

Company Registration No. 2377350

**INCAT International Limited**

**Report and Financial Statements**

**31 August 2004**

**RE-SCAN**



2015/08 2-

# **INCAT International Limited**

## **Report and financial statements 2004**

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# **INCAT International Limited**

## **Report and financial statements 2004**

### **Officers and professional advisers**

#### **Directors**

Dr R Bunce	Chairman
U Herter	Chief Executive Officer
D Myers	Chief Financial Officer
W K Harris	
H Hutchinson	
W Zöfgen	
T Arthur	(non executive)
R Bee	(associate director)

#### **Secretary**

D Myers

#### **Registered office**

Building 6  
Monarch Court  
Emerald Park  
Emersons Green  
Bristol  
BS16 7FH

#### **Auditors**

Deloitte & Touche LLP  
Chartered Accountants  
London



# **INCAT International Limited**

## **Directors' report**

The directors present their annual report and the audited financial statements for the year ended 31 August 2004.

### **Principal activities and business review**

*The principal activity of the Group is the provision of computer and related services.*

It gives me pleasure to report a solid performance for the financial year ended 31 August 2004. Turnover increased 2% to £65.3m (2003: £64.0m), while operating profit increased 4% to £2.4m (2003: £2.3m). The company has placed greater emphasis on its professional services activities and financial performance reflects the success of this strategy, increasing operating margin to 4%.

With nearly 80% of our sales in North America, movements in foreign currency are important. In this respect the weakness of the US Dollar throughout the period had a significant adverse impact on our overall performance when viewed in Sterling terms. Translating prior year results at 2004 rates to give a constant currency basis for comparison turnover grew by 10% and operating profit grew by 24%.

Growth is driven by a strong performance in North America where turnover increased 18% from \$79m to \$92m. Sales in Europe declined when compared to the previous year reflecting the continued lower economic activity in those countries.

With regard to the overall mix of sales, continuing the pattern of last year PLM Professional Services and PLM Software sales have increased, while PLM Hardware has declined.

PLM Professional Services which include the company's consulting, content services, business process outsourcing, managed services, system support services and other related activities accounted for growth of 9% on a historical currency basis (19% for the group on a constant currency basis).

Continuing declines in hardware revenues of 13% (constant currency basis) was offset by a strong improvement in PLM Software sales (47% on a constant currency basis); resulting in a 7% decline (historical) in overall product revenues for the group.

The Board believes that the trends reflected in the 2004 financial year with respect to the business streams will continue into 2005. Steps have been taken to increase the service content of European business operations and to increase operating profit contribution from non American entities.

During the year the company negotiated forward credits with the State of Michigan which will significantly lower future tax liabilities and these are contingent on a growth in headcount in the State. Based on substantial revenues generated in Michigan, the Board expects a lower tax charge in future years in respect of Michigan Single Business tax.

Management believes that favourable trading conditions in North America will continue to foster growth in the demand for the company's services. Early signs of improvement in the European economies will further aid the performance of the German, Dutch and United Kingdom operations. The Group's performance is at risk based on the underlying world economies and the company's ability to continuously attract and retain appropriate talent for its professional service operations.

The subsidiary undertakings principally affecting the profit or net assets of the Group in the year are listed in note 13 to the financial statements.

# INCAT International Limited

## Directors' report (continued)

### Results and dividends

The consolidated profit and loss account for the year is set out on page 7.

The directors do not recommend the payment of a dividend (2003 – £nil).

The consolidated retained profit of £1,186,809 will be transferred to the Group's reserves.

### Fixed assets

The significant changes in fixed assets during the year are explained in notes 11, 12 and 13 to the financial statements.

### Employees

The Group is conscious that its employees are critical contributors to its success. The Group continues to provide employees with relevant information and to seek their views on matters of common concern. The Group encourages good communications with employees which are initially established through publication of a monthly newsletter distributed to all employees.

It is the policy of the group to support the employment of disabled employees where possible, both in recruitment and by retention of employees who become disabled while in employment of the Group.

### Directors' interests

The directors who served throughout the year (except as noted) were as follows:

Dr R Bunce	(appointed 25 August 2004)
U Herter	
H Hutchinson	
D Myers	
W K Harris	
A Stebbins	(resigned 25 August 2004)
W Zöfgen	
T Arthur	(appointed 25 August 2004)

The directors' beneficial interests in the shares of the Company were as stated below:

INCAT International Limited

	Ordinary shares	
	2004	2003
Dr R Bunce (appointed 25 August 2004)	-	-
U Herter	1,433,333	1,433,333
H Hutchinson	1,393,333	1,433,333
D Myers	440,000	440,000
W K Harris	440,000	440,000
A Stebbins (resigned 25 August 2004)	-	1,333,333
W Zöfgen	262,500	262,500
T Arthur (appointed 25 August 2004)	-	-

No director held an interest in the share capital of any other group undertaking.



