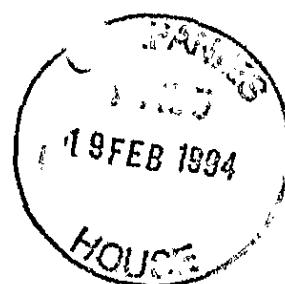


1749877

RESEARCH MACHINES plc
ANNUAL REPORT AND ACCOUNTS
1993



CORPORATE OVERVIEW

To be completed

Markets

IT is becoming increasingly central to the success of schools, and in secondary schools it is not unusual for over 100 stations to be attached to a curriculum network. *Net LM* is the only schools-specific networking solution and has continued its success: it has been installed in over 15% of UK secondary schools in its first year. RM has recently launched 'Joining the Mainstream', a campaign promoting RM's strategy for the use of IT in schools. This campaign is supported by external market research that clearly demonstrates the advantages to schools and colleges of industry standard hardware and software, such as that provided by RM. RM's knowledge of the IT needs of education and its reputation for after sales service, positions us strongly to capitalise on the trend away from proprietary systems.

Products and Services

The new structure of four product divisions has allowed us to advance the development of the software and services businesses whilst at the same time allowing the management of the PC and Distributed Products divisions to focus on maximising the profitability of their activities. The past year has seen rapid development of the services business including the establishment of *Insite Support*, an annually contracted support business. The *RM WindowBox* integrated system has continued to be very successful and is an excellent vehicle for the delivery of RM value-added software and services. The *RM Multimedia Windowbox*, launched during the year, allows schools to make use of the excellent Multimedia CD ROM titles that are becoming available. *RM Information Workshop* and *RM Music Explorer* are the latest additions to the growing range of RM Windows based curriculum software. As the leading supplier to education, RM is also well positioned to benefit from growing opportunities to distribute attractively priced, industry standard products at acceptable margins.

Financial Review

The restructuring has also produced benefits to the balance sheet through significantly reduced working capital requirements. There was a net cash inflow from operating activities of £10.2 m for the year (£0.8m inflow in 1992). The cash outflow from last year's exceptional item was £2.0m and all the provisions made a year ago have now been utilised. Stocks have been lower throughout the year and debtors have benefited from improvements in customer service levels. Cash collections were unusually good at the year end resulting in cash balances at 30 September of £6.6m gross, £3.3m net of borrowings and finance leases. The Mill Street properties are now vacant and are being marketed. Their combined valuation has been reduced by £394k to £1.8m reflecting the general decline over the past year in market values for such properties.

People

RM's new business model has worked very successfully - this has only been possible as a result of our staff demonstrating outstanding flexibility, resilience and commitment in a particularly testing environment. I should like to thank them on the shareholders' behalf for rising admirably to the challenge.

We are delighted to welcome John Leighfield to the board as an Independent Director. Until recently the Chairman of AT&T Istel and the architect of that company's growth, he brings to the board significant senior management experience within the computer services industry.

Dividend

In line with our comments at the interim stage and taking into account the continued profitability and cash generation, the Directors recommend a final, and also a total, dividend for the year of 2.5p net. (No dividend was paid for 1992 and a total of 1.3p was paid for 1991.) The dividend will be payable on 7th April 1994 to shareholders on the register on 23rd December 1993.

Outlook

The benefits of the restructuring and of the introduction of new products have improved the outlook for shareholders. Further improvements in the mix of products, which should produce an increasingly predictable revenue stream, and the expected increase in the use of IT in education should together allow further profitability growth.

Mike Fischer
Chairman

**RESEARCH MACHINES
DIRECTORS AND ADVISERS**

**Registered Office and
Principal Location:**

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

Telephone : 0235 826000
Fax : 0235 826999

Registered in England
Company number 1749877

Directors :

M.D. Fischer	Chairman
R.A.G. Girling	Director - RM Personal Computers
M.D. Greig	Finance Director
J.R. Netherton	Sales and Marketing Director
P.J. Parkin	Director - RM Services
K.A. Sponce	Director - RM Distribution
J.P. Leighfield *	Independent Director
P.S.S. Macpherson *	Independent Director
M.R.H.J. O'Regan *	Independent Director
D.W. Quysner *	Independent Director
M.D.C. Smith *	Independent Director

