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Chairman's Report

These are the first full year results since the successful flotation on the Alternative Investment Market of the London Stock Exchange in July 1997.

The Placing raised net funds of £1.7 million, providing additional working capital to assist us in achieving our future growth plans.

Results

As indicated in the trading statement issued on 9 December 1997, profitability declined in the second half of the financial year. Turnover for the year has increased by 7.2% to £14.56 million (1996 — £13.58 million) but pre-tax profits have fallen by 51.4% to £504,036 (1996 — £1,036,812). Earnings per share declined by 41.7% to 7.4p (1996 — 12.7p).

Dividend

In the light of these results, the Board proposes to pay a final net dividend of 0.9p per Ordinary share (1996 — 2.5p per 'A' Ordinary share) which, combined with the interim dividend of 0.6p, makes a total of 1.5p for the year per Ordinary share (1996 — 3.25p per 'A' Ordinary share). This is covered 4.6 times by profits for the financial year. The final dividend will be paid on 21 May 1998 to shareholders on the register at the close of business on 24 April 1998.

The shares are expected to be quoted ex dividend on 20 April 1998.

Trading Performance

Traditionally, Delcam has earned the major proportion of its profit in the fourth quarter, but after a satisfactory start to the financial year, trading in the latter part of the year deteriorated and, as a consequence, the overall result for the year was disappointing.

Sales in our most important market in North America grew by 50% and we also saw strong growth in Russia, Italy, Mexico, Sweden and the Czech Republic. However, as a result of the financial crisis in the Far East, sales in Japan and Korea fell by 30% and we do not now expect to see a recovery in these markets during 1998.

Whilst overall sales grew by 7.2% during the year, they were lower than expected, principally due to the problems experienced in the Far East. During 1997 we took a decision to increase expenditure to accelerate product development and to expand our overseas sales and marketing activities. These factors, together with exchange losses arising as a result of the continued strength of sterling, have combined to produce a result for the year which is well below expectations.

Overseas Investment

Since our flotation on AIM we have entered into joint ventures by investing £113,889 in France during 1997 and £109,090 in China by early 1998.

Whilst the China investment is progressing in line with expectations, performance in France has been disappointing to date but we consider this to be an important future market and expect an uplift in sales following the release of our new products.

Product Development

The existing product portfolio is continually being reviewed and the enhancements to PowerMILL and ArtCAM were well received. This year sees the launch of PowerSHAPE which is the latest development of our main product, DUCT, and we are confident that this will attract wide interest both in the UK and overseas. Whilst sales in 1998 should benefit from this launch we expect that the major improvement in sales performance will take place in 1999.

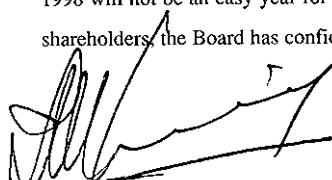
Current Trading

Sales during the first three months of the current year have been disappointing with the Company experiencing a fall off in orders from toolmakers in the UK, combined with continuing difficulties in certain overseas markets. Given that the Company invoices a substantial part of its sales in non-sterling currencies, the present high level of sterling is making life difficult in international markets. Moreover, we do not expect any significant uplift in activity in the Far East during 1998. For these reasons the Company does not expect to be profitable in the half year ended 30 June 1998.

In the light of these expectations your Board has instigated a thorough review of the Company's cost base in order to reduce current overheads, whilst maintaining product quality and the high service levels we offer to our customers.

These cost reductions, which are expected to produce significant savings, should start to come through in the second half of this year, when the Company should also benefit from sales of its new products, PowerSHAPE and PowerINSPECT. Whilst the Company expects a higher level of activity in the second half of the year, it is too early at this stage, given the uncertainties outlined above, to assume any growth in profitability over that achieved in 1997.

1998 will not be an easy year for the Group but, with leading edge products and an enthusiastic workforce, many of whom are shareholders, the Board has confidence in its future prospects.



T R M KINSEY

Chairman

Directors, Officers and Advisers

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Directors

T R M Kinsey
(Chairman, non-executive)

P T Miles
(Non-executive)

H R O Humphreys
(Managing Director)

E B Lambourne
(Technical Director)

C P Martell
(Managing Director, UK Division)

K Singh
(Financial Director)

Secretary and Registered Office

K Singh
Talbot Way
Small Heath Business Park
Birmingham
B10 0HJ

Nominated Broker

Tilney & Co.
Royal Liver Building
Pier Head
Liverpool
L3 1NY

Nominated Adviser

Arthur Andersen
1 Surrey Street
London
WC2R 2PS

Bankers

Barclays Bank PLC
PO Box No. 34
15 Colmore Row
Birmingham
B3 2BY

Solicitors

Wragge & Co.
55 Colmore Row
Birmingham
B3 2AS

Auditors

Deloitte & Touche
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN

Registrars

Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
West Midlands
B63 3DA

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group are the supply of CAD/CAM systems and services for the design of products with complex shapes and their manufacture with tooling. The Chairman's report provides a detailed review of activities, development and progress of the Group.

DIVIDENDS AND TRANSFERS TO RESERVES

An interim dividend of £35,530 was paid in the year (1996 — £23,235). The directors recommend the payment of a final dividend of £53,295 (1996 — £77,450), making a total for the year of £88,825 (1996 — £100,685). Profits transferred to reserves are £317,126 (1996 — £555,144).

LAND AND BUILDINGS

A valuation of the Company's land and buildings was carried out on 15 April 1997 by Lambert Smith Hampton, Consultant Surveyors and Valuers, at open market value with existing use basis resulting in a surplus of £221,366 on 31 December 1996 net book value. This surplus has not been incorporated in these financial statements as the directors do not anticipate realising the property in the foreseeable future.

DIRECTORS AND THEIR INTERESTS

Included on the Board of directors are two non-executive directors, a number which is considered appropriate for a Group of this size.

T R M Kinsey, 68, is the non-executive chairman. He joined the Company as Chairman in 1989. He has been a non-executive director of several companies and is a fellow of the Royal Academy of Engineering.

P T Miles, 57, was appointed as a non-executive director in April 1997. He is a former corporate finance partner in Deloitte & Touche. He serves as non-executive director to several companies.