## INCAT International Limited

### Directors' report (continued)

#### Auditors

On 1 August 2003, Deloitte & Touche, the Company's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

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



D Myers  
Director

29 Oct. 2004



## **INCAT International Limited**

### **Statement of directors' responsibilities**

United Kingdom 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; 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 the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent auditors' report to the members of INCAT International Limited**

We have audited the financial statements of INCAT International Limited for the year ended 31 August 2004 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely for the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the Group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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 August 2004 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 LLP*

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors

London

*27 October 2004*

# **INCAT International Limited**

## **Consolidated profit and loss account** **Year ended 31 August 2004**

		2004	2003
	Note	£	Restated (note 5) £
<b>Turnover</b>	3	65,261,424	64,024,991
Cost of sales		(46,995,582)	(46,116,707)
<b>Gross profit</b>		18,265,842	17,908,284
Selling and distribution costs		(8,466,560)	(8,445,715)
Administrative expenses		(7,373,227)	(7,199,809)
<b>Operating profit</b>	4	2,426,055	2,262,760
(Loss)/profit on disposal of operations	2	(3,809)	161,304
<b>Profit on ordinary activities before interest</b>		2,422,246	2,424,064
Other interest receivable and similar income		23,866	107,959
Interest payable and similar charges	8	(11,859)	(243,781)
<b>Profit on ordinary activities before taxation</b>		2,434,253	2,288,242
Tax on profit on ordinary activities	9	(1,251,185)	(982,442)
<b>Profit on ordinary activities after taxation</b>		1,183,068	1,305,800
Minority interests (equity)	13	3,741	(15,500)
<b>Retained profit for financial year</b>	24	1,186,809	1,290,300

All operations relate to continuing activities.

# **INCAT International Limited**

## **Consolidated statement of total recognised gains and losses Year ended 31 August 2004**

	<b>Note</b>	<b>2004 £</b>	<b>2003 £</b>
<b>Profit for the financial year</b>	<b>24</b>	<b>1,186,809</b>	<b>1,290,300</b>
Currency translation differences on foreign currency net investments		<u>(620,547)</u>	<u>(267,057)</u>
<b>Total recognised gains and losses relating to the year and since the last financial statements</b>		<u><b>566,262</b></u>	<u><b>1,023,243</b></u>

# INCAT International Limited

## Balance sheets As at 31 August 2004

	Note	Group (restated)		Company (restated)	
		2004 £	2003 £	2004 £	2003 £
<b>Fixed assets</b>					
Intangible assets	11	1,654,326	2,298,370	-	-
Tangible assets	12	637,438	929,428	-	-
Investments	13	-	-	8,920,750	8,859,018
		<u>2,291,764</u>	<u>3,227,798</u>	<u>8,920,750</u>	<u>8,859,018</u>
<b>Current assets</b>					
Stocks	14	156,327	371,442	-	-
Debtors	15	11,266,846	11,423,527	63,729	438,027
Cash at bank and in hand		3,096,672	2,184,082	9,790	-
		<u>14,519,845</u>	<u>13,979,051</u>	<u>73,519</u>	<u>438,027</u>
<b>Creditors: amounts falling due within one year</b>	16	(7,932,808)	(8,066,413)	(130,924)	(125,040)
<b>Net current assets/(liabilities)</b>		<u>6,587,037</u>	<u>5,912,638</u>	<u>(57,405)</u>	<u>312,987</u>
<b>Total assets less current liabilities</b>		<u>8,878,801</u>	<u>9,140,436</u>	<u>8,863,345</u>	<u>9,172,005</u>
<b>Creditors: amounts falling due after more than one year</b>	17	-	(278,975)	-	-
<b>Minority interests</b>	13	-	(46,344)	-	-
<b>Net assets</b>		<u>8,878,801</u>	<u>8,815,117</u>	<u>8,863,345</u>	<u>9,172,005</u>
<b>Capital and reserves</b>					
Called up share capital	21	105,750	105,750	105,750	105,750
Share premium account	22	315,581	315,581	315,581	315,581
ESOP reserve	22	(797,785)	(45,207)	(797,785)	(45,207)
Merger reserve	22	7,904,393	7,904,393	8,203,300	8,203,300
Capital redemption reserve	22	11,739	11,739	11,739	11,739
Profit and loss account	22	1,339,123	522,861	1,024,760	580,842
<b>Equity shareholders' funds</b>	24	<u>8,878,801</u>	<u>8,815,117</u>	<u>8,863,345</u>	<u>9,172,005</u>

Comparative balances have been restated in accordance with UITF 38, see note 24.

These financial statements were approved by the Board of Directors on 29 Oct 2004.

