ordinary share is based on adjusted earnings of £3,432,000 (1994: £2,711,000) on the assumption that the options had been exercised on 1st October 1994 and the proceeds invested in 2.5% consolidated stock at a yield of 5.73% (less corporation tax) and on a weighted average of 18,264,410 (1994: 17,507,868) ordinary shares issued and issuable.

The 1994 adjusted earnings per ordinary share is based on earnings of £2,479,000 (being the consolidated profit for the financial year before exceptional items but after taxation and adjusted for the assumed issue of options) and on a weighted average of 17,807,888 ordinary shares issued and issuable.



## NOTES TO THE FINANCIAL STATEMENTS

### 10. TANGIBLE FIXED ASSETS

The movement in the year was as follows:-

Group	Total	Short Leasehold Improvements	Plant & Equipment	Computers	Vehicles
	£000	£000	£000	£000	£000
Cost:					
Beginning of year	8,563	1,047	3,019	2,599	1,898
Additions	2,163	3	312	795	1,053
Disposals	(2,240)	-	(655)	(909)	(876)
End of year	8,486	1,050	2,676	2,485	2,275
Depreciation:					
Beginning of year	3,455	166	1,417	1,143	729
Charged in year	1,538	61	383	571	523
Disposals	(1,748)	-	(630)	(644)	(474)
End of year	3,245	227	1,170	1,070	778
Net book value at end of year	5,241	823	1,506	1,415	1,497
Net book value at beginning of year	5,108	881	1,602	1,456	1,169

Company	Total	Short Leasehold Improvements	Plant & Equipment	Computers	Vehicles
	£000	£000	£000	£000	£000
Cost:					
Beginning of year	8,563	1,047	3,019	2,599	1,898
Transferred to Research Machines plc	(8,563)	(1,047)	(3,019)	(2,599)	(1,898)
End of year	-	-	-	-	-
Depreciation:					
Beginning of year	3,455	166	1,417	1,143	729
Transferred to Research Machines plc	(3,455)	(166)	(1,417)	(1,143)	(729)
End of year	-	-	-	-	-
Net book value at end of year	-	-	-	-	-
Net book value at beginning of year	5,108	881	1,602	1,456	1,169

Assets held under finance leases:

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

	Group 30th September 1995		Group & Company 30th September 1994	
	Computers	Vehicles	Computers	Vehicles
	£000	£000	£000	£000
Cost	314	673	376	1401
Accumulated depreciation	(187)	(380)	(151)	(627)
Net book value	127	293	225	774

## NOTES TO THE FINANCIAL STATEMENTS

11. INVESTMENT IN SUBSIDIARY UNDERTAKINGS	1995 £000	1994 £000
Investments comprise:		
Equity investments in subsidiary undertakings at cost	3,543	1,508
Loans to subsidiary undertakings	9,305	-
	<u>12,848</u>	<u>1,508</u>

The movement in the year was as follows:	1995 £000
Equity investments at beginning of year	1,508
Investment in Key Solutions RM Limited	2,035
	<u>3,543</u>
Loans advanced in year (net)	9,305
Net book value of Investments at year end	<u>12,848</u>

The Company's principal subsidiary undertakings are Research Machines plc and Key Solutions RM Limited, both of which are wholly owned.

Research Machines plc is registered in England. Its principal activity is the supply of integrated hardware and software solutions to meet the specialist requirements of the education market and its principal country of operation is the United Kingdom.

Key Solutions RM Limited was registered in England on 1<sup>st</sup> April 1995. Its principal activity is the provision of education management and administration software and its principal country of operation is the United Kingdom.