* Members of Audit committee

Secretary :

M.D. Greig

Locations :

Abingdon : 0235 826000
Stockport : 061 477 1638
Glasgow : 041 332 8889
Soest, Germany : 010 4929 213 6300

Bankers :

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

Auditors :

Arthur Andersen
Abbots House
Abbey Street
READING
RG1 3BD

RESEARCH MACHINES 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 1993. In these accounts 'Group' refers to Research Machines plc together with its subsidiary undertakings, and 'Company' refers to Research Machines plc alone.

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. A review of the activities and the development of the Group is given in the Chairman's Statement set out on pages 2, 3 and 4.

2. RESULTS AND DIVIDENDS

The Group's profit for the year, after taxation, was £1,889,000 (1992: £4,881,000 loss). The Directors recommend a dividend payment of 2.50p (net) per share. The dividend is payable on 7th April 1994 to shareholders on the register on 23rd December 1993.

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 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:

	30th September 1993		30th September 1992	
	Ordinary Shares of 10p each	Shares subject to option	Ordinary Shares of 10p each	Shares subject to option
M.D. Fischer	3,293,046	Nil	3,248,046	Nil
M.R.H.J. O'Regan	2,389,301	Nil	2,389,301	Nil
R.A.G. Orling	6,926	162,500	6,926	162,500
M.D. Greig	1,746	100,000	1,746	100,000
J.R. Notherton	6,926	525,000	6,926	525,000
P.J. Perkin	6,926	600,000	6,926	600,000
K.A. Spence	2,466	100,000	2,466	100,000
D.W. Guyaner	Nil	Nil	Nil	Nil
M.D.C. Smith	2,100	Nil	2,100	Nil
P.S.S. Macpherson	Nil	Nil	Nil	Nil
J. P. Loighfield (appointed 3rd November 1993)	Nil	Nil	Nil	Nil

No Directors exercised options during the year. Further details of shares subject to option appear in Note 18. M.D. Fischer and M.R.H.J. O'Regan have a non beneficial interest as trustees of the RML Staff Share Scheme in 271,449 shares.

The following are Independent Directors and members of the Audit Committee: P.S.S. Macpherson (Chair), M.R.H.J. O'Regan, D.W. Guyaner and M.D.C. Smith.

The following are members of the Remuneration Committee: M.D.C. Smith (Chair), M.D. Fischer, D.W. Guyaner and P.S.S. Macpherson.

RESEARCH MACHINES REPORT OF THE DIRECTORS

5. SUBSTANTIAL SHAREHOLDINGS

On 22nd December 1993 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	3,293,048	21.5%
M.R.H.J. O'Regan	2,389,301	15.0%
Manakin Holdings PLC	2,236,700	14.6%
Citicorp Capital Investors Europe Limited	2,227,700	14.5%
3i plc	940,000	6.1%
Blaugen Nominees Limited	600,000	5.2%
Rothschild Ventures	756,000	4.9%
Baring Asset Management	480,000	3.0%
Kleinwort Benson	460,000	3.0%

6. CHARITABLE DONATIONS

During the year the Group made various charitable donations totalling £1,000 (1992: £13,000). A further £1,000 (1992: £6,000) 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. SHARE CAPITAL

Details of share capital and movements thereon appear in Note 16 to the financial statements.

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 reappoint Arthur Anderson 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. Groig
Secretary
Research Machines plc
New Mill House
183 Milton Park
Aixington
Oxon
OX14 4SE

22nd December 1993

RESEARCH MACHINES
CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 25th September 1993

	NOTE	1993 £000	1992 £000
TURNOVER	2	66,212	65,067
Cost of sales		(50,987)	(41,242)
GROSS PROFIT		15,225	15,825
Operating expenses			
- Selling & distribution		(6,794)	(8,175)
- Research & development		(2,370)	(4,518)
- Administration		(3,132)	(3,411)
		(12,296)	(16,104)
OPERATING PROFIT/(LOSS)	3	2,929	(279)
Exceptional item	4	-	(5,748)
Net interest payable	6	(404)	(548)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		2,525	(6,575)
Tax (charge)/credit on profit/(loss) on ordinary activities	7	(636)	1,694
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION BEING PROFIT/(LOSS) FOR THE FINANCIAL YEAR		1,889	(4,881)
Dividends proposed	8	(383)	-
RETAINED PROFIT/(LOSS) FOR THE YEAR		1,506	(4,881)
Earnings per ordinary share - Basic	9	12.4p	(32.2p)
- Fully diluted		11.3p	

The above profit and loss account represents wholly continuing activities.