The directors who served during the year and the beneficial and family interests of those serving at the end of the year in the shares of the Company are as follows:

	Ordinary shares of 10p each 1997	'A' Ordinary shares of 10p each 1996 or date of appointment	'C' Ordinary shares of 10p each 1997	1996 or date of appointment
T R M Kinsey	33,330	21,000	1,667	—
P T Miles (appointed 24 April 1997)	8,333	—	—	—
H R O Humphreys	940,576	567,142	1,667	—
E B Lambourne	920,237	567,142	1,667	—
C P Martell	160,003	101,000	1,667	—
K Singh	76,363	47,020	1,667	—

As at 31 March 1998 there has been no change in directors' shareholdings.

In accordance with the Company's Articles of Association T R M Kinsey and E B Lambourne retire by rotation and, being eligible, offer themselves for re-election. T R M Kinsey has a service contract which expires by serving 6 months' notice of termination and E B Lambourne has a service contract which expires by serving 12 months' notice of termination.

Having been appointed during the year by the Board, P T Miles offers himself for election. He has a service contract which expires by serving 6 months' notice of termination.

Directors' Report (continued)

Share option schemes

The directors have implemented three Company Share Option Schemes during the year.

(i) *Approved Scheme*

On 6 June 1997 approved share options were granted in respect of Ordinary shares (formerly 'A' Ordinary shares), which represent 230,386 Ordinary shares in aggregate, to employees and directors at an exercise price of 280p (168p following dilution resulting from the bonus issue on 15 July 1997) per Ordinary share. The options are exercisable within the period of 3 to 10 years following the date of grant.

(ii) *Unapproved Scheme*

On 6 June 1997 unapproved share options were granted in respect of Ordinary shares (formerly 'A' Ordinary shares), which represent 25,890 Ordinary shares in aggregate, to employees and directors at an exercise price of 260p (diluted to 156p) per Ordinary share, and Ordinary shares which represent 19,199 Ordinary shares in aggregate to employees and directors at an exercise price of 20p (diluted to 12p) per Ordinary share. The options are exercisable within the period of 3 to 10 years following the date of grant.

The unapproved scheme is for employees who were granted options for which the aggregate market price of Ordinary shares exceeds £30,000.

(iii) *Share Save Scheme*

'C' Ordinary shares have been issued to employees and directors as per note 21. These are not fully paid. Payment is being made over four years.

Directors have no interests in the unapproved share option scheme, interests in 'C' Ordinary shares as above, and interests in the approved share option scheme are as follows:

	Granted during	Exercise	Date	
	the year	price	from which	Expiry date
			exercisable	
T R M Kinsey	3,333	168p	6 June 2000	5 June 2007
H R O Humphreys	3,333	168p	6 June 2000	5 June 2007
E B Lambourne	3,333	168p	6 June 2000	5 June 2007
C P Martell	3,333	168p	6 June 2000	5 June 2007
K Singh	3,333	168p	6 June 2000	5 June 2007

As at 31 March 1998 no further share options have been granted to the directors.

At 31 December 1997 the market price of the shares was 165.0p. During the year the shares traded between a low of 162.5p and a high of 270.0p.

SERVICE CONTRACTS

Executive directors have service contracts with the Company that expire by serving 12 months' notice of termination.

Non-executive directors have service contracts with the Company that expire by serving 6 months' notice of termination.

DELCAM EMPLOYEE BENEFIT TRUST

On 25 February 1997 the Company approved, adopted and established the Delcam Employee Benefit Trust. A summary of the Trust Deed is as follows:

- It has been established that the original trustee is a company wholly owned and controlled by Delcam and called Delcam Trustees Limited.
- A beneficiary of the Delcam Employee Benefit Trust is any person who at a material time is a bona fide employee, a former employee of any Group company, or the husband, wife, widow, widower or child (except child under 18 years of age) of any bona fide employee or former employee of a Group company.
- Any company within the Group may from time to time at its sole discretion transfer pay or credit sums of money to the Trustees to be held in the terms of the Delcam Employee Benefit Trust.
- The primary objectives of the Delcam Employee Benefit Trust are to hold the capital and income of the trust fund upon trust for the beneficiaries.

The Trustees may accumulate the income of the trust fund by investing it and may apply the income of the trust fund to or for the benefit of all beneficiaries as the Trustees may from time to time in their absolute discretion think fit.

SUBSTANTIAL SHAREHOLDINGS

At 31 March 1998, so far as the Company is aware, the only persons, other than directors, holding an interest comprising 3% or more in the Ordinary share capital of the Company were:

	Number of Ordinary shares	Number of 'C' Ordinary shares	Percentage of issued share capital
Steve Hobbs	287,898	1,667	4.79
Nigel Whalley	396,713	1,667	6.59

EMPLOYEES

It is Group policy to provide employment opportunities and retraining where possible for disabled people and to care for people who become disabled whilst in the Group's employment. The Group operates an equal opportunities employment policy.

The Group has well-established structures and procedures for consultation, communication and negotiation with its employees, appropriate to the company concerned. Importance is placed on this aspect of the business and all managers have a responsibility to this end.

POLICY ON PAYMENT OF CREDITORS

It is the Company's practice to agree payment terms with its suppliers. Payment is made when it can be confirmed that goods and/or services have been provided in accordance with the relevant contractual conditions. At 31 December 1997, the Group's trade creditors represented 44 days (1996: 44 days) of annual purchases.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board


K SINGH

Secretary

Statement of 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 as at the end of the financial year 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
- 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, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Governance

As a company listed on the Alternative Investment Market of the London Stock Exchange, Delcam Plc is not required to comply with the Code of Best Practice ("the Code") adopted by the London Stock Exchange. However, the Board of Directors has considered the effects of the Code and progress has been made in implementing the Code, where the directors consider it appropriate.

An Audit Committee comprising the two non-executive directors Mr T R M Kinsey and Mr P T Miles has been formed and now meets at least twice a year.

The directors also acknowledge their responsibility for the Group's system of internal financial control of which the objectives are:

- a) Safeguarding group assets.
- b) Ensuring proper accounting records are maintained.
- c) Ensuring that the financial information used within the business and for publication is reliable.

The key procedures that have operated during the financial year are set out below:

- a) The Board meets regularly to review all aspects of the Group's performance concentrating mainly on financial performance, business risks and development.
- b) A number of matters are reserved for the Board's specific approval including major capital expenditure, banking and dividend policy.

The Board has not formally reviewed the effectiveness of the systems of internal financial control. During the forthcoming year it is, however, intended to introduce formal procedures in respect of all the Group activities especially those overseas to further improve financial control.

