ANNUAL REPORT 1998

CADCENTRE

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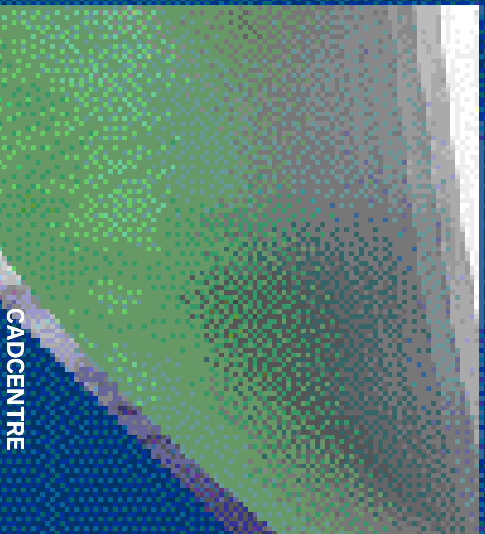
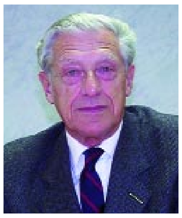


CADCENTRE



Cadcentre is pleased to be able to report record results with a substantial improvement in profits, earnings and cash in a year which was affected by the economic turmoil in Far Eastern markets.

In the year ended 31 March 1998, turnover increased to £17.7 million (1997 : £17.3 million). Improved margins resulted in a 23% increase in operating profits to £2.66 million (1997 : £2.16 million) and profits before tax were 55% higher at £2.75 million (1997 : £1.78 million). Earnings per share increased 44% to 10.30 p (1997 : 7.13p).

A final dividend of 2.4 pence per share (net) is proposed (1997:1.6 pence), payable on 21 July 1998 to shareholders on the register at the close of business on 26 June 1998, making a total of 3.6 pence per share for the year.

In 1997–98, 84% of Cadcentre's sales arose outside the UK, 64% being invoiced in currencies other than sterling. Although sterling strengthened further during the year, a policy of prudent hedging meant that, compared to budget, currency movements had no material effect on the year's result. The company is pleased to note the relative strengthening of EMU currencies since the end of the year, and will accept contracts in Euro from 1 January 1999.

An important factor in the year's trading was the worsening Far East economies – an issue which was highlighted in the interim report of 28 November 1997 – resulting in the postponement of a number of major industrial projects for which Cadcentre software was to have been used.

Development of Cadcentre's international sales and support network has continued. A new sales and support office has been opened during the year in Perth, Western Australia, and new training offices have been opened in the UK near Manchester and in Oslo, Norway.

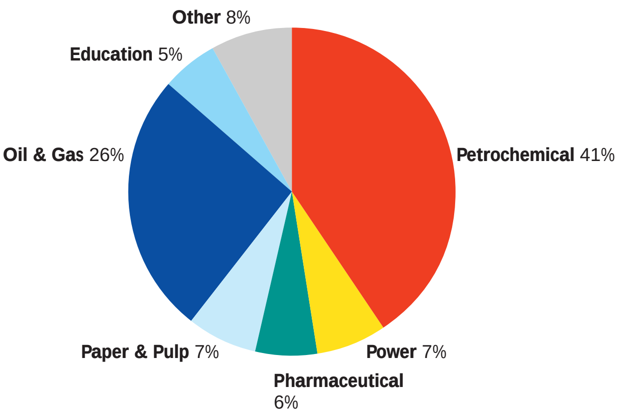
These offices supplement those subsidiaries already operating in France, Germany, the USA and the UK.

Whilst paying careful attention to costs, Cadcentre has continued to invest in long term R&D projects and in its respected object-based products to keep them ahead of existing and potential competition. The company is concentrating its new product development on the Windows NT operating system and a series of new releases are being rolled out.

Strong cash generation from operations and a tight control on working capital has resulted in net cash balances increasing during the year to £4.58 million (1997 : £1.80 million).

The overall results for the year ended 31 March 1998 represent a considerable achievement by the management and staff of the Cadcentre Group. I congratulate them. I particularly want to mention Robin Lee who has recently retired. Before joining the company in 1983 Robin was with ICL for fifteen years and was asked by them to assist the Department of Industry in the privatisation of the Computer Aided Design Centre which became Cadcentre Ltd. He subsequently joined the company and founded the Process Plant Division which was to grow to become the company's only business. Part of the management buy out team in 1994, he has recently been the director responsible for customer technical support, integration services, major account development and corporate IT. He will be greatly missed by the company and by the many friends he has made among our customers around the world. We wish him well.

New Customers by Industry 1997/98



Looking ahead I believe that the combination of new releases of products running under NT together with an expanding customer base and improved international representation is expected to result in a satisfactory growth in revenues in the current year. Costs and working capital remain under tight control and budgets have been prepared on the assumption that there will be no exchange rate movement in our favour during the year. Nor does the company assume any improvement in the Far East economic situation.

The current year has started well and the Board is confident of achieving a successful outcome for the year to March 1999.

Richard A. King CBE
Chairman

15 June 1998

Operations

I am pleased to report that Cadcentre continued to grow strongly during 1997/98, with operating profit up by 23%, profit before tax by 55% and earnings per share by 44%.

Revenues from the Americas were up 15% on last year: Cadcentre Inc gained 17 new accounts while agents and distributors in Latin America added a further 10. In France, Cadcentre SA increased its revenues by 75%, while the number of new customers it signed up (13) was second only to North America. Overall, Europe was flat but about £500k of low-margin hardware sales in 1996/97 were replaced by the same amount of high-margin software sales in 1997/98, thus increasing the profit from that region. Revenues from the Asia/Pacific region were down 13% compared with the previous year.

The total number of new customers acquired during last year rose to a new record of 66 compared with 50 for the previous year. Cadcentre products are now installed in 49 countries around the world.