## NOTES TO THE FINANCIAL STATEMENTS

### 12. ACQUISITION OF KEY SOLUTIONS

On 5th May 1995 the Group acquired the business, assets and liabilities of an unincorporated partnership, Key Solutions, a specialist provider of education management and administration software. The activities of this business are now carried out through Key Solutions: RM Limited, a wholly owned subsidiary. Consideration, including payments for restrictive covenants and other intangibles, of £1,001,000 has been paid in cash during the year and up to a further £988,000 is payable subject to certain performance conditions being met over the next three years. Of this, £386,000 is payable in cash and has been included within creditors due within and after one year as appropriate. The remaining £600,000 may be satisfied by the issuance of ordinary shares of RM plc or loan notes and has been credited to a reserve within shareholders' funds. Details of the consideration for the acquisition are as follows:

	£000
Purchase consideration	1,987
Acquisition costs	87
	2,074
Less: tax relief on purchase consideration, net assets acquired	218
Total purchased goodwill	145
	1,711

The fair value of the net assets of Key Solutions at acquisition was as follows:

Tangible fixed assets	94
Debtors	308
Stock	15
Creditors due within one year	(272)
	145

In arriving at the fair value figures an adjustment reducing the net assets acquired by £30,000 was processed to restate the assets in line with group accounting policies.

The net cash outflow during the year resulting from the acquisition of Key Solutions was as follows:

Cash consideration paid	1,001
Acquisition costs paid	87
	1,088

The Key Solutions business contributed £305,000 to turnover and made an operating loss of £220,000 during the period from acquisition to year end.

### 13. STOCKS

	Group 1995 £000	Group 1994 £000	Company 1995 £000	Company 1994 £000
Components	3,651	2,712	-	2,712
Work in progress	124	163	-	163
Finished goods	3,080	2,833	-	2,833
	6,855	5,708	-	5,708

### 14. DEBTORS

	Group 1995 £000	Group 1994 £000	Company 1995 £000	Company 1994 £000
Due within one year:				
Trade debtors	15,370	10,483	-	10,483
Other debtors:				
- AGT recoverable	223	-	223	-
- Other	104	125	-	125
Prepayments and accrued income	419	598	-	507
	16,116	11,206	223	11,115
Due after one year:				
AGT recoverable	180	-	180	-
	16,296	11,206	403	11,115

## NOTES TO THE FINANCIAL STATEMENTS

15. CREDITORS	Group	Group	Company	Company
	1995	1994	1995	1994
	£000	£000	£000	£000
Due within one year:				
Obligations under finance leases	160	304	-	304
Trade creditors	7,383	2,851	-	2,851
Amounts owed to subsidiary undertaking	-	-	244	4,182
Other creditors:				
- UK corporation tax payable	1,693	1,209	-	1,209
- ACT on dividends	259	193	259	193
- Social Security and PAYE	492	388	-	388
- VAT	2,692	1,752	-	1,752
- Other	243	236	-	236
Proposed dividends	785	615	785	615
Accruals and deferred income	6,954	4,882	221	4,882
	<b>20,667</b>	<b>12,430</b>	<b>1,509</b>	<b>16,612</b>
Due after more than one year:				
	1995	1994	1995	1994
	£000	£000	£000	£000
- within 1-2 years				
- obligations under finance leases	21	218	-	218
- accruals and deferred income	1,050	691	165	691
- within 2-5 years				
- obligations under finance leases	-	25	-	25
- accruals and deferred income	416	202	-	202
	<b>1,487</b>	<b>1,136</b>	<b>165</b>	<b>1,136</b>

16. PROVISION FOR LIABILITIES AND CHARGES	Group	Group	Company	Company
	1995	1994	1995	1994
	£000	£000	£000	£000
Excess of tax allowances over book depreciation of tangible fixed assets	400	320	-	320
Short term timing differences	(100)	(69)	-	(69)
Other timing differences	(127)	-	-	-
ACT recoverable	-	(153)	-	(153)
	<b>119</b>	<b>104</b>	<b>-</b>	<b>104</b>
The movement on deferred tax comprises:				
Beginning of year	104	242	104	242
Transferred to subsidiary undertaking	-	-	(104)	-
Asset recognised on acquisition of the Key Solutions business	(218)	-	-	-
Charged/(credited) to profit and loss	80	(90)	-	(90)
ACT recoverable transferred to current tax	153	111	-	111
ACT on proposed dividend	-	(153)	-	(153)
End of year	<b>119</b>	<b>104</b>	<b>-</b>	<b>104</b>

There are no unprovided deferred tax liabilities (1994: £Nil).