After making enquiries, the Board has formed a judgement at the time of approving the financial statements that there is reasonable expectation that the Group has adequate resources to continue in operational existence in the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

In addition, the Board has formed a Remuneration Committee which consists of the two non-executive directors, Mr T R M Kinsey and Mr P T Miles.

At present the committee annually reviews the level of directors' remuneration packages. Full disclosure of directors' remuneration is provided in note 3 to the financial statements.

Auditors' Report

to the members of Delcam Plc

We have audited the financial statements on pages 10 to 30 which have been prepared under the accounting policies set out on pages 17 and 18.

Respective responsibilities of directors and auditors

As described on page 7, the Company's directors are responsible for the preparation of 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.

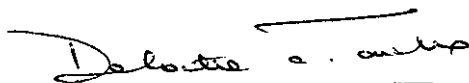
Basis of opinion

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 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 the Group as at 31 December 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and Registered Auditors

Birmingham

16 April 1998

Consolidated Profit and Loss Account

YEAR ENDED 31 DECEMBER 1997

	Note	1997 £	1996 £
TURNOVER	2	14,556,443	13,579,346
Cost of sales		<u>(6,540,167)</u>	<u>(6,225,598)</u>
Gross profit		8,016,276	7,353,748
Distribution costs		(3,166,714)	(2,394,438)
Administrative expenses		(4,257,344)	(3,837,962)
Other operating expenses		<u>(3,208)</u>	<u>—</u>
OPERATING PROFIT	4	589,010	1,121,348
Income from interest in associates		48,581	56,595
Interest receivable and similar income	5	21,620	819
Interest payable and similar charges	6	<u>(155,175)</u>	<u>(141,950)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		504,036	1,036,812
Tax on profit on ordinary activities	7	<u>(171,805)</u>	<u>(335,724)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		332,231	701,088
Equity minority interests	20	<u>73,720</u>	<u>(45,259)</u>
PROFIT FOR THE FINANCIAL YEAR	8	405,951	655,829
Dividends	9	<u>(88,825)</u>	<u>(100,685)</u>
RETAINED PROFIT FOR THE YEAR	22	<u>317,126</u>	<u>555,144</u>
Profit per ordinary share of 10p	10	<u>7.4p</u>	<u>12.7p</u>
Net dividend per share of 10p	9	<u>1.5p</u>	<u>3.25p</u>

All activities derive from continuing operations.

Consolidated Balance Sheet

31 DECEMBER 1997

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	Note	1997		1996	
		£	£	£	£
FIXED ASSETS					
Tangible assets	11		4,251,111		2,586,329
Investments	12		<u>227,762</u>		<u>254,789</u>
			4,478,873		2,841,118
CURRENT ASSETS					
Stocks	13	172,676		137,491	
Debtors	14	4,991,438		3,578,383	
Cash at bank and in hand		<u>544,528</u>		<u>495,175</u>	
		5,708,642		4,211,049	
CREDITORS: amounts falling due within one year	15	<u>(3,672,907)</u>		<u>(3,432,136)</u>	
NET CURRENT ASSETS			<u>2,035,735</u>		<u>778,913</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			6,514,608		3,620,031
CREDITORS: amounts falling due after more than one year	16		(1,299,152)		(850,299)
DEFERRED INCOME	19		(1,049,705)		(718,191)
EQUITY MINORITY INTERESTS	20		<u>(61,278)</u>		<u>(110,090)</u>
			<u>4,104,473</u>		<u>1,941,451</u>
CAPITAL AND RESERVES					
Called up share capital	21		604,823		309,800
Share premium account	22		1,809,053		14,550
Revaluation reserve	22		194,252		198,769
Capital redemption reserve	22		—		75,000
Other reserves	22		(28,038)		(15,991)
Profit and loss account	22		<u>1,524,383</u>		<u>1,359,323</u>
EQUITY SHAREHOLDERS' FUNDS	23		<u>4,104,473</u>		<u>1,941,451</u>

These financial statements were approved by the Board of Directors on 6 April 1998.

Signed on behalf of the Board of Directors

H R O HUMPHREYS

Director

Balance Sheet

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31 DECEMBER 1997

	Note	1997		1996	
		£	£	£	£
FIXED ASSETS					
Tangible assets	11		3,931,576		2,413,050
Investments	12		<u>676,458</u>		<u>564,542</u>
			4,608,034		2,977,592
CURRENT ASSETS					
Stocks	13	128,697		77,074	
Debtors	14	4,780,470		3,407,795	
Cash at bank and in hand		<u>386,797</u>		<u>308,411</u>	
		5,295,964		3,793,280	
CREDITORS: amounts falling due					
within one year	15	<u>(3,121,092)</u>		<u>(3,014,544)</u>	
NET CURRENT ASSETS			<u>2,174,872</u>		<u>778,736</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			6,782,906		3,756,328
CREDITORS: amounts falling due					
after more than one year	16		(1,299,152)		(850,299)
DEFERRED INCOME	19		<u>(1,049,705)</u>		<u>(718,191)</u>
			<u>4,434,049</u>		<u>2,187,838</u>
CAPITAL AND RESERVES					
Called up share capital	21		604,823		309,800
Share premium account	22		1,809,053		14,550
Revaluation reserve	22		194,252		198,769
Capital redemption reserve	22		—		75,000
Profit and loss account	22		<u>1,825,921</u>		<u>1,589,719</u>
EQUITY SHAREHOLDERS' FUNDS			<u>4,434,049</u>		<u>2,187,838</u>

These financial statements were approved by the Board of Directors on 6 April 1998.