Signed on behalf of the Board of Directors

U Herter  
Director

D Myers  
Director

29 October 2004

# **INCAT International Limited**

## **Consolidated cash flow statement** **Year ended 31 August 2004**

	Note	2004 £	(restated) 2003 £
<b>Net cash inflow from operating activities</b>	25	4,641,772	2,989,742
<b>Returns on investments and servicing of finance</b>			
Interest received		18,233	107,959
Interest paid		(11,858)	(243,782)
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>		6,375	(135,823)
<b>Taxation</b>			
Overseas tax paid		(1,184,742)	(1,142,213)
<b>Net cash outflow from taxation</b>		(1,184,742)	(1,142,213)
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(460,410)	(592,996)
Receipts from sale of tangible fixed assets		90,875	260,506
<b>Net cash outflow from capital expenditure and financial investment</b>		(369,535)	(332,490)
<b>Acquisitions and disposals</b>			
Disposal of subsidiary undertaking		-	59,416
Purchase of investments		(54,823)	-
<b>Net cash (outflow)/ inflow from acquisitions and disposals</b>		(54,823)	56,516
<b>Net cash inflow before financing</b>		3,039,047	1,435,732
<b>Financing</b>			
Capital element of finance lease contracts		-	(9,051)
Decrease in bank loans		(1,244,039)	(1,719,805)
Purchase of own shares		(752,578)	(2,900)
<b>Net cash outflow from financing</b>		(1,996,617)	(1,728,856)
<b>Increase/(decrease) in cash in the year</b>	27	1,042,430	(293,124)

# **INCAT International Limited**

## **Notes to the accounts**

### **Year ended 31 August 2004**

#### **1. Accounting policies**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The following accounting policies have been applied consistently in the current and preceding year with the exception of UITF 38 as discussed below.

##### **Accounting convention**

The financial statements are prepared under the historical cost convention.

##### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the company and all its subsidiaries.

##### **Employee Benefit Trust**

The financial statements have been prepared to include the assets and liabilities of the INCAT International Limited ESOP 2000 (the "ESOP") as required by UITF 13 'Accounting for ESOP Trusts'. Shares in the company held by the ESOP have been valued at cost. The costs of administration of the ESOP are written off to the profit and loss account as incurred. In the current year, the company adopted UITF 38 'Accounting for ESOP Trusts'. This has resulted in a prior year reclassification of shares held by the ESOP from fixed asset investments to Shareholders' Funds (note 24).

##### **Turnover**

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

##### **Revenue recognition**

The Group acts as a reseller of hardware and software to the worldwide CAE community and provides services which include installation, training, product support, design services and consultancy.

Hardware revenues are recognised when the hardware is delivered. Software revenues are recognised when a non-cancellable agreement has been signed and there are no uncertainties surrounding product acceptance, there are no significant vendor obligations, and the fees are fixed and determinable.

Training, design services and consulting revenues are recognised as the services are performed.

Support agreement revenues are recognised rateably over the support period except where the services of a third party are sold on. In this situation all revenue is recognised upfront.

##### **Acquisitions**

On the acquisition of a business, fair values are attributed to the Group's share of net separable assets. Where the fair value of consideration paid exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and, following the implementation of FRS 10 "Goodwill and Intangible Assets", is capitalised in the Group balance sheet in the year of acquisition. Previously purchased goodwill was written off directly to reserves as noted below.

The results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date at which control passes.

# **INCAT International Limited**

## **Notes to the accounts**

**Year ended 31 August 2004**

### **1. Accounting policies (continued)**

#### **Goodwill**

For acquisitions of a business, following the implementation of FRS 10 "Goodwill and Intangible Assets", purchased goodwill is capitalised in the year in which it arises and amortised over its useful life up to a maximum of 20 years. The directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill since it is difficult to make projections exceeding this period. Capitalised purchased goodwill is included within intangible fixed assets.

Goodwill which arose on the acquisition of a business prior to the implementation of FRS 10 was written off to the profit and loss reserve as a matter of accounting policy. It remains in that reserve and will be charged or credited in the profit and loss account as appropriate on the subsequent disposal of the business to which it relates.

Goodwill is stated at cost less amortisation and provision for impairment.

#### **Tangible fixed assets and depreciation**

Depreciation is not provided on freehold land. Other tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Freehold buildings	over 27.5 years
Short leasehold improvements	Period of lease
Plant and machinery	3-4 years
Office equipment	4 years

#### **Leasing**

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

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

#### **Investments**

Investments held as fixed assets are stated at cost less provision for any impairment.

#### **Stocks**

Stocks and work in progress other than long term contracts, are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items.

#### **Pensions**

The Group operates defined contribution pension schemes and the pension charge represents the amounts payable by the Group to the fund in respect of the year.



# **INCAT International Limited**

## **Notes to the accounts**

### **Year ended 31 August 2004**

#### **1. Accounting policies (continued)**

##### **Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise 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. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

##### **Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

*Exchange differences arising from the re-translation of the opening net assets of subsidiaries which operate in currencies other than sterling are taken to reserves together with the difference arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end.*

#### **2. Acquisitions and disposals of operations**

On 15 October 2003, INCAT Aircraft Design BV was disposed of, resulting in a loss of £3,809.