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

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

NOTE OF HISTORICAL COST PROFITS AND LOSSES

There is no material difference between the reported profit for 1993 or loss for 1992 and the profit or loss for those years restated on a historical cost basis.

RESEARCH MACHINES
CONSOLIDATED BALANCE SHEET
as at 30th September 1993

	NOTE	1993 £000	1992 £000
FIXED ASSETS			
Tangible fixed assets	10	6,890	7,311
CURRENT ASSETS			
Freehold property held for resale	10	1,270	-
Stocks	12	4,694	7,690
Debtors	13	13,061	17,102
Cash at bank and in hand		6,652	1,211
		26,497	26,003
CREDITORS			
Amounts falling due within one year	14	(17,753)	(19,898)
NET CURRENT ASSETS		8,744	6,105
TOTAL ASSETS LESS CURRENT LIABILITIES		14,634	13,416
CREDITORS			
Amounts falling due after more than one year	14	(1,720)	(1,901)
PROVISION FOR LIABILITIES AND CHARGES	15	(242)	-
		12,672	11,515
CAPITAL AND RESERVES			
Called up share capital	16	1,531	1,518
Share premium account	17	4,260	4,228
Revaluation reserve	17	463	657
Profit and loss account	17	6,418	4,912
		12,672	11,515

These financial statements were approved by the Board of Directors on 22nd December 1993.

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

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

R. D. Fischer
M. D. Greig

RESEARCH MACHINES
BALANCE SHEET
as at 30th September 1993

	NOTE	1993 £000	1992 £000
FIXED ASSETS			
Tangible fixed assets	10	5,836	7,311
Investment in subsidiary undertakings	11	1,508	1,487
		7,344	8,798
CURRENT ASSETS			
Freehold property held for resale	10	1,270	-
Stocks	12	4,694	7,690
Debtors	13	14,012	17,102
Cash at bank and in hand		6,646	1,211
		26,622	26,003
CREDITORS			
Amounts falling due within one year	14	(17,743)	(18,898)
Amounts owed to subsidiary undertaking		(4,182)	(4,182)
		(21,925)	(24,080)
NET CURRENT ASSETS		4,697	1,923
TOTAL ASSETS LESS CURRENT LIABILITIES		12,041	10,721
CREDITORS			
Amounts falling due after more than one year	14	(1,720)	(1,801)
PROVISION FOR LIABILITIES AND CHARGES	15	(242)	-
		10,079	8,920
CAPITAL AND RESERVES			
Called up share capital	16	1,531	1,518
Share premium account	17	4,260	4,228
Revaluation reserve	17	463	657
Profit and loss account	17	3,025	2,217
		10,079	8,620

These financial statements were approved by the Board of Directors on 22nd December 1993.
M.D. Fischer M.D. Grolg
DIRECTOR DIRECTOR

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

M.D. Fischer
M.D. Fischer

RESEARCH MACHINES
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30th September 1993

	NOTE	1993 £000	1992 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	18	10,170	787
NET CASH OUTFLOW FROM EXCEPTIONAL ITEM	18	(2,047)	(387)
NET CASH INFLOW FROM OPERATING ACTIVITIES AND EXCEPTIONAL ITEM		8,131	400
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		30	143
Interest paid		(253)	(512)
Interest element of finance lease rental		(184)	(179)
Dividends paid		-	(147)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(398)	(695)
TAXATION			
Corporation tax refunded/(paid) (including advance corporation tax)		533	(66)
INVESTING ACTIVITIES			
Payments to acquire tangible fixed assets		(1,464)	(1,956)
Receipts from sales of tangible fixed assets		271	898
Loan to employee share trust		(37)	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(1,230)	(1,058)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		7,036	(1,419)
FINANCING			
Issue of ordinary share capital		45	16
Loan repayment		(800)	-
Capital element of finance lease rental	18	(840)	(870)
NET CASH OUTFLOW FROM FINANCING		(1,595)	(854)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	18	5,441	(2,273)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 30th September 1993