Signed on behalf of the Board of Directors

H R O HUMPHREYS

Director

Statement of Total Recognised Gains and Losses

YEAR ENDED 31 DECEMBER 1997

	Group	
	1997	1996
	£	£
Profit attributable to members of the Company	405,951	655,829
Foreign exchange translation differences on foreign currency net investment in subsidiaries and associated undertakings	(12,047)	(33,201)
Total recognised gains for the year	<u>393,904</u>	<u>622,628</u>

Note of Historical Cost Profit and Losses

YEAR ENDED 31 DECEMBER 1997

	1997	1996
	£	£
Profit on ordinary activities before taxation	504,036	1,036,812
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	<u>4,517</u>	<u>4,517</u>
Historical cost profit on ordinary activities before taxation	<u>508,553</u>	<u>1,041,329</u>
Historical cost profit for the year retained after taxation and dividends	<u>321,643</u>	<u>559,661</u>

Consolidated Cash Flow Statement

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YEAR ENDED 31 DECEMBER 1997

	Note	1997 £	1996 £
Cash (outflow)/inflow from operating activities	(i)	(237,279)	1,523,570
Returns on investments and servicing of finance	(ii)	(133,555)	(141,131)
Taxation		(248,470)	(180,564)
Capital expenditure and financial investment	(ii)	(1,175,887)	(316,323)
Equity dividends paid		<u>(112,980)</u>	<u>(92,940)</u>
Cash (outflow)/inflow before use of liquid resources and financing		(1,908,171)	792,612
Financing	(ii)	<u>1,560,242</u>	<u>(439,939)</u>
(Decrease)/increase in cash in the year		<u>(347,929)</u>	<u>352,673</u>
Reconciliation of net cash flow to movement in net debt	(iii)	1997 £	1996 £
(Decrease)/increase in cash in the year		(347,929)	352,673
Cash inflow from increase in debt and lease financing		<u>188,574</u>	<u>439,939</u>
Change in net debt resulting from cash flows		(159,355)	792,612
New finance leases		(922,379)	(378,949)
Translation difference		<u>(6,801)</u>	<u>—</u>
Movement in net debt in the year		(1,088,535)	413,663
Net debt at 1 January		<u>(883,012)</u>	<u>(1,296,675)</u>
Net debt at 31 December		<u>(1,971,547)</u>	<u>(883,012)</u>

Notes to the Consolidated Cash Flow Statement

YEAR ENDED 31 DECEMBER 1997

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(i) RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	1997	1996
	£	£
Operating profit	589,010	1,121,348
Depreciation	775,205	573,926
Release of government grants	(110,743)	(60,741)
(Profit)/loss on sale of tangible fixed assets	(29,328)	4,330
(Increase)/decrease in stocks	(41,444)	29,666
Increase in debtors	(1,392,934)	(793,381)
(Decrease)/increase in creditors	(35,093)	648,422
Minority interest — exchange differences	8,048	—
Net cash (outflow)/inflow from operating activities	(237,279)	1,523,570

(ii) ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	1997	1996
	£	£
Returns on investments and servicing of finance		
Interest received	21,620	819
Interest paid	(94,980)	(95,494)
Interest element of finance lease rental payments	(60,195)	(46,456)
Net cash outflow for returns on investments and servicing of finance	(133,555)	(141,131)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,589,930)	(331,274)
Proceeds from disposal of tangible fixed assets	69,145	20,998
Government grants received	350,000	—
Repayment of loan by associated undertakings	—	3,700
Payments to acquire investments	(5,102)	(9,747)
Net cash outflow for capital expenditure and financial investment	(1,175,887)	(316,323)
Financing		
Loan repayments	(125,000)	(125,000)
Issue of share capital, net of costs	1,748,816	—
Loan advances	400,000	—
Capital element of finance lease repayments	(463,574)	(314,939)
Net cash inflow/(outflow) from financing	1,560,242	(439,939)

Notes to the Consolidated Cash Flow Statement (continued)

(iii) ANALYSIS OF NET DEBT

	At 1 Jan 1997	Cash flow	Exchange movements	Other non-cash changes	31 Dec 1997
	£	£	£	£	£
Cash in hand and at bank	495,175	64,554	(15,201)	—	544,528
Bank overdraft	(79,590)	(412,483)	8,400	—	(483,673)
		(347,929)			
Debt due within one year	(125,000)	125,000	—	(225,000)	(225,000)
Debt due after one year	(525,000)	(400,000)	—	225,000	(700,000)
Finance leases	(648,597)	463,574	—	(922,379)	(1,107,402)
		188,574			
	(883,012)	(159,355)	(6,801)	(922,379)	(1,971,547)

(iv) 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 £922,379 (1996 — £378,949).

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1997

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of land and buildings.

Basis of consolidation

The consolidated accounts include the audited financial statements of the Company and all its subsidiaries for the year ended 31 December 1997.

Turnover

Turnover is the total amount, excluding value added tax, of sales invoices by the Group to third parties during the year.

Hardware and software sales are taken as turnover at the point of dispatch.

Maintenance income invoiced in advance for fixed periods is taken to income in equal monthly instalments over the period of the contract.

Turnover also includes income from collaborative research projects in order to match such income against the related expenditure.

Acquisitions

On the acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the Group's share of net tangible assets. Where the cost of acquisition exceeds the values attributable to such net assets, the difference is treated as purchased goodwill and is written off directly to reserves in the year of acquisition. Where it is less, the difference is treated as an unrealised capital reserve until the underlying net assets have been realised by the Group. The cumulative amount of goodwill written off against reserves as at 31 December 1997 amounts to £50,468.

Tangible fixed assets

Depreciation is provided to write off the cost, less estimated residual value, of all fixed assets, over their expected useful lives.

The rates used are as follows:

Long leasehold buildings	2% straight line
Plant and machinery	15% straight line
Computer equipment	20%-33% straight line
Fixtures and fittings	20% straight line
Motor vehicles	25% straight line
Ownership of software	5% straight line

Stock and work-in-progress

Stock and work-in-progress are valued at the lower of cost and net realisable value. Cost is calculated as follows:

Work-in-progress and finished goods — Direct cost of production plus attributable overheads according to stage of completion.

Government grants

These are received for capital expenditure and revenue costs. This income is amortised over seven years.

Investments

Except as stated below, investments held as fixed assets are stated at cost less provision for permanent diminution in value.

In the consolidated accounts, shares in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the Group's share of the pre-tax profits and attributable taxation of the associates

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 1997

1 ACCOUNTING POLICIES (continued)

Investments (continued)

based on audited financial statements for the year ended 31 December 1997. In the consolidated balance sheet, the shares in associates are shown at the Group's share of the net assets, excluding goodwill, of the associates.

Foreign currencies

It is the policy of the Group to translate the accounts of its foreign subsidiary undertakings to sterling at the rates of exchange ruling at the close of the financial year. Differences arising from changes in exchange rates are taken to reserves.

Exchange differences on normal trading transactions are reflected in the profits of the year.

Deferred taxation

Deferred taxation is provided at the anticipated rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Leased assets

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation.

Rental charges for operating leases are written off in the period to which they relate.