In the prior year, INCAT NV was placed into administration resulting in a gain of £173,405, due to the release of any third party liabilities that remained outstanding at that point. INCAT Project Services BV, a dormant company, was disposed of resulting in a loss of £12,101.

# **INCAT International Limited**

## **Notes to the accounts** **Year ended 31 August 2004**

### **3. Segment information**

In the opinion of the Board of Directors there is only one class of business.

#### **Geographical segments:**

	2004		2003	
	Turnover by destination £	Turnover by origin £	Turnover by destination £	Turnover by origin £
United Kingdom	6,743,835	6,840,950	6,614,705	6,726,483
Rest of Europe	6,099,747	6,002,584	7,337,282	7,302,131
USA and Canada	51,690,604	51,690,652	48,986,199	48,909,572
Asia and Far East	727,238	727,238	1,086,805	1,086,805
	<u>65,261,424</u>	<u>65,261,424</u>	<u>64,024,991</u>	<u>64,024,991</u>

#### **Analysis of operating profit**

	2004 £	2003 £
United Kingdom	146,364	15,562
Rest of Europe	38,049	(84,922)
USA and Canada	2,581,256	2,286,896
Asia and Far East	(89,614)	45,224
Total central UITF 17 share option charge	<u>(250,000)</u>	<u>-</u>
	<u>2,426,055</u>	<u>2,262,760</u>

#### **Analysis of net assets**

	2004 £	2003 £
United Kingdom	528,161	246,244
Rest of Europe	1,423,971	1,871,113
USA and Canada	6,746,307	6,523,721
Asia and Far East	180,362	174,039
	<u>8,878,801</u>	<u>8,815,117</u>

# INCAT International Limited

## Notes to the accounts Year ended 31 August 2004

### 4. Operating profit

Operating profit is stated after charging/(crediting) the following:

	2004 £	2003 £
Depreciation of tangible assets		
- Owned assets	616,250	893,321
Goodwill amortisation and impairment	644,044	644,039
Profit on sale of fixed assets	(39,423)	(59,857)
Operating lease rentals		
- Plant and machinery	334,923	409,979
- Other assets	826,422	982,960
Auditors' remuneration		
- company	53,856	35,000
- group	153,262	114,304
- other services	31,913	39,410
Foreign exchange loss/(profit)	66,114	(17,519)
Settlement of Farnest shareholder dispute	(366,579)	-
UITF 17 share option charge	250,000	-

### 5. Reclassification of costs

The directors have considered the nature of certain costs incurred by the business. As a result, an amount of £1,375,430 has been reclassified from cost of sales to administrative expenses in 2003, and an amount of £314,311 has been reclassified from other operating income to administrative expenses. These reclassifications ensure comparability with 2004 presentation.

# **INCAT International Limited**

## **Notes to the accounts** **Year ended 31 August 2004**

### **6. Directors' emoluments**

	2004 £	2003 £
Emoluments for qualifying services	996,033	1,013,668
Contributions to a defined contribution pension scheme	11,393	6,274
	<u>1,007,426</u>	<u>1,019,942</u>
Remuneration of the highest paid director:		
Emoluments for qualifying services	235,375	222,570
Contributions to a defined contribution pension scheme	1,185	-
	<u>236,560</u>	<u>222,570</u>

Two of the directors who served during this year were members of a defined contribution pension scheme.

### **7. Employees**

The average monthly number of employees (including directors) during the year was:

	2004 No.	2003 No.
<b>Number of employees</b>		
Management	21	15
Administration	57	34
Direct and other	473	434
	<u>551</u>	<u>483</u>
<b>Employment costs (including directors)</b>	£	£
Wages and salaries	28,632,649	25,728,524
Social security costs	2,323,354	2,053,517
Other pension costs	171,021	120,255
	<u>31,127,024</u>	<u>27,902,296</u>

### **8. Interest payable and similar charges**

	2004 £	2003 £
Bank borrowings	<u>11,859</u>	<u>243,781</u>

# **INCAT International Limited**

## **Notes to the accounts**

**Year ended 31 August 2004**

### **9. Tax on profit on ordinary activities**

	2004 £	2003 £
UK corporation tax at 30% (2003 – 30%)	(17,575)	-
Overseas taxation	1,125,447	908,738
Adjustment in respect of prior years	53,514	121,856
	<hr/>	<hr/>
Total current tax	1,161,386	1,030,594
Deferred tax	89,799	(48,152)
	<hr/>	<hr/>
Tax on profit on ordinary activities	<u>1,251,185</u>	<u>982,442</u>

The tax assessed for the year is higher than that resulting from applying the standard rate of corporation tax in the UK of 30% (2003– 30%). The differences are explained below:

	2004 £	2003 £
Profit on ordinary activities before taxation	2,434,253	2,288,242
	<hr/>	<hr/>
Tax at 30% thereon	730,276	686,473
Plus/(less) the effect of:		
Tax credit in respect of dividends paid	-	(154,053)
Expenses not deductible for tax purposes	19,323	193,688
Capital allowances in excess of depreciation	(68,213)	(108,837)
Utilisation of tax losses	(51,791)	(231,013)
Movement in other timing differences	(6,934)	-
Overseas tax rates	288,856	326,125
Amortisation of goodwill	196,355	196,355
Prior period adjustments	53,514	121,856
	<hr/>	<hr/>
Current tax charge for the year	<u>1,161,386</u>	<u>1,030,594</u>

## **INCAT International Limited**

### **Notes to the accounts**

#### **Year ended 31 August 2004**

##### **9. Tax on profit on ordinary activities (continued)**

###### **Unprovided deferred tax**

Deferred tax has not been provided in respect of timing differences relating to losses in the UK companies, as there is insufficient evidence that the assets will be recovered. The amount of the assets not recognised are:

	<b>2004</b>
	<b>£</b>
Losses	248,500
Depreciation in excess of capital allowances	51,442
Foreign tax credits	783,000
Other timing differences	75,000
	<hr/>
Total	<u>1,157,942</u>

##### **10. Profit of parent company**

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. Its profit after tax for the financial year is £193,918 (2003 – £5,171,924).

# INCAT International Limited

## Notes to the accounts Year ended 31 August 2004

### 11. Intangible fixed assets

<b>Group</b>	<b>Goodwill £</b>
<b>Cost</b>	
At 1 September 2003 and 31 August 2004	<u>5,118,812</u>
<b>Accumulated amortisation</b>	
At 1 September 2003	2,820,442
Charge for the year	<u>644,044</u>
At 31 August 2004	<u>3,464,486</u>
<b>Net book value</b>	
At 31 August 2004	<u>1,654,326</u>
At 31 August 2003	<u>2,298,370</u>
 <b>Company</b>	 <b>Goodwill £</b>
<b>Cost</b>	
At 1 September 2003 and 31 August 2004	<u>19,328</u>
<b>Accumulated amortisation</b>	
At 1 September 2003 and 31 August 2004	<u>19,328</u>
<b>Net book value</b>	
At 31 August 2003 and 31 August 2004	<u>-</u>

# **INCAT International Limited**

## **Notes to the accounts** **Year ended 31 August 2004**

### **12. Tangible fixed assets**

<b>Group</b>	<b>Plant and machinery £</b>	<b>Office equipment £</b>	<b>Total £</b>
<b>Cost</b>			
At 1 September 2003	1,679,546	942,657	2,622,203
Exchange differences	(398,798)	(78,440)	(477,238)
Additions	374,795	82,582	457,377
Disposals	(764,016)	(115,516)	(879,532)
At 31 August 2004	891,527	831,283	1,722,810
<b>Accumulated depreciation</b>			
At 1 September 2003	854,169	838,606	1,692,775
Exchange differences	(329,319)	(71,048)	(400,367)
Charge for the year	507,196	109,054	616,250
On disposals	(712,660)	(110,626)	(823,286)
At 31 August 2004	319,386	765,986	1,085,372
<b>Net book value</b>			
At 31 August 2004	572,141	65,297	637,438
At 31 August 2003	825,377	104,051	929,428

### **13. Fixed asset investments**

<b>Company</b>	<b>Loans to subsidiary undertakings £</b>	<b>Shares in subsidiary undertakings £</b>	<b>Total £</b>
<b>Cost</b>			
At 1 September 2003	5,706,315	3,152,703	8,859,018
Additions	-	61,732	61,732
At 31 August 2004	5,706,315	3,214,435	8,920,750

On 25 December 2003 INCAT International Limited bought the remaining shares in INCAT Japan Co., Limited, for Yen 10,500,000 (£53,080). The book value and fair value of the assets purchased was £42,603. The goodwill of £10,477 arising on the transaction was written off directly to the profit and loss account. On 1 April 2004 the company was renamed INCAT Japan Co., Limited.

#### **Disposals**

On 15 October 2003, INCAT Aircraft Design BV was disposed of, resulting in a loss of £3,809.



# **INCAT International Limited**

## **Notes to the accounts** **Year ended 31 August 2004**

### **13. Fixed asset investments (continued)**

#### **Holdings of more than 20%**

The company holds more than 20% of the share capital of the following companies, the activities of which are all computer related services.