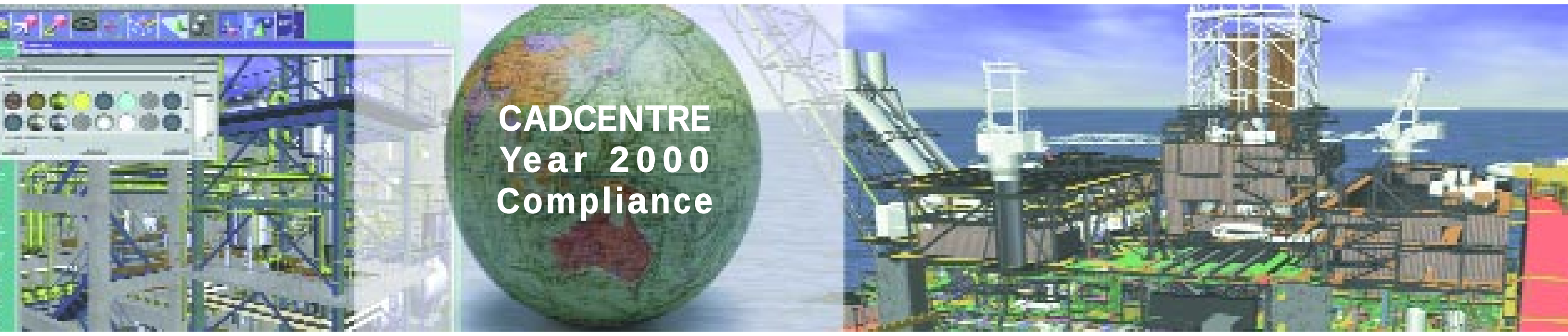
New Offices

We expect the East Asian and Pacific markets to continue to be weak throughout financial year 1998/9. Although the Japanese economy as a whole is going through a very difficult period, our customers include some of the largest Japanese corporations whose prospects for the future remain bright. We have therefore concluded that now is an opportune moment to re-establish a direct presence in Japan. We plan to open an office in the Tokyo area during this financial year, transferring some staff from Hong Kong and recruiting others locally. We shall continue to work closely with Kyokuto Boeki Kaisha Limited (KBK), our Japanese distributor for the last 22 years.

The large number of new customers and the high levels of activity in the oil and gas sectors has created a corresponding demand for training and consultancy services. To meet this demand we have opened two new training facilities. The first is in Altrincham, near Manchester, where there is a pool of experienced PDMS engineers. The Manchester office opened in April 1998. The second is Cadcentre A/S in Oslo, Norway, 34%-owned by Cadcentre and operated in association with KTB Gruppen A/S. We opened the office in Oslo during June 1997.

Cadcentre Australasia Pty started operating in Perth, Western Australia in June 1997 to take advantage of the growing oil and gas extraction activities in the seas around the region. Initial results have been encouraging and we plan to reinforce our Australian operations during this financial year.

New offices at Altrincham



UNIX and Windows NT

The dominant characteristic of the CAD market today is the growing popularity of the Microsoft Windows and NT operating systems compared with UNIX. This has come about because the power of high-end Intel microprocessors is now sufficient to run even the most technically demanding programs such as PDMS and REVIEW quite effectively.

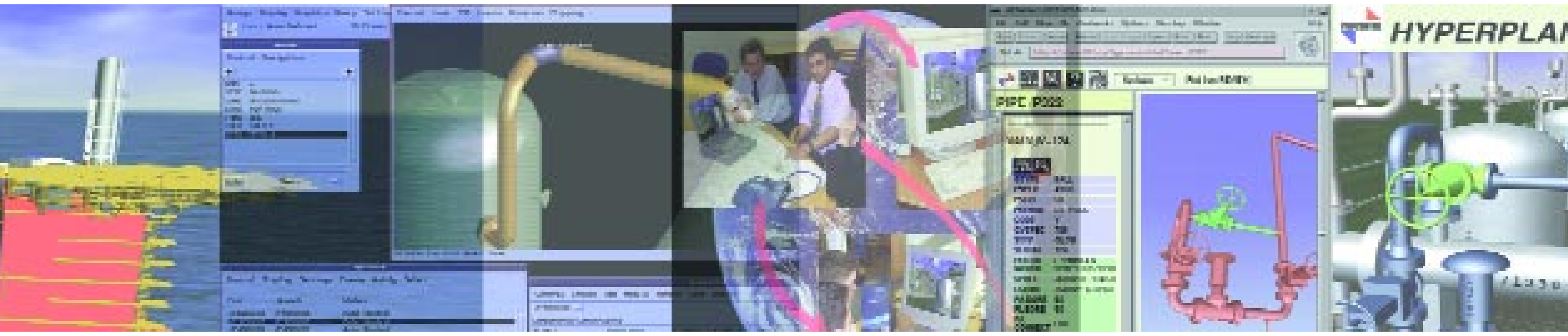
Cadcentre is committed to the Windows NT environment for its future product direction. PDMS 11.2 and Review 5.2 already run on standard "Wintel" (Windows + Intel) workstations. Although we plan to support UNIX workstations for many years to come, from PDMS 12 onwards our primary development environment will be Windows NT. We expect this change to have a very positive effect on our sales prospects, just as the move from proprietary operating systems to UNIX did seven years ago.

Product Development

The proportion of Group revenue invested in research and product development in 1997/8 was 16% (the same as for the previous year). A significant portion of this investment went into migrating the existing product set from UNIX to Windows NT. Rollout dates for all major products are given in the product table shown.

An issue which has attracted considerable press attention is the so-called "Millennium" or "Y2K" problem. Cadcentre has two ongoing projects in place to ensure that its products do not contribute to the problems expected by these commentators for the year AD2000. One, focusing on all Cadcentre's software products and supported interfaces and the other on Cadcentre's suppliers. Our target is to ensure that all our hardware and third party software is Year 2000 compliant by the end of 1998.

Product	*Rollout*	*Operating System*	*Year 2000 Compliant*
Advanced Router 1.3.1	Spring 1998	UNIX	
Advanced Router 1.4.1	Autumn 1998	UNIX, NT	Yes
Design Manager 2.1.4	Spring 1998	UNIX, NT	
Design Manager 2.3.1	Autumn1998	UNIX, NT	Yes
PDMS 11.1.2	Spring 1998	UNIX	
PDMS 11.2.1	Autumn 1998	UNIX, NT	Yes
PDMS Global 11.2.1	Autumn 1998	UNIX, NT	Yes
PEGS 9.3.3	Spring 1998	UNIX, NT	Yes
PEGS 9.4.1	Autumn 1998	UNIX, NT	Yes
Review Reality 5.2.1	Spring 1998	NT	
Review Reality 5.3.1	Autumn 1998	UNIX, NT	Yes
Hyperplant Publisher 3.2	Summer 1998	UNIX	
Hyperplant Publisher 4.1	Autumn 1998	UNIX, NT	Yes



Notwithstanding our investments in NT migration and Y2K compliance we maintained an active programme of enhancement to all our products throughout last year. The most significant enhancements were to PDMS. The rollout of PDMS 11.1.1 in October 1997 featured a new 64-bit high-performance database (Dabacon 2), a new modeller (GML 4) and a new object-orientated user programming language (PML 2). These new developments plus the move to NT will ensure the continuing success of PDMS well into the next century.