Pension costs

The Company operates a defined benefit pension scheme covering the majority of its employees. The scheme is in the form of a trustee administered scheme held completely independently from the Company's finances. The cost of the pension scheme is charged to the profit and loss account over the expected service lives of participating employees.

2 ANALYSIS OF TURNOVER, OPERATING PROFITS AND NET ASSETS

(a) The turnover attributable to each of the Group's geographical markets is:

	1997	1996
	£	£
United Kingdom	5,699,135	5,561,133
Rest of the World	8,857,308	8,018,213
	<u>14,556,443</u>	<u>13,579,346</u>

(b) A geographical analysis of turnover, operating profit and net assets by location is set out below:

	Turnover		Operating profit		Net assets	
	1997	1996	1997	1996	1997	1996
	£	£	£	£	£	£
United Kingdom	10,977,967	10,313,381	746,556	1,081,215	3,946,007	1,795,672
Rest of the World	3,578,476	3,265,965	(157,546)	40,133	158,466	145,779
	<u>14,556,443</u>	<u>13,579,346</u>	<u>589,010</u>	<u>1,121,348</u>	<u>4,104,473</u>	<u>1,941,451</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 1997

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3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1997	1996
	£	£
Directors' emoluments		
Fees	17,303	8,483
Management remuneration	211,139	154,137
Contributions in respect of a defined benefit pension scheme	16,471	10,311
	<u>244,913</u>	<u>172,931</u>
Directors' emoluments above include taxable benefits and Company pension contributions.		
Remuneration of highest paid director (salary and taxable benefits)	57,091	52,952
Contributions in respect of a defined benefit pension scheme	4,463	3,555
	<u>61,554</u>	<u>56,507</u>
Accrued pension benefits of highest paid director at 31 December 1997		<u>19,833</u>
Increase in accrued pension of highest paid director during the year		<u>1,747</u>
Increase in transfer value of highest paid director during the year		<u>9,759</u>
	No.	No.
Number of directors who are members of a defined benefit pension scheme	<u>4</u>	<u>4</u>
Average number of persons employed		
Development and production staff	128	109
Sales and distribution staff	68	50
Administration staff	31	20
	<u>227</u>	<u>179</u>
	£	£
Staff costs during the year (including directors)		
Wages and salaries	5,705,924	4,484,452
Social security costs	536,899	413,423
Pension costs	289,486	197,685
	<u>6,532,309</u>	<u>5,095,560</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 1997

4 OPERATING PROFIT

Operating profit is after charging:

	1997	1996
	£	£
Depreciation and amortisation		
Owned assets	373,436	308,602
Leased assets	401,769	265,324
Rentals under operating leases		
Hire of plant and machinery	158,585	158,529
Other	139,621	113,951
Auditors' remuneration:		
Audit services	19,738	17,198
Non-audit services	27,710	11,944
	<u>110,743</u>	<u>60,741</u>
and crediting the following:		
Rental income	4,800	48,840
Government grants released to profit and loss account	<u>110,743</u>	<u>60,741</u>

5 INTEREST RECEIVABLE

	1997	1996
	£	£
Bank deposit interest	21,427	492
Other interest	193	327
	<u>21,620</u>	<u>819</u>

6 INTEREST PAYABLE AND SIMILAR CHARGES

	1997	1996
	£	£
Bank overdraft interest	25,381	26,228
Other loans:		
Repayable within five years	69,599	69,266
Finance charges payable — finance leases	60,195	46,456
	<u>155,175</u>	<u>141,950</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 1997

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

Taxation is based on profits for the year and comprises:

	1997	1996
	£	£
Corporation tax at 31.5% less marginal relief (1996 — 33%)	110,000	284,999
Deferred taxation	—	14,110
Associated undertakings	(4,775)	13,778
	<u>105,225</u>	<u>312,887</u>
Under/(over) provision for earlier years:		
Deferred taxation	—	2,140
Corporation tax	(3,045)	(8,363)
	<u>102,180</u>	<u>306,664</u>
Overseas taxation	<u>69,625</u>	<u>29,060</u>
	<u>171,805</u>	<u>335,724</u>

8 PROFIT OF PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's profit for the financial year amounted to £442,556 (1996 — £657,417).

9 DIVIDENDS

	1997	1996
	£	£
Interim paid		
0.6p per Ordinary share (1996 — 0.75p per 'A' Ordinary share)	35,530	23,235
Final proposed		
0.9p per Ordinary share (1996 — 2.5p per 'A' Ordinary share)	<u>53,295</u>	<u>77,450</u>
	<u>88,825</u>	<u>100,685</u>

10 PROFIT PER ORDINARY SHARE

Profit per Ordinary share is calculated on profit after taxation and minority interests of £405,951 (1996 — £655,829) and on a share capital of 5,512,917 (1996 — 5,163,333) Ordinary shares of 10p each. The 'C' Ordinary shares do not form part of this calculation.

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 1997

11 TANGIBLE FIXED ASSETS

	Long leasehold buildings	Ownership of software	Plant and machinery	Office equipment	Motor vehicles	Total
(a) Group	£	£	£	£	£	£
Cost or valuation						
At 1 January 1997	1,308,420	600,000	658,714	2,364,292	59,774	4,991,200
Additions	947,341	73,347	325,591	1,152,648	13,382	2,512,309
Disposals	—	—	(60,401)	(420,521)	(29,833)	(510,755)
Exchange differences	—	(592)	—	(54,510)	(5,411)	(60,513)
At 31 December 1997	<u>2,255,761</u>	<u>672,755</u>	<u>923,904</u>	<u>3,041,909</u>	<u>37,912</u>	<u>6,932,241</u>
Accumulated depreciation						
At 1 January 1997	129,786	420,000	479,871	1,345,926	29,288	2,404,871
Charge for the year	26,168	48,196	57,525	633,612	9,704	775,205
Disposals	—	—	(32,320)	(422,168)	(16,450)	(470,938)
Exchange differences	—	(147)	—	(23,826)	(4,035)	(28,008)
At 31 December 1997	<u>155,954</u>	<u>468,049</u>	<u>505,076</u>	<u>1,533,544</u>	<u>18,507</u>	<u>2,681,130</u>
Net book value						
At 31 December 1997	<u>2,099,807</u>	<u>204,706</u>	<u>418,828</u>	<u>1,508,365</u>	<u>19,405</u>	<u>4,251,111</u>
At 31 December 1996	<u>1,178,634</u>	<u>180,000</u>	<u>178,843</u>	<u>1,018,366</u>	<u>30,486</u>	<u>2,586,329</u>
(b) Company						
Cost or valuation						
At 1 January 1997	1,308,420	600,000	658,714	2,105,076	43,110	4,715,320
Additions	947,341	—	325,591	918,026	13,382	2,204,340
Disposals	—	—	(60,401)	(414,933)	(29,833)	(505,167)
At 31 December 1997	<u>2,255,761</u>	<u>600,000</u>	<u>923,904</u>	<u>2,608,169</u>	<u>26,659</u>	<u>6,414,493</u>
Accumulated depreciation						
At 1 January 1997	129,786	420,000	479,871	1,253,324	19,289	2,302,270
Charge for the year	26,168	30,000	57,525	531,227	6,665	651,585
Disposals	—	—	(32,320)	(422,168)	(16,450)	(470,938)
At 31 December 1997	<u>155,954</u>	<u>450,000</u>	<u>505,076</u>	<u>1,362,383</u>	<u>9,504</u>	<u>2,482,917</u>
Net book value						
At 31 December 1997	<u>2,099,807</u>	<u>150,000</u>	<u>418,828</u>	<u>1,245,786</u>	<u>17,155</u>	<u>3,931,576</u>
At 31 December 1996	<u>1,178,634</u>	<u>180,000</u>	<u>178,843</u>	<u>851,752</u>	<u>23,821</u>	<u>2,413,050</u>