Subsidiary undertakings and companies directly held by parent company	Country of Incorporation	Class	Shares held and voting rights %	Status
INCAT Holdings Inc	USA	Common Stock	100	Holding Co.
INCAT Limited	Great Britain	Ordinary	100	Trading
INCAT GmbH	Germany	Ordinary	100	Trading
INCAT Holdings BV	Netherlands	Ordinary	100	Trading
INCAT Japan Co., Limited	Japan	Ordinary	100	Trading

#### **Subsidiary undertakings and companies held by the group**

INCAT Systems Inc	USA	Common stock	100	Trading
INCAT Financial Services Inc	USA	Common stock	100	Trading
Integrated Systems Technologies de Mexico SA de SV	Mexico	Common stock	100	Trading
INCAT Solutions of Canada Inc	Canada	Common stock	100	Trading
INCAT Engineering Solutions BV	Netherlands	Ordinary	100	Trading

#### **Other subsidiary undertakings held by parent company and group**

Techployment Project Services BV (in liquidation)	Netherlands	Ordinary	100	Admin. Services
Haarlemmerpoort Engineering Services BV (in liquidation)	Netherlands	Ordinary	100	Admin. Services
INCAT BV (in liquidation)	Netherlands	Ordinary	100	Admin. Services

### **14. Stocks**

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Finished goods and goods for resale	156,327	371,442	-	-

There is no material difference between the balance sheet value of stocks and their replacement cost.

# **INCAT International Limited**

## **Notes to the accounts**

**Year ended 31 August 2004**

### **15. Debtors**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Trade debtors	9,742,205	9,670,004	-	-
Amounts owed by group undertakings	-	-	61,647	395,198
Other debtors	453,505	445,557	2,082	42,829
Prepayments and accrued income	879,018	1,029,010	-	-
Deferred tax assets	192,118	278,956	-	-
	<u>11,266,846</u>	<u>11,423,527</u>	<u>63,729</u>	<u>438,027</u>

# INCAT International Limited

## Notes to the accounts

Year ended 31 August 2004

### 16. Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank loans and overdrafts (see note 18)	-	1,141,489	-	8,576
Trade creditors	2,909,073	2,309,328	-	-
Amounts owed to group undertakings	-	-	45,324	20,071
Corporation tax	228,034	137,017	-	17,575
Other taxes and social security	510,328	580,971	-	-
Other creditors	356,925	422,424	-	-
Accruals and deferred income	3,928,448	3,475,184	85,600	78,818
	<u>7,932,808</u>	<u>8,066,413</u>	<u>130,924</u>	<u>125,040</u>

Details of the security given in respect of bank loans are given in note 20.

### 17. Creditors: amounts falling due after more than one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank loans (note 18)	-	278,975	-	-

### 18. Borrowing

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank overdraft	-	8,576	-	8,576
Bank loans	-	1,411,888	-	-
	<u>-</u>	<u>1,420,464</u>	<u>-</u>	<u>8,576</u>

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Due within one and two years	-	278,975	-	-
	<u>-</u>	<u>1,420,464</u>	<u>-</u>	<u>8,576</u>

# INCAT International Limited

## Notes to the accounts Year ended 31 August 2004

### 19. Deferred Taxation

The amounts provided and unprovided for deferred taxation are:

	2004		2003	
	Amount provided £	Amount unprovided £	Amount provided £	Amount unprovided £
Depreciation in excess of capital allowances	206,051	51,442	213,916	111,761
Losses available for offset against future trading profits	50,000	248,500	50,000	244,000
Foreign tax credits	-	783,000	-	-
Other timing differences	(63,933)	75,000	15,040	-
	<u>192,118</u>	<u>1,157,942</u>	<u>278,956</u>	<u>355,761</u>

### 20. Financial instruments

The Group's principal financial instruments comprise bank loans, overdrafts and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group regularly reviews its interest, liquidity and foreign currency exposures and, where it deems appropriate, takes action to minimise the impact on the business of interest and currency movements. It is, and has been throughout the year under review, the Group's policy that no speculation or trading in financial instruments shall be undertaken.

#### Foreign currency risk

The significance of the Group's overseas business, as measured by its proportion of turnover derived from non-sterling sources, is at about 90% (2003: 90%). Foreign currency inflows and outflows are, to a large extent, matched and hence the Group has not entered into foreign currency derivative contracts in respect of operating cash flow.

#### Interest rate risk

The Group borrows in local currency to cover short term needs as and when they arise with the interest cost calculated on a floating rate basis. In addition, the interest cost arising on borrowings is managed on a net basis.

#### Liquidity risk

The Group's objective is to maintain continuity of funding for its operations. As well as overdraft facilities, used for short-term flexibility, the Group has a committed reducing revolving facility of \$6m (2003:\$2.5 m). The Group believes that it has adequate liquidity to support its operations.

For the purpose of the disclosures that follow in this note, short-term debtors and creditors that arise directly from the Group's operations have been excluded as permitted under FRS 13. The disclosures therefore focus on those financial instruments that play a significant medium or long-term role in the financial risk profile of the Group.