## NOTES TO THE FINANCIAL STATEMENTS

### 17. SHARE CAPITAL

	1995 £000	1994 £000
Authorised:		
22,300,000 Ordinary Shares of 10p each (1994:22,300,000)	2,230	2,230
Allotted, called up and fully paid:		
17,438,594 Ordinary Shares of 10p each (1994:16,035,737)	1,744	1,604
During the year the following Ordinary Shares of 10p each were allotted for cash:	Number of Shares	Premium Arising £000
- Issued on exercise of options	760,000	224
- Issued on flotation	642,857	1,061

On the 8th December 1994, 642,857 ordinary shares were allotted by resolution of the Board. Through a Placing, 16,831,094 ordinary shares were listed on the London Stock Exchange on the 14th December 1994.

#### 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 1995 the trustees of the scheme held 259,907 shares on behalf of the employees.

#### The Employee Share Ownership Trust

The Employee Share Ownership Trust owns 2,858 shares of RM plc and has waived rights to the dividend on these shares.

#### The Research Machines Limited 1984 Share Option Scheme

As at 30th September 1995 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	Exercise Price per Share
1987	15,000	10 years	£0.40
1989	158,000	10 years	£0.80
1989	177,500	10 years	£0.85
1990	110,000	10 years	£1.30
1993	87,500	10 years	£0.85
1994	518,001	10 years	£1.51
	<u>870,001</u>		

## NOTES TO THE FINANCIAL STATEMENTS

### 18. 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.

	1995				1994
	Share Capital Account £000	Share Premium Account £000	Other Reserve £000	Profit and Loss Account £000	Total Shareholders' Funds £000
<b>Group:</b>					
Beginning of the year	1,604	4,465	-	8,765	14,834
Retained profit for the year	-	-	-	2,327	2,327
Shares issued during the year	140	1,285	-	-	1,425
Cost of Placing	-	(1,061)	-	-	(1,061)
Deferred consideration on acquisition (note 12)	-	-	600	-	600
Goodwill written off	-	-	-	(1,711)	(1,711)
<b>End of the year</b>	<b>1,744</b>	<b>4,689</b>	<b>600</b>	<b>9,381</b>	<b>16,414</b>
<b>Company:</b>					
Beginning of the year	1,604	4,465	-	6,060	12,129
(Loss)/profit for the year	-	-	-	(244)	(244)
Dividends paid and proposed	-	-	-	(1,030)	(1,030)
Shares issued during the year	140	1,285	-	-	1,425
Cost of Placing	-	(1,061)	-	-	(1,061)
Deferred consideration on acquisition (note 12)	-	-	600	-	600
<b>End of the year</b>	<b>1,744</b>	<b>4,689</b>	<b>600</b>	<b>4,778</b>	<b>11,811</b>