Land and buildings were revalued in 1991 at open market value on the basis of existing use at £1,285,000. If the property had not been revalued long leasehold land and buildings would have been carried in the balance sheet at 31 December 1997 at £1,905,716 (1996 — £980,026).

Leased assets

Included in tangible assets are assets held under finance leases and hire-purchase contracts with a net book value of £1,116,282 (1996 — £637,882).

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 1997

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12 INVESTMENTS HELD AS FIXED ASSETS

(a) Group	Associated undertakings not consolidated £	Interests in associated undertakings £	Other investments £	Total £	
Cost					
At 1 January 1997	105,350	74,127	20,000	199,477	
Additions in year	5,102	—	—	5,102	
Exchange movement	—	(21,593)	—	(21,593)	
At 31 December 1997	110,452	52,534	20,000	182,986	
Share of profits retained					
At 1 January 1997	—	66,559	—	66,559	
Profits retained in year	—	36,006	—	36,006	
Exchange movement	—	(19,236)	—	(19,236)	
At 31 December 1997	—	83,329	—	83,329	
Provisions					
At 1 January 1997	11,247	—	—	11,247	
Provided in the year	27,306	—	—	27,306	
At 31 December 1997	38,553	—	—	38,553	
Net book value					
At 31 December 1997	71,899	135,863	20,000	227,762	
At 31 December 1996	94,103	140,686	20,000	254,789	
(b) Company	Shares in Group undertakings £	Loans to Group undertakings £	Shares in associated undertakings £	Other investments £	Total £
Cost					
At 1 January 1997	342,502	55,849	163,623	20,000	581,974
Additions in year	134,545	2,116	5,102	—	141,763
Reclassification	27,306	(27,306)	—	—	—
Repayment during year	—	(2,541)	—	—	(2,541)
At 31 December 1997	504,353	28,118	168,725	20,000	721,196
Provisions					
At 1 January 1997	—	6,185	11,247	—	17,432
Provided in the year	—	—	27,306	—	27,306
At 31 December 1997	—	6,185	38,553	—	44,738
Net book value					
At 31 December 1997	504,353	21,933	130,172	20,000	676,458
At 31 December 1996	342,502	49,664	152,376	20,000	564,542

Notes to the Accounts (continued)

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YEAR ENDED 31 DECEMBER 1997

12 INVESTMENTS HELD AS FIXED ASSETS (continued)

Group undertakings

The Company has shareholdings in the following companies:

Group undertaking	Shareholding	Country of incorporation/ registration and operation	Investment value £
Delcam Systems Limited	100%	England	2
Delcam Italia SRL	90%	Italy	90,369
Delcam Malaysia	100%	Malaysia	41,086
Delcam International GmbH	100%	Germany	22,299
Delcam Japan	52%	Japan	206,695
Delcam Inc	100%	Canada	30,013
Delcam France	90%	France	113,889
			<u>504,353</u>

Delcam Systems Limited is a dormant company. The other Group undertakings carry on the business of the supply of CAD/CAM systems to overseas markets.

The Company has paid set-up costs in relation to Delcam Inc. of £30,013, of which £29,971 has been written off as goodwill on consolidation. In addition, the Company incurred set-up costs amounting to £113,889 in relation to Delcam France.

Associated undertakings

The Company has shareholdings in the following active companies which have been accounted for on an equity basis:

Associated undertaking	Shareholding	Country of incorporation and operation
Hankook Delcam	30%	Korea
Delcam (North) Programming Services	30%	England
Delcam Taiwan	22%	Taiwan
Delcam Espania	20%	Spain

Each of the associated undertakings carries on the business of agents supplying CAD/CAM systems to overseas markets, except Delcam (North) Programming Services who supply CAD/CAM programming services in the UK.

(c) Information relating to associated undertakings not consolidated

Reliable information relating to the net assets and the profit or loss for the year for certain associated undertakings listed below is not readily available.

Associated undertaking	Shareholding	Country of incorporation and operation
Delimex Limited	50%	Bulgaria
Delcam Spb	50%	Russia
Delcam Ural	45%	Russia
Delcam BRNO	33%	Czechoslovakia

The directors are of the opinion that the value of the investments and amounts receivable are not less than the amounts stated at the balance sheet date and the figures are not material.

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 1997

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12 INVESTMENTS HELD AS FIXED ASSETS (continued)

(d) Related party transactions

During the year the Company made transactions during the course of normal trading with related parties as detailed below:

	1997	1996
	£	£
Sales to Group companies	1,203,237	1,033,843
Sales to associated undertakings	811,672	1,201,417
Purchases from Group undertakings	109,170	9,306
Purchases from associated undertakings	2,894	252,216

The year end balances with related parties are included within notes 14 and 15.