In addition to its main revenue products Cadcentre continued to invest in early-adopter and longer-term projects. These included:

Advanced Router

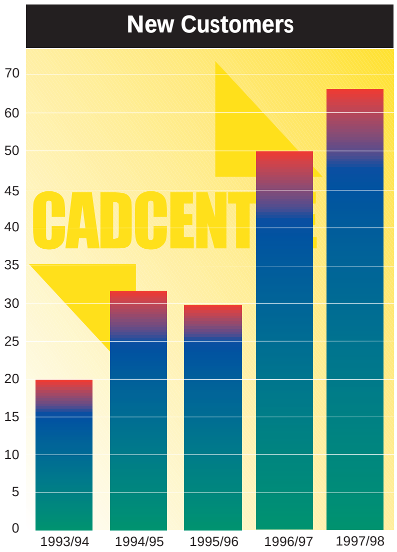
27 customers have now licensed Advanced Router. This new product which routes pipes semi-automatically is a key component of Cadcentre’s stated objective of doubling overall plant design productivity every 5 years. When PDMS ran on Prime minicomputers a good operator could route 1 pipe per day. When PDMS was moved to Silicon Graphics workstations the new 3D user interface allowed designers to manipulate plant components such as pipes, pumps and vessels directly on the screen, increasing operator productivity by at least a factor of 10. User experience suggests that Advanced Router has an even greater potential to multiply operator productivity.

PDMS Global

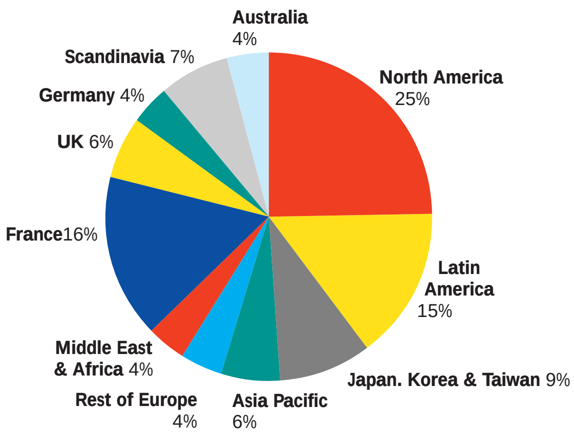
This is a new development funded by a consortium of users whereby remotely-separated project teams can “keep in step” by each sending complete design updates to the other’s project database. Phase 1 was successfully delivered in December 1997: Phase 2 is scheduled for Spring 1999.

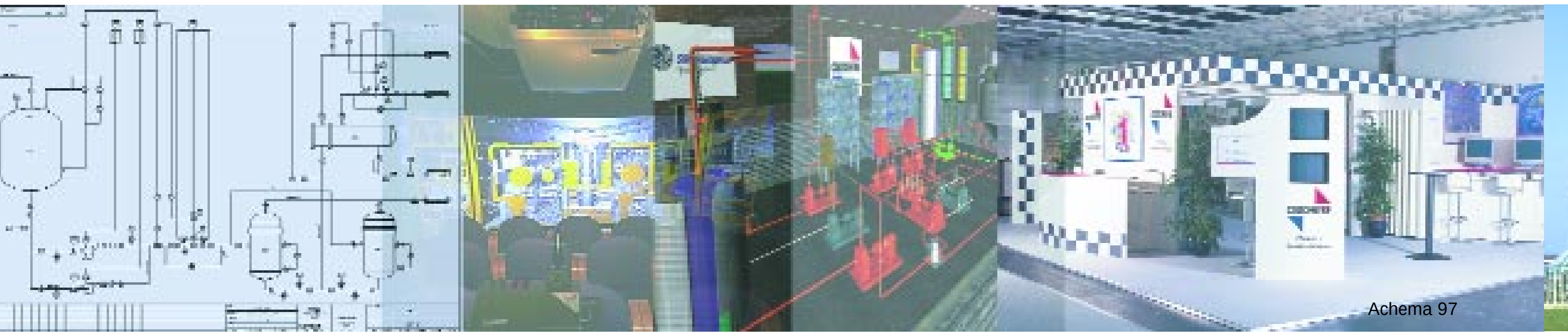
Hyperplant

Launched simultaneously in London and Frankfurt in June 1997, Hyperplant uses World Wide Web technology to link together and publish design documents generated by PDMS and PEGS. These can then be browsed and navigated from Review Reality and vice versa. Hyperplant has now been installed at 13 customer sites. Initially launched using Netscape Navigator, Hyperplant is now being moved to Microsoft Explorer in line with Cadcentre’s new Microsoft product direction. Its functionality is also being extended in response to customer input.



New Customers by Region 1997/98





Achema 97

SKS

SKS was a partnership project with Electricité de France (EdF). SKS very successfully demonstrated the power of pure object-orientated technology applied to schematics and the design of control systems. Version 14 of SKS was delivered to EdF in March 1998. A successor product called PDMS Schematics is now under development.

Visual Engineering

The Cadcentre Visual Engineering Centre, which pioneered the application of Virtual Reality techniques to the design of process plants, has been in constant use since it was opened in April 1996. Interest in the use of Group Virtual Reality to solve engineering problems is growing rapidly : there are now 30 Reality Centres in use worldwide, compared with just 3 in 1996. The first Reality Centre Special Interest Group (RCSIG) meeting was held in Nottingham in November 1997, with 9 attendees. Six months later the second RCSIG meeting, hosted by Cadcentre, attracted 35 delegates. We expect this rate of growth to accelerate as the cost of graphics super-computers continues to fall.

Virtual Plant

Virtual Plant demonstrates how dynamic simulation can be married to advanced 3D visualisation to provide engineers with a tool to radically improve the design, operation and control of process plants. Virtual Plant is a joint project between Cadcentre, Silicon Graphics and Imperial College (PSE Limited)), London. It has been demonstrated widely, including at ACHEMA (Frankfurt); PIMC (The Hague) and Daratech "Plantscape" (Houston). Virtual Plant has been short-listed as one of the five finalists in the "factory of the future" section of the Computerworld Smithsonian Award Program (June 1998, Washington DC) and has become part of the Smithsonian Institution's Permanent Research Collection on Information Technology Innovation. It will also feature in the Royal Society's "New Frontiers in Science" exhibition (June 1998, London).

Conferences and Trade Shows

During 1997/98 Cadcentre participated in 33 conferences and trade shows in 17 countries around the world. These included the triennial ACHEMA show in Frankfurt (June 1997), at which 2,000 attendees visited the Cadcentre stand. Cadcentre used ACHEMA to launch Hyperplant while Silicon Graphics demonstrated Virtual Plant.

The Daratech convention held in Houston, Texas in January has become the most important annual event devoted to plant design. A record 900 attendees came to "Plant 98" for three days of industry analysis and parallel vendor presentations. Figures presented and circulated by industry analysts indicated that at January 1998 Cadcentre had 33% of the world installed base for high-functionality 3D plant design (7,590 workstations), compared with 38% for our largest competitor. No other competitor had more than 10% of the total installed base.

Customer Relations and User Groups

Cadcentre operates a policy of continuous product improvement. Our customers are a very important source of practical ideas and suggestions which are then fed back into the product development process. Cadcentre actively encourages the formation of new User Groups with a common language, geography or company focus and ensures that appropriate representatives attend their meetings.