	Group		Company	
	1993 £000	1992 £000	1993 £000	1992 £000
Profit/(loss) for the financial year attributable to shareholders	1,889	(4,881)	1,991	(4,881)
Unrealised deficit on revaluation of properties	(394)	(481)	(394)	(481)
Total recognised gains/(losses) relating to the year	1,495	(5,362)	1,597	(5,362)

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

**RESEARCH MACHINES
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 to include the revaluation of land and buildings, 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 1993. 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. Provision is made for the estimated cost of product warranties.

(d) Tangible Fixed Assets

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
Plant & Equipment	4-10 years
Computers	2-4 years
Vehicles	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 manufacturing 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, or 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 recovered against 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. Deferred tax is not provided on timing differences which, in the opinion of the Directors, will probably not reverse.

**RESEARCH MACHINES
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

The Group enters into operating and finance 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 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 regular costs are allocated to the profit and loss account over the average remaining service lives of current employees. 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 19 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 £323,000 (1992: £2,433,000) included £130,000 (1992: £1,781,000) made to the Middle East.

3. OPERATING PROFIT/(LOSS) STATED AFTER CHARGING:

	1993 £000	1992 £000
Staff costs (see Note 5)	11,952	14,748
Depreciation, including the depreciation on assets held under finance lease of £544,000 (1992: £412,000).	1,419	1,777
Rental costs relating to operating leases, including plant and equipment hire of £241,000 (1992: £402,000)	897	1,071
Auditors' remuneration for audit work	42	49
Auditors' remuneration for other professional services	11	8

4. EXCEPTIONAL ITEM

The 1992 exceptional item represents the cost of the major restructuring of the business of Research Machines implemented in 1992 in response to the rapid changes in the personal computer business world-wide. The Company discontinued activities related to the design and manufacture of printed circuit boards and implemented other cost reduction measures. Following the restructuring the Company is focused on integrated systems, software and services for the education market.

The exceptional item comprises:

	1993 £000	1992 £000
Redundancy and related costs	-	2,117
Property termination costs	-	748
Asset write downs	-	951
Write down of discontinued stock lines	-	1,932
		<u>5,748</u>

RESEARCH MACHINES
NOTES TO THE FINANCIAL STATEMENTS

5. STAFF COSTS

Particulars of employees (including Directors) are shown below.

	1993 £000	1992 £000
Staff costs comprise:		
Wages and salaries	10,430	12,942
Social security costs	911	1,089
Other pension costs (see Note 10)	531	715
Employee share scheme	80	-
	11,952	14,746

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

	1993 Number Employed	1992 Number Employed
Sales and marketing	121	147
Services	142	128
Finance and administration	64	75
Product development	51	108
Manufacturing and assembly	75	112
Total	453	568

Directors' remuneration:

Staff costs include the following remuneration in respect of Directors:

	1993 £000	1992 £000
Fees	43	29
Remuneration (excluding bonus payments)	584	704
Bonus payments	75	33
Pension contributions	57	62
Compensation for loss of office	-	127
	759	955

Fees are paid only to Independent 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 paid is determined partly by achieving personal objectives and partly by the performance of the Group. The bonuses shown above for each year are those payable in respect of achieving personal objectives and the performance of the Group during that year, normally paid in January of the following year. Details of Directors' interests in the Company's shares are set out in Note 4 of the Report of the Directors.