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

	1995 £000	1994 £000
<b>(a) Reconciliation of operating profit to net cash inflow from operating activities</b>		
Operating profit	4,588	3,501
Depreciation charge	1,533	1,566
Loss on disposal of tangible fixed assets	158	90
Increase in stock	(1,132)	(1,014)
(Increase)/Decrease in debtors	(4,539)	2,700
Increase/(Decrease) in creditors	7,769	(4,600)
<b>Net cash inflow from operating activities</b>	<b>8,378</b>	<b>2,243</b>
<b>(b) Reconciliation of exceptional item to net cash inflow/(outflow) from exceptional item</b>		
Exceptional item	-	232
Profit on disposal of freehold property	-	(232)
Proceeds on disposal of freehold property	-	2,027
<b>Net cash inflow from exceptional item</b>	<b>-</b>	<b>2,027</b>
<b>(c) Analysis of changes in cash and cash equivalents</b>		
Balance at beginning of year	6,542	6,652
<b>Net cash inflow/(outflow)</b>	<b>3,043</b>	<b>(110)</b>
<b>Balance at end of year</b>	<b>10,385</b>	<b>6,542</b>
<b>(d) Analysis of changes in finance lease rentals during the year</b>		
Balance at beginning of year	547	1,020
Incursion of finance lease contracts	-	294
Termination of finance lease contracts	-	(208)
Capital element of finance lease rental	(360)	(1,159)
<b>Balance at end of year</b>	<b>187</b>	<b>547</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 20. PENSION SCHEME

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

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

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

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 £8,000 (1994:£91,000).

### 21. CONTINGENCIES AND COMMITMENTS

#### (a) Commitments under operating leases

Following the transfer of the trade, assets and liabilities on 1st October 1994 to Research Machines plc, the Company no longer has any leasing obligations.

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.

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

1995	Land & Buildings £000	Others £000
Leases expiring within 1 year	11	42
Leases expiring within 2-5 years	-	69
Leases expiring after more than 5 years	506	-
	<b>607</b>	<b>111</b>

  

1994	Group & Company Land & Buildings £000	Group & Company Others £000
Leases expiring within 1 year	7	21
Leases expiring within 2-5 years	31	61
Leases expiring after more than 5 years	598	-
	<b>636</b>	<b>82</b>

#### (b) Capital Commitments

The Group has the following capital expenditure commitments:

	1995 £000	1994 £000
Authorised, not yet contracted	462	670

## REPORT OF THE AUDITORS

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### TO THE SHAREHOLDERS OF RM plc

We have audited the financial statements on pages 15 to 29 which have been prepared under the historical cost convention and the accounting policies set out on pages 19 and 20.

### Respective responsibilities of Directors and auditors

As described on page 14 the Company's Directors are responsible for the preparation of the financial statements and it is our responsibility to form an independent opinion on those statements and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company 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 1995, 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  
29th November 1995



## FIVE YEAR SUMMARY

£000 (except where otherwise stated)	30 Sept 1991	30 Sept 1992	30 Sept 1993	30 Sept 1994	30 Sept 1995
TURNOVER	62,200	65,067	66,212	65,493	80,691
OPERATING PROFIT/(LOSS)	2,384	(279)	2,929	3,501	4,586
Profit/(loss) on ordinary activities before exceptional items and taxation	2,260	(827)	2,525	3,537	5,023
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	2,051	(6,575)	2,525	3,769	5,023
PROFIT/(LOSS) AFTER TAXATION	1,326	(4,881)	1,889	2,659	3,365
EARNINGS/(LOSS) PER SHARE (Fully diluted)					
- Including exceptional items	8.1p	(27.4p)	11.3p	15.5p	18.8p
- Excluding exceptional items	8.8p	(5.8p)	11.3p	14.2p	18.8p
DIVIDENDS PER SHARE (Net)	1.3p	--	2.5p	4.8p	6.0p
BALANCE SHEET:					
- SHAREHOLDERS' FUNDS	10,801	11,515	12,672	14,834	16,414
- NET BORROWINGS/(NET CASH)	144	3,311	(3,332)	(5,995)	(10,108)
CAPITAL EMPLOYED	17,005	14,826	9,340	8,839	6,216
OPERATING PROFIT/(LOSS) AS A PERCENTAGE OF:					
- Turnover	3.0%	(0.4)%	4.4%	5.3%	5.7%
- Average Capital Employed	13.7%	(1.8)%	24.2%	38.5%	60.0%
NET BORROWINGS / (NET CASH) AS A PERCENTAGE OF SHAREHOLDERS' FUNDS	0.9%	28.8%	(26.3)%	(40.4)%	(62.1)%

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