Historically the two major User Group conferences have been PUGA (PDMS User Group of the Americas) and PRUG (PDMS and REVIEW User Group). The 9th Annual PUGA meeting was held in June, hosted by Shell Deepwater Development Inc. Over 100 delegates came to New Orleans, 25% more than came to last year's PUGA meeting in Seattle.

The 19th PRUG conference was hosted by Kværner John Brown in October 1997 in Southampton. The following local User Groups sent representatives to PRUG to report on their local priorities: Central European User Group (Czech Republic, Slovakia, Hungary); DACH User Group (Germany, Austria, Switzerland); Dutch User Group; French User Group; Japanese User Group and PUGA

In all, over 120 delegates representing 57 companies from 22 countries came to Southampton for the 3-day event. The next meeting will be held in Antwerp in October 1998, hosted by Stork Comprimo.

Crispin Gray

Crispin Gray
Chief Executive

15 June 1998

"Cadcentre believes that the data should be the heart of any plant design system, rather than something to be added to a graphical representation. This fundamental belief is what differentiates Cadcentre from other more traditional CAD vendors and has been the cornerstone upon which Cadcentre has been built.

Over time, Cadcentre has extended its product offerings from data management within single solutions to the wider problems of data exchange between solutions: in particular, the management of data throughout the entire life-cycle of a plant, from initial design through to final decommissioning.

Cadcentre is now recognised as one of the leading developers of real-time, auditorium-scale walk-through and project review systems.

Cadcentre has established itself at the forefront of engineering visualisation technology."

Cadcentre

Cadcentre is a world-leading developer and supplier of software solutions to the process industries. To date more than £140 billion worth of plant around the world has been designed using Cadcentre technology. Cadcentre is set apart from the field with its core philosophies of active innovation, development and product evolution, reliable and stable technology, and an established track record in introducing new technologies and leading the field with global firsts.

With customers in 49 countries, Cadcentre is an established international leader in industries that include the processing of offshore and onshore oil and gas, chemicals, pharmaceuticals, paper and pulp, the generation of electricity from nuclear and fossil fuels, nuclear fuel re-processing, waste management and ship outfitting. Cadcentre enjoys strong and enduring relationships with major blue chip international engineering and process organisations.
A global office network, supported by agents and distributors, ensures that Cadcentre provides its customers, for whom our products are often mission critical, with the highest possible levels of service and support.

Directors' report

For the year ended 31 March 1998

The directors present their annual report on the affairs of the group together with the financial statements and auditors' report for the year ended 31 March 1998.

Principal activities

The company is a holding company. The principal activities of the trading subsidiaries is the marketing and development of computer software for engineering and related applications.

Business review

A review of the group's operations during the year and of its plans for the future is given in the Chairman's Statement.

The group made a profit for the year after taxation of £1,712,000 (1997 – £1,112,000). Sales were £17,727,000 (1997 – £17,339,000) with exports representing 84% (1997 – 80%) of the business.

Creditors payment practice

The company has no trade creditors.

Results and dividends

Group results, proposed dividends and transfers to reserves are as follows:

	£000
Group retained profit at 1 April 1997	1,942
Group profit for the year after taxation	1,712
Dividends paid and proposed	
- interim dividend paid	(198)
- final proposed of 2.4p per 10p ordinary share	(400)
Translation loss on consolidation	(3)
Group retained profit at 31 March 1998	3,053

Research and development

The group continues an active programme of research and development and all costs are expensed as incurred. The research and development programme covers the updating and extension of the group's range of products.

Intellectual property

The group owns intellectual property both in its software tools and in the products derived from them. This includes the product known as PDMS. The directors consider these to be of significant value to the business, but that it is not appropriate to ascribe a monetary value to them in the financial statements.

Directors and their interests

The directors who served during the year are as shown below.

*	R A King	(Chairman)
*	D Cheesman	
	J R Dersley	
*	J R F Fairbrother	
	J C Gray	
	R J Lee	(Retired 31 March 1998)
	R Longdon	

* Non-executive directors

The beneficial interests in the shares of the company of directors who held office at 31 March 1998 are as follows:

	1998	1997
	10p Ordinary Shares	10p Ordinary Shares
R A King	156,250	156,250
J R Dersley	900,000	900,000
J C Gray	1,031,250	1,031,250
R J Lee	450,000	900,000
R Longdon	950,000	1,044,030

Other substantial shareholdings

On 15 June 1998, the company had been notified in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the company:

Name of holder	Number	Percentage held
3i Group plc	3,148,060	18.94
National Westminster Bank plc	2,482,689	14.94
Bank of Scotland (Stanlife) London Nominees Ltd	1,321,916	7.95
Prudential Insurance Company of America	770,418	4.63
Cambridge University	500,000	3.01

Auditors

The directors will place a resolution before the annual general meeting to re-appoint Arthur Andersen as auditors for the ensuing year.

High Cross
Madingley Road
Cambridge
CB3 0HB

By order of the Board,

J R Dersley
Secretary

15 June 1998

Non-executive directors

Richard King CBE, aged 68, Chairman

Richard King was appointed Chairman of Cadcentre in August 1994. Previously he held a number of senior managerial appointments in Philips N.V. in the UK, USA and Australia. Subsequently he formed Cambridge Electronic Industries plc which was floated on the London Stock Exchange and was Chief Executive from 1980–1990. Since then he has been directly involved in a number of high technology companies as Chairman or as a Director. Currently he is Chairman of Cambridge Research and Innovation Limited, Deputy Chairman of Xaar plc and Addenbrooke's Trust, a Director of Lionheart Management Services and Cambridge Technology Management. He is a Fellow of Darwin College, Cambridge.

David Cheesman, aged 55

David Cheesman joined the computer industry from university in 1964. He held various engineering and marketing positions with Honeywell, Univac (now Unisys), CASE (now Cray) and the United Kingdom Atomic Energy Authority and was a vice president of Prime in the 1980s and managing director of Dowty Information Systems. He became a director of the high technology unit of 3i plc in 1989, investing in early stage technology businesses, and joined Trinity Capital Partners in 1992. In 1995 he joined Abingworth Management Limited under a consultancy contract. He is a non-executive director of several venture capital backed companies. He has served on the government advisory committee on Technology Foresight and is a Chartered Engineer and Fellow of the Institute of Electrical Engineers.

Jeremy Fairbrother, aged 59

Jeremy Fairbrother was educated at Balliol College, Oxford. He was a director at Baring Brothers & Co Limited from 1982 to 1992. He left Barings in June 1992 to take up his present appointment as Senior Bursar at Trinity College Cambridge. He is a non-executive director of Abbey National Treasury Services (the authorised wholesale banking subsidiary of Abbey National plc). He sits on the Finance Committee of the University of Cambridge and is Chairman of the Investment Sub-Committee which is responsible for the University's Amalgamated Fund.