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

£	£	1993 Number	1992 Number	£	£	1993 Number	1992 Number
5,001	to 10,000	2	2	85,001	to 90,000	3	1
10,001	to 15,000	2	1	105,001	to 110,000	1	1
50,001	to 55,000	-	1	125,001	to 130,000	-	1
65,001	to 70,000	-	1	135,001	to 140,000	1	1
80,001	to 85,000	-	2	140,001	to 145,000	1	-

The Chairman had remuneration (excluding bonus payment) of £116,000 (1992: £116,000) and has a bonus payment of £28,000 (1992: £11,000). The highest paid Director had remuneration (excluding bonus payment) of £130,000 (1992: £131,000) and has a bonus payment of £19,000 (1992: £5,000). The emoluments shown above do not include any amounts for the values of share options granted to Directors.

RESEARCH MACHINES
NOTES TO THE FINANCIAL STATEMENTS

6. NET INTEREST PAYABLE	1993	1992
	£000	£000
On bank loans and overdrafts:		
- Repayable within 5 years other than by instalments	(259)	(512)
Interest payable under finance leases	(184)	(179)
	(443)	(691)
Less: Interest receivable and similar income	39	143
	(404)	(548)

7. TAX (CHARGE)/CREDIT ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES	1993	1992
	£000	£000
United Kingdom corporation tax (charge)/credit for the year at 33.0% (1992: 33.0%)	(283)	1,395
Deferred tax arising from:		
Capital allowances	(260)	232
Other timing differences	(93)	22
	(636)	1,649
Adjustments in respect of previous years:		
Corporation tax	-	(140)
Deferred tax	-	185
	(636)	1,694

8. DIVIDENDS PROPOSED	1993	1992
	£000	£000
Ordinary:		
- 1993 final proposed 2.50p per share (1992: £Nil)	383	-
	383	-

9. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share are based on consolidated profit for the financial year of £1,389,000 (1992: loss £4,881,000) and on 15,255,095 (1992: 15,172,162) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Certain Directors and employees have been granted options to subscribe for ordinary shares at variable prices (see Note 16). At 30th September 1993 options to subscribe for a weighted average of 2,135,132 ordinary shares had been granted. The fully diluted earnings per ordinary share is based on adjusted earnings of £1,959,000 on the assumption that the options had been exercised on 1st October 1992 (or date of issue if later) and the proceeds invested in 2.5% consolidated stock at a yield of 9.43% (less corporation tax) and on a weighted average of 17,390,227 ordinary shares issued and issuable.

RESEARCH MACHINES
NOTES TO THE FINANCIAL STATEMENTS

10. TANGIBLE FIXED ASSETS

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

<u>Group</u>	Total £000	Land & Buildings £000	Plant & Equipment £000	Computers £000	Vehicles £000
Cost or Valuation:					
Beginning of year	9,851	3,143	2,833	1,878	1,994
Additions	1,902	37	302	924	639
Reclassification	-	76	(76)	-	-
Disposals	(905)	-	(106)	(223)	(576)
Revaluations	(422)	(422)	-	-	-
Transfer to Current Assets	(1,270)	(1,270)	-	-	-
End of year	9,156	1,564	2,956	2,579	2,057
Depreciation:					
Beginning of year	2,540	29	762	955	794
Charged in year	1,419	84	391	425	519
Reclassification	-	20	(20)	-	-
Disposals	(665)	-	(16)	(141)	(508)
Revaluations	(28)	(28)	-	-	-
End of year	3,266	105	1,117	1,239	805
Net book value at end of year	5,890	1,459	1,839	1,340	1,252
Net book value at beginning of year	7,311	3,114	2,074	923	1,200

<u>Company</u>	Total £000	Land & Buildings £000	Plant & Equipment £000	Computers £000	Vehicles £000
Cost or Valuation:					
Beginning of year	9,851	3,143	2,836	1,878	1,994
Additions	1,841	37	277	924	603
Reclassification	-	76	(76)	-	-
Disposals	(905)	-	(106)	(223)	(576)
Revaluations	(422)	(422)	-	-	-
Transfer to Current Assets	(1,270)	(1,270)	-	-	-
End of year	9,095	1,564	2,931	2,579	2,021
Depreciation:					
Beginning of year	2,540	29	762	955	794
Charged in year	1,412	84	389	425	514
Reclassification	-	20	(20)	-	-
Disposals	(665)	-	(16)	(141)	(508)
Revaluations	(28)	(28)	-	-	-
End of year	3,259	105	1,115	1,239	800
Net book value at end of year	5,836	1,459	1,816	1,340	1,221
Net book value at beginning of year	7,311	3,114	2,074	923	1,200

**RESEARCH MACHINES
NOTES TO THE FINANCIAL STATEMENTS**

b) Basis of valuation:-

The freehold land and buildings, which are being marketed, were revalued down to £1,800,000 at the 30th September 1993. This figure is the Directors valuation taking into account the offers received. The disposal of certain land and buildings is anticipated within one year and accordingly £1,270,000 has been transferred to current assets.