#### Interest rate management

At the year end the Group had no fixed or floating interest short or long term borrowings apart from overnight net cashbook deficits at which interest is charged at commercial rates determined by the Group's bankers.

# INCAT International Limited

## Notes to the accounts Year ended 31 August 2004

### 20. Financial instruments (continued)

#### Exchange risk management

The table below shows the Group's currency exposures at 31 August 2004, being exposures on currency transactions that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating company involved other than certain non-sterling borrowings treated as hedges of net investments in overseas investments.

Functional currency of operating company	Net foreign currency monetary assets	
	US\$'000	Euro'000
Sterling	360	14

#### Maturity of financial liabilities

As at 31 August 2004 there were no financial liabilities other than short-term creditors, such as trade creditors and accruals.

#### Borrowing facilities

The Group has a committed facility with Bank One NA not to exceed \$6,000,000 expiring 31 March 2005 and an uncommitted facility not to exceed \$2,000,000. Neither facility was utilised as at the year end.

As security for loans under these facilities the Group has granted to the bank the following charges:

- Lien and security interest in all property owned by INCAT Systems Inc. , INCAT Financial Services Inc. and INCAT Solutions of Canada Inc;
- Fixed and floating charge on all property owned by INCAT International Limited and INCAT Limited; and
- Cross guarantee by all subsidiaries.

# INCAT International Limited

## Notes to the accounts Year ended 31 August 2004

### 21. Called up share capital

	2004 £	2003 £
<b>Authorised:</b>		
20,000,000 ordinary shares of 1p each (2003: 20,000,000)	200,000	200,000
<b>Called up, allotted and fully paid:</b>		
10,575,000 ordinary shares of 1p each (2003: 10,575,000)	105,750	105,750

### INCAT International Ltd, Discretionary Share Option Plan 2000

On 1 November 2000 the Board of Directors approved and adopted INCAT International Ltd Discretionary Share Option Plan 2000.

Details of options outstanding as at 31 August 2004 under the INCAT International Ltd Discretionary Share Option Plan 2000 are as follows:

Date of Grant	Option price per share	Number of options granted	Outstanding options at 31 August 2003	Options lapsed during year	Outstanding options at 31 August 2004	Earliest vesting date	Full vesting date
1 Nov 2000	£1.10	613,014	449,848	33,881	415,967	1 Nov 00	1 Nov 02
1 Nov 2000	£1.10	190,000	65,000	10,000	55,000	1 Nov 01	1 Nov 02
15 Mar 2001	£1.28	50,000	41,500	6,000	35,500	15 Mar 01	15 Mar 03
21 Feb 2002	£0.01	350,000	250,000	-	250,000	21 Feb 02	21 Feb 02
21 Feb 2002	£1.00	66,000	58,000	8,000	50,000	21 Feb 02	21 Feb 04
30 Mar 2004	£0.84	150,000	-	-	150,000	30 Mar 04	30 Mar 04
30 Mar 2004	£0.01	20,000	-	-	20,000	30 Mar 04	30 Mar 06
25 Aug 2004	£0.88	*40,000	-	-	40,000	25 Aug 04	25 Aug 06
25 Aug 2004	£0.88	85,750	-	-	85,750	25 Aug 05	25 Aug 07
Total outstanding					1,102,217		

#### Notes:

Subject to the Rules of the Plan, employees will not be able to exercise Options before:

- a flotation of the company or any other company having Control of the Company ("the Relevant Company"), being the date on which permission is granted for any or all of the ordinary shares of the Relevant Company to be admitted to the Daily Official List of the London Stock Exchange or traded on the Alternative Investment Market or any other market supervised by any regulatory authority, subject to the regulations of the relevant market; and
- the Option has vested.

\* subject to performance criteria being met.



# INCAT International Limited

## Notes to the accounts Year ended 31 August 2004

### 22. Statements of movements on reserves

Group	Capital redemption reserve £	Merger reserve £	Share premium account £	ESOP reserve £	Profit and loss account £	Total £
Balance at 1 September 2003 – as previously stated	11,739	7,904,393	315,581	-	522,861	8,754,574
Impact of UITF 38 adoption	-	-	-	(45,207)	-	(45,207)
Balance at 1 September 2003 – restated	11,739	7,904,393	315,581	(45,207)	522,861	8,709,367
Retained profit for the year	-	-	-	-	1,186,809	1,186,809
Foreign exchange differences on the translation of net equity investments in foreign subsidiaries	-	-	-	-	(620,547)	(620,547)
UITF 17 Share Option Charge	-	-	-	-	250,000	250,000
Shares purchased by ESOP during the year	-	-	-	(752,578)	-	(752,578)
Balance at 31 August 2004	<u>11,739</u>	<u>7,904,393</u>	<u>315,581</u>	<u>(797,785)</u>	<u>1,339,123</u>	<u>8,773,051</u>
<b>Company</b>						
Balance at 1 September 2003 – as previously stated	11,739	8,203,300	315,581	-	580,842	9,111,462
Impact of UITF 38 adoption	-	-	-	(45,207)	-	(45,207)
Balance at 1 September 2003 – restated	11,739	8,203,300	315,581	(45,207)	580,842	9,066,255
Retained profit for the year	-	-	-	-	193,918	193,918
UITF 17 Share Option Charge	-	-	-	-	250,000	250,000
Shares purchased by ESOP during the year	-	-	-	(752,578)	-	(752,578)
Balance at 31 August 2004	<u>11,739</u>	<u>8,203,300</u>	<u>315,581</u>	<u>(797,785)</u>	<u>1,024,760</u>	<u>8,757,595</u>