Corporate governance

Compliance with the Code of Best Practice

The company has complied throughout the year with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance except that no Nominations Committee has been appointed. This is because the company has not yet needed to appoint new directors. Current non-executive directors are appointed for unspecified terms, but are subject to three months' notice and retirement by rotation.

Board Committees

The Board has established a number of committees, details of which are set out below.

Audit Committee

The Audit Committee comprises the three non-executive directors and is chaired by JRF Fairbrother, with RA King and D Cheesman as members. The Committee meets as required to review the scope of the audit and the audit procedures, the format and content of the audited financial statements including their notes and the accounting principles applied. The Committee will also review any proposed change in accounting policies and any recommendations from the group's auditors regarding improvements to internal controls and the adequacy of resources within the group's finance function.

Internal financial control

The board of directors has overall responsibility for ensuring that the group maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used both within the business and for publication, and that assets are safeguarded. There are inherent limitations in any system of internal financial control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal financial control system that operated throughout the period covered by the financial statements are described under the following headings:

- Asset safeguards – ensuring that assets are adequately insured, that protection of intellectual property is appropriate and that company bank accounts are accessible only at the appropriate authority level. Transactions involving real property, charges over assets of the company, the acquisition or disposal of shares or businesses are all among the matters specifically reserved to the board of directors.

- Information systems and monitoring – the board approves the annual budget and regularly compares it to actual accounts with commentary required from the executive directors. Each board meeting also includes an updated forecast for the current year's results if that differs from the budget.

- Business risks – any litigation in prospect or the fact that there is none is reported at every board meeting. Substantial capital commitments are subject to prior board approval as is the approval process. Any departure from budget activities is required to be reported to the board.

Internal financial control (continued)

The Audit Committee has reviewed the operation and effectiveness of this framework and will continue to do so on a regular basis.

Going concern

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and 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 company and 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 company and 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 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.

Auditors' responsibilities

The auditors' opinion does not encompass the directors' report on pages 1 to 3. However, the Companies Act 1985 requires auditors to report to the shareholders if the matters contained in the directors' report are inconsistent with the financial statements.

Report of the remuneration committee

Compliance

During the year under review the Remuneration Committee complied with Section A of the best practice provisions regarding remuneration committees annexed to The Listing Rules of the London Stock Exchange. The Remuneration Committee has given full consideration to Section B of the best practice provisions annexed to the Listing Rules concerning remuneration policy.

Remuneration Committee

The Committee is made up of two of the non-executive directors RA King and D Cheesman. It is chaired by D Cheesman.

The main function of the Committee is to determine, on behalf of the Board, the Group's broad policy for executive remuneration and the individual remuneration packages for the executive directors and the more senior managers of the Group. Information prepared by independent consultants and appropriate survey data on the remuneration practices of comparable companies is taken into consideration. Members of the Committee do not participate in decisions concerning their own remuneration.

Remuneration Policy

The policy is to ensure that the Group has remuneration packages in place by which it can recruit and retain high quality management. In setting the packages for executive directors and more senior managers the Committee uses comparable companies of similar size, structure and complexity.

Remuneration packages consist of basic salary, benefits in kind, bonuses and contributions to pension schemes.

Annual salary and benefits

The basic salary for each director for the year ended 31 March 1998 has been defined under existing contracts agreed pre and post flotation.

Directors' remuneration

The total amounts for directors' remuneration and other benefits were as follows:

	1998	1997
	£000	£000
Emoluments	498	516

Directors' remuneration (continued)

Name of director	Basic salary £000	Fees £000	Benefits in kind £000	1998 Total £000	1997 Total £000
Non-executive					
R King	-	25	-	25	25
D Cheesman	-	10	-	10	10
J Fairbrother	-	10	-	10	4
Executive					
J C Gray	113	-	13	126	129
J R Dersley	98	-	11	109	116
R Longdon	98	-	11	109	116
R J Lee (Retired 31 March 1998)	98	-	11	109	116
Aggregate emoluments	407	45	46	498	516

No share options have been granted to directors.

It is the Group's policy to grant new options once in each financial year to staff who have joined the Group since the previous grant.

Pensions

JC Gray, JR Dersley, RJ Lee and R Longdon are members of the Cadcentre Limited defined benefit pension scheme. It is a contributory, funded, final salary occupational pension scheme approved by the Inland Revenue. Under this scheme they are entitled to a pension on normal retirement, or on retirement due to ill-health, equivalent to two thirds of their pensionable salary provided they have completed (or would have completed in the case of ill-health) 25 years' service. In the event of voluntary early retirement a lower pension is payable if the company so agrees, provided they have attained age 50. Pensions are payable to dependents on the director's death in retirement and a lump sum is payable if death occurs in service.

Pensions (continued)

The following directors had accrued entitlements under the pension scheme as follows:

	Increase in accrued pension	Transfer value of increase	Annual pension at Normal Retirement Date: Service to 31 March 1998	Annual pension at Normal Retirement Date: Service to 31 March 1997
	£	£	£	£
J C Gray	6,060	84,750	26,670	19,910
J R Dersley	2,290	26,030	38,700	37,490
R Longdon	2,320	18,860	36,090	32,620
R J Lee (Retired 31 March 1998)	2,060	28,110	64,790	63,540

The increase in accrued pension during the year excludes any increase for inflation.

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less director's contributions.

Members of the scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.

Service contracts

The service contracts for executive directors provide for a 52 week notice period. The Committee considers this to be in the best interests of the group for stability in senior management, in maintaining the business on a profitable growth path and to be in line with other companies of a similar size and nature. The service contracts for the non-executive directors provide for a three month notice period and for them to retire at any Annual General Meeting where they are so required by the Articles of Association.

Auditors’ report to Cadcentre Group plc on corporate governance

In addition to our audit of the financial statements, we have reviewed the directors’ statements on pages 5 and 6 concerning the company’s compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).
We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the company’s system of internal financial control or its corporate governance procedures nor on the ability of the company and group to continue in operational existence for the foreseeable future.

Opinion

With respect to the directors’ statements on internal financial control and going concern on pages 5 and 6, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are 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 on page 5 appropriately reflects the company’s compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

Betjeman House
104 Hills Road
Cambridge
CB2 1LH

15 June 1998

Auditors' report

To the Shareholders of Cadcentre Group plc:

We have audited the financial statements on pages 12 to 30 which have been prepared under the historical cost convention and the accounting policies set out on pages 16 to 18. We have also examined the amounts disclosed relating to the emoluments of the directors which form part of the remuneration committee report on pages 7 to 9.