The original cost of land and buildings included at valuation was £1,332,000 (1992: £1,332,000) and the accumulated depreciation based on original cost was £253,000 as at 30th September 1993 (1992: £235,000).

c) Assets not depreciated:-

The gross value of land and buildings includes £577,000 (1992: £713,000) in respect of freehold land on which no depreciation has been provided.

d) Assets held under finance lease:-

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

30th September 1993			
	Plant & Equipment £000	Computers £000	Vehicles £000
Cost	-	655	1,874
Accumulated depreciation	-	(177)	(760)
Net book value	-	478	1,114

30th September 1992			
	Plant & Equipment £000	Computers £000	Vehicles £000
Cost	248	1,436	1,842
Accumulated depreciation	(248)	(547)	(706)
Net book value	-	889	1,136

11. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	1993 £000	1992 £000
Research Machines (Finance) Limited	1,487	1,487
Research Machines GmbH	21	-
Birdell Limited	-	-
	<u>1,508</u>	<u>1,487</u>

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

Research Machines GmbH is wholly owned and was incorporated in Germany on 12th July 1993. It was established to market the Research Machines product range in Germany.

Birdell Limited is wholly owned and was registered in England on 25th January 1993. It is the trustee of the employee share ownership trust.

RESEARCH MACHINES
NOTES TO THE FINANCIAL STATEMENTS

12. STOCKS

1993
£000

1992
£000

The following are included in the net book value of stocks for the Group and the Company:

Components	3,310	5,617
Work in progress	3	769
Finished goods	1,181	1,304
	4,694	7,690

The Directors consider that there is no material difference between the balance sheet value and replacement cost of stocks.

13. DEBTORS

Group

Group

Company

Company

- Due within one year:

1993
£000

1992
£000

1993
£000

1992
£000

Trade debtors	13,290	15,890	13,277	15,890
Other debtors:				
- UK Corporation Tax receivable	-	668	-	668
- Amounts owed by subsidiary undertaking	-	-	146	-
- Other	174	164	172	164
- Loan to employee share trust	37	-	37	-
Prepayments and accrued income	380	380	380	380
	13,881	17,102	14,012	17,102

14. CREDITORS

Group

Group

Company

Company

- Due within one year:

1993
£000

1992
£000

1993
£000

1992
£000

Obligations under finance leases	770	846	770	846
Bank loan (secured)	1,700	2,500	1,700	2,500
Trade creditors	7,410	6,698	7,410	6,698
Other creditors:				
- UK Corporation Tax payable	148	-	148	-
- ACT on dividends	111	-	111	-
- Social Security and PAYE	367	567	367	567
- VAT	1,647	2,265	1,664	2,265
- Other	230	527	209	527
Proposed dividends	383	-	383	-
Accruals and deferred income	4,981	6,495	4,981	6,495
	17,753	19,898	17,743	19,898

- Due after more than one year:

1993
£000

1992
£000

1993
£000

1992
£000

- within 1-2 years	- obligations under finance leases	680	870	680	870
	- accruals and deferred income	585	477	585	477
- within 2-5 years	- obligations under finance leases	170	306	170	306
	- accruals and deferred income	285	248	285	248
		1,720	1,901	1,720	1,901

There are no creditors due after more than five years (1992: Nil).

The bank loan has been reclassified to amounts due within one year to comply with the provisions of FRS4. Interest on the bank loan is payable at a variable rate based on LIBOR. The loan is expected to be repaid within one year. The loan is secured by a fixed charge over the freehold land and buildings and by a cross guarantee with a subsidiary undertaking.