13 STOCKS

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Work in progress	45,747	35,550	45,747	35,550
Finished goods and goods for resale	126,929	101,941	82,950	41,524
	<u>172,676</u>	<u>137,491</u>	<u>128,697</u>	<u>77,074</u>

14 DEBTORS

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Trade debtors	3,957,666	3,124,336	2,822,951	2,404,006
Amounts owed by subsidiary undertakings	—	—	1,018,392	603,480
Amounts owed by undertakings in which the				
Company has a participating interest	471,990	272,445	471,990	272,445
Other debtors	280,506	48,496	190,765	324
Advance corporation tax recoverable	13,324	19,362	13,324	19,362
Prepayments and accrued income	267,952	113,744	263,048	108,178
	<u>4,991,438</u>	<u>3,578,383</u>	<u>4,780,470</u>	<u>3,407,795</u>

Notes to the Accounts (continued)

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YEAR ENDED 31 DECEMBER 1997

15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Bank overdraft (note 17)	483,673	79,590	411,567	—
Bank loans (note 17)	225,000	125,000	225,000	125,000
Payments received on account	—	427,281	—	427,281
Trade creditors	1,169,904	894,577	955,309	734,708
Amounts owed to undertakings in which the Company has a participating interest	60,549	75,343	60,549	75,343
Other taxation and social security	324,625	278,096	221,597	216,031
Other creditors	544,770	234,430	401,109	161,469
Corporation tax	116,466	207,331	116,466	207,331
Overseas taxation	—	37,901	—	—
Accruals and deferred income	186,375	671,839	169,122	671,839
Finance lease obligations (note 17)	508,250	323,298	507,078	318,092
Dividends payable	53,295	77,450	53,295	77,450
	<u>3,672,907</u>	<u>3,432,136</u>	<u>3,121,092</u>	<u>3,014,544</u>

16 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Bank loans (note 17)	700,000	525,000	700,000	525,000
Finance lease obligations (note 17)	599,152	325,299	599,152	325,299
	<u>1,299,152</u>	<u>850,299</u>	<u>1,299,152</u>	<u>850,299</u>

17 BORROWINGS

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Bank overdraft	483,673	79,590	411,567	—
Bank loan 1	125,000	250,000	125,000	250,000
Bank loan 2	400,000	400,000	400,000	400,000
Bank loan 3	400,000	—	400,000	—
Obligations under finance lease contracts	1,107,402	648,597	1,106,230	643,391
	<u>2,516,075</u>	<u>1,378,187</u>	<u>2,442,797</u>	<u>1,293,391</u>
Less: Amounts falling due within one year	(1,216,923)	(527,888)	(1,143,645)	(443,092)
Amounts falling due after more than one year	<u>1,299,152</u>	<u>850,299</u>	<u>1,299,152</u>	<u>850,299</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 1997

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17 BORROWINGS (continued)

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Analysis of repayments:				
Bank loans and overdraft				
Within one year or on demand	708,673	204,590	636,567	125,000
Between one and two years	133,332	225,000	133,332	225,000
Between two and five years	566,668	300,000	566,668	300,000
Obligations under finance lease contracts				
Within one year	508,250	323,298	507,078	318,092
Between one and two years	422,651	208,791	422,651	208,791
Between two and five years	176,501	116,508	176,501	116,508
	<u>2,516,075</u>	<u>1,378,187</u>	<u>2,442,797</u>	<u>1,293,391</u>

The first loan is repayable by four equal annual instalments commencing on 23 October 1995 and interest is charged at 11% per annum.

The second loan is repayable by quarterly instalments over a three year period commencing 1 April 1998 and interest is charged at 1.75% above Barclays Bank PLC base rate.

The third loan is repayable by quarterly instalments over a seven year period commencing 30 September 1999 and interest is charged at 1.75% above Barclays Bank PLC base rate.

The bank loans and overdraft are secured by fixed and floating charges over the Company's tangible and intangible assets.

18 PROVISION FOR LIABILITIES AND CHARGES

The amounts of deferred taxation provided and not provided in the accounts are:

	Provided		Not provided	
	1997	1996	1997	1996
	£	£	£	£
Group				
Capital allowances in excess of depreciation	—	—	97,000	106,000
Other timing differences	—	—	(29,000)	(42,000)
Taxation on valuation surplus	—	—	69,000	69,000
	<u>—</u>	<u>—</u>	<u>137,000</u>	<u>133,000</u>
Company				
Capital allowances in excess of depreciation	—	—	97,000	106,000
Other timing differences	—	—	(29,000)	(42,000)
Taxation on valuation surplus	—	—	69,000	69,000
	<u>—</u>	<u>—</u>	<u>137,000</u>	<u>133,000</u>

Notes to the Accounts (continued)

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YEAR ENDED 31 DECEMBER 1997

19 DEFERRED INCOME

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Maintenance income to be recognised within one year	710,634	611,761	710,634	611,761
Maintenance income to be recognised after more than one year	4,996	11,612	4,996	11,612
Other income to be recognised within one year	74,475	60,743	74,475	60,743
Other income to be recognised after more than one year	259,600	34,075	259,600	34,075
	<u>1,049,705</u>	<u>718,191</u>	<u>1,049,705</u>	<u>718,191</u>

Deferred maintenance income represents amounts invoiced in advance in respect of contracts for the provision of hardware and software maintenance. Other deferred income represents grant income received being amortised over seven years.

20 EQUITY MINORITY INTERESTS

At 1 January 1997	£
Share of profits for the year	110,090
Difference on exchange	(73,720)
	<u>24,908</u>
At 31 December 1997	<u>61,278</u>

21 CALLED UP SHARE CAPITAL

	1997	1996
	£	£
Authorised		
7,750,000 (1996 — nil) Ordinary shares of 10p each	775,000	—
Nil (1996 — 4,000,000) 'A' Ordinary shares of 10p each	—	400,000
Nil (1996 — 750,000) 'B' Ordinary shares of 10p each	—	75,000
150,000 (1996 — nil) 'C' Ordinary shares of 10p each	15,000	—
	<u>790,000</u>	<u>475,000</u>
Called up, allotted and fully paid		
5,921,666 (1996 — nil) Ordinary shares of 10p each	592,166	—
Nil (1996 — 3,098,000) 'A' ordinary shares of 10p each	—	309,800
Called up, allotted and not fully paid		
126,567 (1996 — nil) 'C' Ordinary shares of 10p each	12,657	—
	<u>604,823</u>	<u>309,800</u>

On 30 June 1997, Peter Miles was issued 5,000 'A' Ordinary shares of 10p each at a subscription price of £3.00 per share.