Respective responsibilities of directors and auditors

As described on page 6 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, 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 of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 31 March 1998 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

Betjeman House
104 Hills Road
Cambridge
CB2 1LH

15 June 1998

Consolidated profit and loss account

For the year ended 31 March 1998

	Notes	1998	1997
		£000	£000
Turnover	2	17,727	17,339
Cost of sales		(6,966)	(7,514)
Gross profit		10,761	9,825
Other operating expenses (net)	3	(8,104)	(7,669)
Operating profit		2,657	2,156
Interest receivable	4	113	34
Interest payable and similar charges	5	(16)	(275)
		2,754	1,915
Compensation payable at flotation on early repayment of shareholders loan	6	-	(138)
Profit on ordinary activities before taxation	7	2,754	1,777
Tax on profit on ordinary activities	9	(1,042)	(665)
Profit on ordinary activities after taxation		1,712	1,112
Dividends paid and proposed on equity and non-equity shares	10	(598)	(433)
Retained profit for the year	19	1,114	679
Earnings per share	11	10.30	7.13

All amounts relate to continuing operations.

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

Consolidated statement of total recognised gains and losses

For the year ended 31 March 1998

	1998	1997
	£000	£000
Profit for the financial year	1,712	1,112
Translation loss arising on consolidation	(3)	(7)
Total recognised gains and losses relating to the year	1,709	1,105

The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.

Consolidated balance sheet

31 March 1998

	Notes	1998	1997
		£000	£000
Fixed assets			
Tangible assets	12	2,465	2,768
Investments	13	6	-
		2,471	2,768
Current assets			
Debtors	14	6,564	7,018
Cash and liquid resources	15	4,578	1,799
		11,142	8,817
Creditors: Amounts falling due within one year	16	(5,970)	(4,937)
Net current assets		5,172	3,880
Total assets less current liabilities		7,643	6,648
Creditors: Amounts falling due after more than one year	17	(29)	(145)
Net assets		7,614	6,503
Capital and reserves			
Called-up share capital	19	1,662	1,662
Share premium account	20	6,833	6,833
Goodwill reserve	20	(3,934)	(3,934)
Profit and loss account	20	3,053	1,942
Shareholders' funds – all equity	21	7,614	6,503

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

Company balance sheet

31 March 1998

	Notes	1998 £000	1997 £000
Fixed assets			
Investments	13	7,205	7,205
Current assets			
Debtors	14	2,308	1,802
Cash and liquid resources	15	63	454
		2,371	2,256
Creditors: Amounts falling due within one year	16	(615)	(398)
Net current assets		1,756	1,858
Total assets less current liabilities		8,961	9,063
Net assets		8,961	9,063
Capital and reserves			
Called-up share capital	19	1,662	1,662
Share premium account	20	6,833	6,833
Profit and loss account	20	466	568
Shareholder’s funds – all equity		8,961	9,063

Signed on behalf of the Board

R A King

Directors

J C Gray

15 June 1998

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

Consolidated cash flow statement

For the year ended 31 March 1998

	Notes	1998 £000	1997 £000
Net cash inflow from operating activities	22	4,534	1,051
Returns on investments and servicing of finance	23	97	(704)
Taxation	23	(815)	(173)
Capital expenditure and financial investment	23	(368)	(855)
Acquisitions	23	(6)	-
Equity dividends paid		(464)	-
Cash inflow (outflow) before use of liquid resources and financing		2,978	(681)
Management of liquid resources	23	(1,400)	-
Financing	23	(114)	2,788
Increase in cash in the year	24	1,464	2,107

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

1 Accounting policies

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

a) Basis of accounting

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

b) Basis of consolidation

The group financial statements consolidate the financial statements of Cadcentre Group plc and its subsidiary undertakings made up to 31 March 1998. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired) is written off against reserves on acquisition.

No profit and loss account is presented for Cadcentre Group plc as provided by Section 230 of the Companies Act 1985. The company's profit for the financial year, determined in accordance with the Act, was £496,000 (1997 – £759,000).

c) Research and development

Research and development expenditure is written off in the year of expenditure.

d) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for permanent diminution in value.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Computer equipment	-	24%
Office equipment	-	15%
Fixtures and fittings	-	12%
Motor vehicles	-	25%

Leasehold property is amortised on a straight-line basis over the period of the lease.

Residual value is calculated on prices prevailing at the date of acquisition. Profits or losses on the disposal of fixed assets are included in the calculation of operating profit.

1 Accounting policies (continued)

e) Investments

Fixed asset investments are shown at cost less provision for permanent diminution in value.

f) Taxation

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

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the financial statements and by the tax legislation) 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.

g) Pension costs

The group operates a defined benefit pension scheme for substantially all UK employees which is contracted out of the state scheme. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the group benefits from the employees' services. The effect of variations from regular cost is spread over the expected average remaining service lives of current members of the schemes. The pension cost is assessed in accordance with the advice of qualified actuaries.

The group also operates a defined contribution pension scheme for substantially all US employees. Costs are charged to the profit and loss account as incurred.

h) Foreign currency

Transactions denominated in foreign currencies are recorded at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

The results of overseas subsidiary undertakings are translated at the average exchange rate during the year, and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas subsidiary undertakings are dealt with through reserves.

i) Turnover

Turnover comprises the invoiced value of initial licence fees, maintenance fees, income from consultancy and other allied services to third party customers (excluding VAT and similar taxes and trade discounts). Maintenance fees are allocated to the accounting periods to which they relate.

1 Accounting policies (continued)

j) Leases

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

Where fixed assets are financed by leasing arrangements which transfer to the group substantially all the benefits and risks of ownership, the assets are treated as if they had been purchased outright and are included in tangible fixed assets. The capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

2 Turnover

An analysis of turnover by geographical area is set out below:

	1998	1997
	£000	£000
United Kingdom	2,856	3,538
Europe, Middle East and Africa	8,319	7,618
America	4,842	4,217
Far East	1,710	1,966
	17,727	17,339

All turnover arises from a single class of business. To re-align to industry accepted standards the geographical analysis has been reviewed and modified since the prior year.

No further segmental analysis is given as, in the opinion of the directors, disclosure of this information would be seriously prejudicial to the interests of the group.

3 Other operating expenses

	1998	1997
	£000	£000
Selling costs	5,053	4,788
Administrative expenses	3,051	2,881
	8,104	7,669

4 Interest receivable

	1998	1997
	£000	£000
Bank interest	113	34

5 Interest payable and similar charges

	1998	1997
	£000	£000
Bank loans and overdrafts	-	159
Other loans	-	90
Finance leases	16	26
	16	275

6 Compensation payable at flotation on early repayment of shareholders' loan

Prior to flotation in December 1996, the company had the benefit of a £1.9 million loan from its institutional shareholders which was due to be repaid by ten equal six monthly instalments starting 31 December 1997. A condition of this loan was that if the company became a quoted company, the shareholders could require immediate full repayment of the loan together with early repayment compensation. Both repayment and compensation were required, the latter being equivalent to £138,000 and being charged against profit in the prior year.