RESEARCH MACHINES
NOTES TO THE FINANCIAL STATEMENTS

15. PROVISION FOR LIABILITIES AND CHARGES

	1993 £000	1992 £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	-	-
Short term timing differences	(106)	(136)
Long term timing differences	459	136
ACT recoverable	(111)	-
	242	-

The movement on deferred tax comprises:	1993 £000	1992 £000
Beginning of year	-	390
Charged/(Credited) to profit and loss	353	(439)
ACT recoverable transferred to current tax	-	49
ACT on proposed dividend	(111)	-
End of year	242	-

16. SHARE CAPITAL

	1993 £000	1992 £000
Authorised:		
22,300,000 Ordinary Shares of 10p each (1992:22,300,000)	2,230	2,230
Allotted, called up and fully paid:		
15,313,237 Ordinary Shares of 10p each (1992:15,180,487)	1,531	1,518
	Number of Shares	Premium Arising £000
During the year the following Ordinary Shares of 10p each were allotted for cash:		
- Issued on exercise of options	132,750	32
	132,750	32

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 1993 the trustees of the scheme held 271,449 shares on behalf of the employees.

The employee share ownership trust

The employee share ownership trust owns 56,589 shares in Research Machines plc.

RESEARCH MACHINES
NOTES TO THE FINANCIAL STATEMENTS

The Research Machines Limited 1984 Share Option Scheme

As at 30th September 1993 the following options granted under the Research Machines Limited 1984 Share Options Scheme were outstanding:

	Calendar Year of Issue	Number of Shares	Period of Option	Price per Share
Ordinary shares of 10p each	1984	413,100	10 years	£0.40
Ordinary shares of 10p each	1985	10,000	10 years	£0.40
Ordinary shares of 10p each	1986	952,700	10 years	£0.32
Ordinary shares of 10p each	1987	115,000	10 years	£0.40
Ordinary shares of 10p each	1988	7,500	10 years	£0.50
Ordinary shares of 10p each	1989	190,000	10 years	£0.80
Ordinary shares of 10p each	1989	217,500	10 years	£0.85
Ordinary shares of 10p each	1990	145,000	10 years	£1.30
Ordinary shares of 10p each	1993	142,500	10 years	£0.65
		2,193,300		

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

The Company has taken advantage of section 230 of the Companies Act 1985 and not presented its own profit and loss account. £1,608,000 of the consolidated profit (1992:£4,881,000 loss) attributable to the shareholders of Research Machines plc has been dealt with in the financial statements of that Company.

					1993	1992
	Share capital account £000	Share premium account £000	Revaluation reserve £000	Profit and loss account £000	Total shareholders' funds £000	Total shareholders' funds £000
Group:						
Beginning of the year	1,518	4,228	857	4,912	11,515	10,881
Retained profit/(loss) for the year	-	-	-	1,506	1,506	(4,881)
Revaluation of land and buildings	-	-	(394)	-	(394)	(481)
Shares issued during the year	13	32	-	-	45	16
End of the year	1,531	4,260	463	6,418	12,072	11,515
	Share capital account £000	Share premium account £000	Revaluation reserve £000	Profit and loss account £000	Total shareholders' funds £000	Total shareholders' funds £000
Company:						
Beginning of the year	1,518	4,228	857	2,217	8,820	74,166
Retained profit/(loss) for the year	-	-	-	1,608	1,608	(4,881)
Revaluation of land and buildings	-	-	(394)	-	(394)	(481)
Shares issued during the year	13	32	-	-	45	16
End of the year	1,531	4,260	463	3,825	10,079	8,820