On 15 July 1997, the following transactions took place on admission to the Alternative Investment Market of the London Stock Exchange:

- The authorised share capital of the Company was increased by £300,000 by the creation of an additional 3,000,000 'A' Ordinary shares of 10p each.
- The authorised share capital of the Company was increased to £790,000 by the creation of 150,000 'C' Ordinary shares to be issued in accordance with the Company's share save scheme.
- The 'A' Ordinary shares of 10p each and 'B' Ordinary shares of 10p each were redesignated as Ordinary shares of 10p each.
- 75,940 'C' Ordinary shares were issued at 240p each to participants in the share save scheme.
- A bonus issue of 2 for 3 was made for all allotted shares (Ordinary and 'C' Ordinary).
- 750,000 new Ordinary shares were issued at a placing price of 260p per share.

The holders of the 'C' Ordinary shares have no rights to vote, attend general meetings or any dividend but the shares will automatically convert into an equal number of Ordinary shares upon being fully paid up.

Notes to the Accounts (continued)

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YEAR ENDED 31 DECEMBER 1997

22 RESERVES

	Group and Company			Group	Company
	Share	Revaluation	Capital	Profit	Profit
	premium	reserve	redemption	and loss	and loss
	account	reserve	reserve	account	account
	£	£	£	£	£
At 1 January 1997	14,550	198,769	75,000	1,359,323	1,589,719
Profit for the year	—	—	—	317,126	353,731
Utilised on bonus issue of shares	(14,550)	—	(75,000)	—	—
Exchange rate loss	—	—	—	(4,566)	—
Goodwill written off	—	—	—	(29,971)	—
Write-off of bonus issue	—	—	—	(122,046)	(122,046)
Premium on shares issued	2,063,829	—	—	—	—
Write-off of AIM flotation costs	(254,776)	—	—	—	—
Transfer from revaluation reserve	—	(4,517)	—	4,517	4,517
At 31 December 1997	<u>1,809,053</u>	<u>194,252</u>	<u>—</u>	<u>1,524,383</u>	<u>1,825,921</u>
Group					
	1997			1996	
	£			£	
Other reserves					
Foreign exchange fluctuations reserve	(37,750)			(25,703)	
Capital reserve	<u>9,712</u>			<u>9,712</u>	
	(28,038)			(15,991)	
£					
Foreign exchange fluctuations reserve	(25,703)				
At 1 January 1997	<u>(12,047)</u>				
Movement in the year					
At 31 December 1997	<u>(37,750)</u>				

23 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group	
	1997	1996
	£	£
Profit for the financial year	405,951	655,829
Dividends paid	(88,825)	(100,685)
Movement in exchange fluctuation reserve	(12,047)	(33,201)
Goodwill on acquisition write-off	(29,971)	(20,497)
Issue of share capital	2,147,256	—
AIM flotation costs written off to reserves	(254,776)	—
Exchange rate loss	<u>(4,566)</u>	<u>—</u>
Net addition to shareholders' funds	2,163,022	501,446
Opening shareholders' funds	<u>1,941,451</u>	<u>1,440,005</u>
Closing shareholders' funds	<u>4,104,473</u>	<u>1,941,451</u>

Notes to the Accounts (continued)

30

YEAR ENDED 31 DECEMBER 1997

24 PENSION COSTS

The contributions paid to the defined benefit scheme amounted to £289,486 (1996 — £197,685). Contributions outstanding at the year end were £42,511 (1996 — £33,449).

In the opinion of the actuary, the scheme is adequately funded and with the current contribution rate will be able to fully meet its liabilities. The latest actuarial valuation on the scheme was performed as at 6 April 1996 using the defined approved benefit method. The main actuarial assumption was that the investment returns would exceed the rate of salary increases by 1.5%.

That valuation showed that the actuarial value of the scheme's assets was £2,235,618 which represented 93% of the benefits accrued to members at the valuation date after allowing for future increases in earnings.

The increase in pension costs is in line with increases in staff salaries and new members joining the scheme.

25 FINANCIAL COMMITMENTS

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Capital commitments				
Contracted for but not provided	1,138,522	—	1,138,522	—

Operating lease commitments

At 31 December 1997, the Group and Company had annual commitments under non-cancellable other operating leases as set out below:

	Land and buildings	Other	Land and buildings	Other
	1997	1997	1996	1996
	£	£	£	£
Leases which expire:				
Within one year	—	8,197	—	10,780
Within two to five years	—	113,789	—	111,284
After five years	50,000	—	50,000	—
	50,000	121,986	50,000	122,064

Other commitments

At 31 December 1997, the Company has other annual commitments as set out below:

	1997	1996
	£	£
Amounts due:		
Within two to five years	16,000	20,000

The Company has entered into other guarantees and indemnities of a trading nature in the normal course of business.

Notice of Meeting

Notice is hereby given that the ninth Annual General Meeting of Delcam Plc will be held at Delcam Plc, Small Heath Business Park, on 14 May 1998 at 3 pm for the following purposes.

As ordinary business

- 1 To receive the report of the Directors and the financial statements for the year ended 31 December 1997, together with the report of the auditors.
- 2 To declare a final dividend on the Ordinary shares of 0.9p per share for the year ended 31 December 1997.
- 3 To elect Mr P T Miles as a director.
- 4 To re-elect Mr T R M Kinsey, who retires by rotation, as a director of the Company.
- 5 To re-elect Mr E B Lambourne, who retires by rotation, as a director of the Company.
- 6 To reappoint the auditors and to authorise the Directors to fix their remuneration.

By Order of the Board

K SINGH

Secretary

Talbot Way
Small Heath Business Park
Birmingham
B10 0HJ

20 April 1998

Notes:

- 1 A member of the Company entitled to attend and vote at the meeting may appoint a proxy to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company. To be valid, Forms of Proxy must be lodged at the Company's registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA, not less than 48 hours before the meeting. By signing and returning a Form of Proxy, a shareholder will not be precluded from attending and voting in person should he or she so wish.
- 2 The register of directors' interests maintained pursuant to Section 325 of the Act and copies of the contracts of service of directors will be available for inspection at the registered office of the Company during business hours from the date of this notice until the date of the Annual General Meeting and at the meeting itself.

Notes

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Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 1997

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22 RESERVES

	Group and Company			Group	Company
	Share	Revaluation	Capital	Profit	Profit
	premium	reserve	redemption	and loss	and loss
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Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 1997

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	<u>50,000</u>	<u>121,986</u>	<u>50,000</u>	<u>122,064</u>

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