7 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging (crediting):

	1998	1997
	£000	£000
Depreciation of tangible fixed assets		
- owned	605	572
- held under finance leases	90	68
Auditors' remuneration		
- audit fees	60	51
- non-audit fees	78	44
Hire of motor vehicles under operating leases	392	415
Hire of other assets under operating leases	-	40
Research and developmental costs	2,887	2,756
Foreign exchange loss	33	246
Profit on sale of tangible fixed assets	-	(2)

In addition to the non-audit fees shown above in 1997, a fee of £133,000 was paid to the auditors for work performed in connection with the company's flotation on the London Stock Exchange. This fee was debited to the share premium account as permitted by section 130 of the Companies Act 1985.

8 Staff costs

Particulars of employees (including executive directors) are shown below.

	1998	1997
	£000	£000
Wages and salaries	6,645	6,545
Social security costs	694	623
Other pension costs	590	500
	7,929	7,668

The average monthly number of persons (including executive directors) employed by the group was as follows:

	1998	1997
	Number	Number
Research, development and product support	69	68
Sales, marketing and customer support	96	98
Administration	23	20
	188	186

9 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	1998	1997
	£000	£000
Corporation tax	730	506
Overseas taxation	484	244
	1,214	750
Less relief for overseas taxation	(150)	(77)
	1,064	673
Adjustment in respect of prior years	(22)	(8)
	1,042	665

10 Dividends paid and proposed on equity and non equity shares

	1998	1997
	£000	£000
Non equity shares – Dividends paid		
Preference dividend for year ended 31 March 1997 of 6.8p per share	-	123
‘A’ ordinary dividend for year ended 31 March 1997 of 6.8p per share	-	44
	-	167
Equity shares		
Interim dividend paid	198	-
Final proposed of 2.4p (1997 – 1.6p) per 10p ordinary share	400	266
	598	433

11 Earnings per share

The calculation of earnings per share was based on the profit on ordinary activities after taxation for each year after deducting preference dividends.

In 1997 the weighted average number of shares was based on the number of ordinary, ‘A’ ordinary, ‘B’ ordinary and ‘C’ ordinary shares in issue. It also took account of the redesignation during that year of all these classes of shares as ordinary shares of £1 each, and their subdivision into ordinary shares of 10p each.

The weighted average number of shares for the year ended 31 March 1997 also took account of the 4 million new shares issued upon flotation in December 1996.

In the current year there were no changes in share capital.

The weighted average number of shares is as follows:

	Number of Shares (Thousands)
Year ended 31 March 1997	13,893
Year ended 31 March 1998	16,622

12 Tangible fixed assets

	Long leasehold land and buildings	Computer equipment	Fixtures, fittings and office equipment	Motor vehicles	Total
Group	£000	£000	£000	£000	£000
Cost					
At 1 April 1997	1,100	4,266	406	159	5,931
Additions	-	222	78	92	392
Disposals	-	(10)	-	(49)	(59)
At 31 March 1998	1,100	4,478	484	202	6,264
Depreciation					
At 1 April 1997	67	2,813	219	64	3,163
Charge for the year	22	570	41	62	695
Disposals	-	(10)	-	(49)	(59)
At 31 March 1998	89	3,373	260	77	3,799
Net book value					
At 1 April 1997	1,033	1,453	187	95	2,768
At 31 March 1998	1,011	1,105	224	125	2,465

The following are included in the net book values given above:

	1998	1997
	£000	£000
Assets held under finance leases		
- Computer equipment	120	170
- Motor vehicles	63	67
	183	237

13 Fixed asset investments

	1998		1997	
	Group	Company	Group	Company
Subsidiary undertakings	-	7,205	-	7,205
Associated undertaking	6	-	-	-
	6	7,205	-	7,205

All subsidiaries undertakings have been included in the consolidation.

During the year the group acquired 34% of the issued share capital of Cadcentre A/S. There was no goodwill on acquisition. At 31 March 1998 the parent company and the group had the following investments:

Name of undertaking	Country of incorporation or registration	Principal Activity	Description and proportion of shares held and voting rights
Cadcentre Limited	Great Britain	Software development and marketing	100% ordinary shares of £1 each
Cadcentre Inc.	USA	Software marketing	100% common stock of US$1 each
Cadcentre GmbH	Germany	Software marketing	100% ordinary shares of DM50,000 each
Cadcentre SA	France	Software marketing	100% ordinary shares 200 FF each part paid
Cadcentre East Asia Limited	Hong Kong	Non-trading	100% ordinary shares HK$1 each
Cadcentre Property Limited	Great Britain	Holding property	100% ordinary shares of £1 each
Cadcentre Pension Trustee Limited	Great Britain	Trustee company	100% ordinary shares of £1 each
Cadcentre International Limited	Great Britain	Non-trading	100% ordinary shares of £1 each
Isopipe GB Limited	Great Britain	Non-trading	100% ordinary shares of £1 each
Cadcentre A/S	Norway	Training and Consultancy	34% ordinary shares No K 500 each

All subsidiaries except Cadcentre Limited are indirectly owned.

14 Debtors

	1998		1997	
	Group	Company	Group	Company
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	6,024	-	6,026	-
Amounts owed by group undertakings	-	2,148	-	736
Dividends receivable	-	-	-	1,000
Prepayments	320	-	207	-
Accrued income	120	60	719	-
	6,464	2,208	6,952	1,736
Amounts falling due after more than one year:	-	-		-
ACT recoverable	100	100	66	66
	6,564	2,308	7,018	1,802

15 Cash and liquid resources

	1998		1997	
	Group	Company	Group	Company
	£000	£000	£000	£000
Cash at Bank and in hand	3,178	63	1,799	454
Short term deposits	1,400	-	-	-
	4,578	63	1,799	454

16 Creditors: Amounts falling due within one year

	1998		1997	
	Group	Company	Group	Company
	£000	£000	£000	£000
Obligations under finance leases	125	-	119	-
Bank overdraft and loan	-	-	-	-
Trade creditors	281	-	447	-
Corporation tax payable	793	-	574	-
ACT	150	150	108	108
Social security, PAYE and VAT	224	-	328	-
Other creditors	36	17	155	24
Accruals	1,062	48	635	-
Deferred income	2,899	-	2,305	-
Proposed dividend	400	400	266	266
	5,970	615	4,937	398

17 Creditors: Amounts falling due after more than one year

	1998		1997	
	Group	Company	Group	Company
	£000	£000	£000	£000
Obligations under finance leases	29	-	125	-
Other creditors	-	-	20	-
	29	-	145	-

Analysis of borrowings	1998		1997	
	Group	Company	Group	Company
	£000	£000	£000	£000
Amounts payable				
- on demand or within 1 year	125	-	119	-
- between 1 and 2 years	29	-	125	-
	154	-	244	-

18 Deferred taxation

	Total potential asset		Total potential asset	
	Group	Company	Group	Company
	1998	1998	1997	1997
Not provided	£000	£000	£000	£000
Tax effect of timing differences due to				
- capital allowances	54	-	30	-
- short term timing differences	-	-	-	-
	54	-	30	-

In addition, if the long leasehold property were to be sold at its current net book value, a tax liability of up to £305,000 (1997 – £350,000) may arise. No provision has been made for this liability as there is no intention to dispose of the property. If the property were to be sold in the future, the tax liability would probably be mitigated or deferred by available reliefs.