RESEARCH MACHINES
NOTES TO THE FINANCIAL STATEMENTS

18. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	1993 £000	1992 £000
(a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit/(loss)	2,929	(279)
Depreciation charge	1,419	1,777
(Profit)/Loss on disposal of tangible fixed assets	(39)	60
Decrease in stock	2,996	374
Decrease in debtors	2,590	699
Increase/(Decrease) in creditors	202	(1,844)
Net cash inflow from operating activities	10,178	787
(b) Reconciliation of exceptional item to net cash outflow from exceptional item		
Exceptional item	-	(5,748)
Loss on disposal of tangible fixed assets	-	951
Decrease in stock	-	1,932
(Decrease)/Increase in creditors	(2,047)	2,478
Net cash outflow from exceptional item	(2,047)	(387)
(c) Analysis of changes in cash and cash equivalents		
Balance at beginning of year	1,211	3,404
Net cash inflow/(outflow)	5,441	(2,273)
Balance at end of year	6,652	1,211
(d) Analysis of changes in finance lease rentals during the year		
Balance at beginning of year	2,022	1,128
Inception of finance lease contracts	550	1,832
Termination of finance lease contracts	(112)	(68)
Capital element of finance lease rental	(840)	(870)
Balance at end of year	1,620	2,022

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 30th September 1993 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 8% 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 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 £5,827,000 and the actuarial value of these assets represented 99% 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 9.8% of Pensionable Salaries compared with a contribution rate of 9.8%.

The Group also makes payments to defined contribution pension schemes on behalf of certain members of the Group. The assets of such schemes are also held separately from those of the Group in independently administered funds.

The pension charge for the period was as follows:

	1993 £000	1992 £000
Defined benefits pension scheme opened on 6th June 1988	508	696
Defined contribution schemes	23	19
	531	715

Included in creditors falling due within one year are outstanding pension contributions of £99,000 (1992: £216,000).

RESEARCH MACHINES
NOTES TO THE FINANCIAL STATEMENTS

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:

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	-
	682	136	669	136

1992	Group Land & Buildings £000	Group Others £000	Company Land & Buildings £000	Company Others £000
Leases expiring within 1 year	-	22	-	22
Leases expiring within 2-5 years	109	237	109	237
Leases expiring after more than 5 years	595	-	595	-
	704	259	704	259

(b) Capital Commitments

The Group and Company have the following capital expenditure commitments:	1993 £000	1992 £000
Authorised, not yet contracted for	189	248

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 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 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 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 6 and 7. 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 8 to 22 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 12 and 13.

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.

Basis of opinion

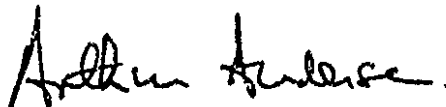
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 1993, 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 Auditor
Abbots House
Abbey Street
READING
RG1 3BD
22nd December 1993



**RESEARCH MACHINES
FIVE YEAR SUMMARY**

£000 (except where stated)	30 Sept 1989	30 Sept 1990	30 Sept 1991	30 Sept 1992	30 Sept 1993
TURNOVER	53,371	62,929	62,200	65,087	66,212
OPERATING PROFIT/(LOSS)	3,940	4,308	2,384	(279)	2,920
Profit/(loss) on ordinary activities before exceptional items and taxation	2,314	3,254	2,260	(827)	2,525
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	3,022	3,254	2,051	(6,575)	2,525
PROFIT/(LOSS) AFTER TAXATION	1,912	2,034	1,320	(4,681)	1,089
EARNINGS PER SHARE * (Fully diluted)					
Including exceptional items	14.2p	13.6p	8.1p	(27.4p)	11.3p
Excluding exceptional items	10.8p	13.0p	8.8p	(5.8p)	11.3p
DIVIDENDS PER SHARE (net) *	--	1.2p	1.3p	--	2.5p
CAPITAL EMPLOYED:					
- Shareholders' funds	10,163	15,593	16,861	11,515	12,672
- Net borrowings/(Net cash) (including finance leases)	8,037	2,301	144	3,311	(3,332)
TOTAL	18,200	17,894	17,005	14,826	9,340
OPERATING PROFIT/(LOSS) AS A PERCENTAGE OF :					
- Turnover	7.4%	6.8%	3.8%	(0.4)%	4.4%
- Average Capital Employed	24.7%	23.9%	13.7%	(1.8)%	24.2%
NET BORROWINGS / (NET CASH) AS A PERCENTAGE OF SHAREHOLDERS' FUNDS	79.1%	14.8%	0.9%	28.6%	(26.3)%

* 1989 and 1990 have been adjusted to reflect the 9 for 1 bonus issue in 1991.

RESEARCH MACHINES plc

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