19 Called-up share capital

	1998	1997
	£000	£000
Authorised		
22,000,000 ordinary shares of 10p each	2,200	2,200
Allotted, called up and fully paid		
16,622,000 ordinary shares of 10p each	1,662	1,662

Share options

Share options have been granted to certain employees of the group (excluding directors as follows):

	Number of options	Exercise price (p)
27 November 1996	320,050	200.0
27 November 1996	320,050	50.4
13 June 1997	25,000	230.0
16 March 1998	59,500	395.0

These options are normally exerciseable in full or in part between the third and seventh anniversaries of the date of grant.

20 Reserves

	Share premium account	Goodwill reserve	Profit and loss account
Group	£000	£000	£000
At 1 April 1997	6,833	(3,934)	1,942
Retained profit for the year	-	-	1,114
Translation loss arising on consolidation	-	-	(3)
At 31 March 1998	6,833	(3,934)	3,053

	Share premium account	Profit and loss Account
Company	£000	£000
At 1 April 1997	6,833	568
Retained loss for the year	-	(102)
At 31 March 1998	6,833	466

The share premium account is not distributable.

Notes to financial statements

(continued)

21 Reconciliation of movements in group shareholders' funds

	1998	1997
	£000	£000
Profit for the financial year	1,712	1,112
Other recognised gains and losses relating to the year	(3)	(7)
	1,709	1,105
Dividends paid and proposed on equity and non equity shares	(598)	(433)
New shares issued	-	7,243
Preference shares redeemed	-	(1,800)
Opening shareholders' funds	6,503	388
Closing shareholders' funds	7,614	6,503

22 Reconciliation of operating profit to net cash inflow from operating activities

	1998	1997
	£000	£000
Operating profit	2,657	2,156
Depreciation charge	695	640
Profit on disposal of fixed assets	-	(2)
Decrease (Increase) in debtors	526	(1,865)
Increase in creditors	656	122
Net cash inflow from operating activities	4,534	1,051

23 Analysis of cash flows

	1998	1997
	£000	£000
Returns on investments and servicing of finance		
Interest received	113	34
Interest paid	-	(284)
Interest element of finance lease rentals	(16)	(26)
Compensation for early repayment of loan	-	(138)
Non equity dividends paid	-	(290)
Net cash inflow (outflow)	97	(704)

Notes to financial statements
(continued)

23 Analysis of cash flows (continued)

	1998	1997
	£000	£000
Taxation		
UK corporation tax paid	(443)	(88)
Overseas tax paid	(372)	(85)
Net cash outflow	(815)	(173)

	1998	1997
	£000	£000
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(368)	(902)
Sale of tangible fixed assets	-	47
Net cash outflow	(368)	(855)
Acquisition		
Investment in associated undertaking	(6)	-
Net cash outflow	(6)	-

	1998	1997
	£000	£000
Management of liquid resources		
Increase in short term deposits	(1,400)	-
Net cash outflow	(1,400)	-

	1998	1997
	£000	£000
Financing		
Issue of ordinary share capital	-	8,000
Share issue costs	-	(757)
Redemption of preference shares	-	(1,800)
Repayment of secured loans	-	(2,567)
Capital element of finance lease rental payments	(114)	(88)
Net cash (outflow) inflow	(114)	2,788

24 Analysis and reconciliation of net funds

	1 April 1997 £000	Cash Flow £000	Exchange differences £000	Other non Cash charges £000	31 March 1998 £000
Cash in hand and at bank	1,799	1,464	(85)	-	3,178
Treasury Deposit	-	1400	-	-	1400
Cash and liquid resources	1,799	2,864	(85)	-	4,578
Finance leases	(244)	114	-	(24)	(154)
Net funds	1,555	2,978	(85)	(24)	4,424

	1998 £000	1997 £000
Increase in cash in the year	1,464	2,107
Cash outflow from decrease in debt and lease financing	114	2,655
Cash outflow from movement in liquid resources	1,400	-
Change in net funds resulting from cash flows	2,978	4,762
New finance leases	(24)	-
Currency translation differences	(85)	-
Movement in net funds in year	2,869	4,762
Net funds (debt) at 1 April	1,555	(3,207)
Net funds at 31 March	4,424	1,555

25 Major non-cash transactions

During the year the group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £24,000 (1997: £Nil).

26 Guarantees and other financial commitments

a) Pension arrangements

The group operates a defined benefit pension plan providing benefits based on final pensionable pay to substantially all UK employees, including part time employees. Administration on behalf of the members is governed by a Trust Deed, and the funds are held and managed by a professional investment manager who is independent of the group.

Contributions to the scheme are made in accordance with advice from an independent professionally qualified actuary at rates which are calculated to be sufficient to meet the future liabilities of the scheme. The employees' contributions are fixed as a percentage of salary, the balance being made up by the employer.

The last pension valuation was carried out as at 1 April 1995 using the projected unit method, consistent with the method used in respect of 1993. The main actuarial assumptions were that:

a. salaries would increase by 7% per annum,
b. pensions in payment would increase by 3% per annum, and
c. the return on scheme investments would be 9% per annum.

The market value of the assets of the scheme was £5,703,000 and the actuarial value of the assets was sufficient to cover 99% of the benefits that had accrued to members after allowing for expected future increases in earnings. This deficit, amounting to £46,000, was paid to the fund during the year ended 31 March 1996.

The pension charge for the year included no variation to regular cost and amounted to £511,500 (1997 – £481,000).

The group also operates a defined contribution scheme for US and German employees for which the pension cost charge for the year amounted to £78,500 (1997 – £19,000).

b) Lease commitments

At 31 March 1998 the group had annual commitments under non-cancellable operating leases as follows:

	1998		1997	
	Motor vehicles	Other	Motor vehicles	Other
	£000	£000	£000	£000
Expiring within one year	47	-	1	-
Expiring between two and five years	120	-	91	-
Expiring after five years	-	89	-	89
	167	89	92	89

c) Capital commitments

At the end of the year the group and company had capital commitments contracted for but not provided for of £450,000 (1997 – £49,000).

ANNUAL REPORT 1998

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