### 23. ESOP reserve

Group and company	£
<b>Cost</b>	
At 1 September 2003	45,207
Additions	<u>752,578</u>
At 31 August 2004	<u>797,785</u>

At the balance sheet date the INCAT International Ltd Employee Share Ownership Plan 2000, a discretionary trust set up on 26 October 2000, held 1,163,975 1p ordinary shares in the company. This trust is established with a view to such trust being an employees' share scheme within the meaning of Section 743 of the Companies Act 1985 to facilitate the recruitment motivation and retention of employees of the company and its subsidiaries. The cost of this investment in own shares was £797,785. The increase in the reserve in the year is principally due to the share buy back offer made to shareholders in April 2004.



# **INCAT International Limited**

## **Notes to the accounts** **Year ended 31 August 2004**

### **24. Reconciliation of movements in consolidated equity shareholders' funds**

Details of the prior period adjustment arising from adoption of UITF Abstract 38 are shown below in the reconciliation in shareholders' funds.

Group	2004		2003	
	£	£	£	£
Profit for the financial year		1,186,809		1,290,300
Currency translation differences on foreign currency net investments		(620,547)		(267,057)
UITF 17 share option charge		250,000		-
Shares purchased by ESOP during year		(752,578)		(2,900)
Net decrease in equity shareholders' funds		63,684		1,020,343
Opening shareholders' funds	8,860,324		7,837,081	
Prior period adjustment (see below)	(45,207)		(42,307)	
Opening shareholders' funds (restated)		8,815,117		7,794,774
Closing shareholders' funds		8,878,801		8,815,117

The balance sheet and movement in consolidated shareholders' funds for the year ended 31 August 2003 and 31 August 2004 have been restated as a result of the adoption of UITF Abstract 38 – Accounting for ESOP Trusts. The adoption of UITF Abstract 38 has resulted in a reclassification from investments in own shares to shareholders' funds of £42,307 at 1 September 2002 and £45,207 at 1 September 2003. The adoption of this policy has had no effect on the profit and loss account or statement of total recognised gains and losses.

### **25. Reconciliation of operating profit to net cash inflow from operating activities**

	2004	2003
	£	£
<b>Operating profit</b>	2,426,055	2,262,760
Depreciation and amortisation charges	1,260,294	1,537,360
Profit on disposal of tangible assets	(39,423)	(59,857)
Decrease in stocks	179,663	447,997
Increase in debtors	(350,478)	(459,073)
Increase/(decrease) in creditors within one year	915,661	(246,018)
Decrease in provisions	-	(458,997)
UITF share option charge	250,000	-
Foreign exchange differences	-	(34,430)
<b>Net cash inflow from operating activities</b>	<b>4,641,772</b>	<b>2,989,742</b>

# **INCAT International Limited**

## **Notes to the accounts** **Year ended 31 August 2004**

### **26. Analysis of net funds**

	At 1 September 2003 £	Cash flow £	Exchange movement £	At 31 August 2004 £
<b>Net cash</b>				
Cash at bank and in hand	2,184,082	1,033,854	(121,264)	3,096,672
Overdrafts	(8,576)	8,576	-	-
	<u>2,175,506</u>	<u>1,042,430</u>	<u>(121,264)</u>	<u>3,096,672</u>
<b>Debt</b>				
Debt due after one year	(278,975)	245,809	33,166	-
Debt due within one year	(1,132,913)	998,230	134,683	-
	<u>(1,411,888)</u>	<u>1,244,039</u>	<u>167,849</u>	<u>-</u>
<b>Net funds</b>	<u>763,618</u>	<u>2,286,469</u>	<u>46,585</u>	<u>3,096,672</u>

### **27. Reconciliation of net cash flow to movement in net funds**

	2004 £	2003 £
Increase/(decrease) in cash in the year	1,042,430	(293,124)
Cash outflow from decrease in debt and lease financing	<u>1,244,039</u>	<u>1,728,856</u>
Change in net debt resulting from cash flows	2,286,469	1,435,732
Translation differences	<u>46,585</u>	<u>141,395</u>
Increase in net funds in the year	2,333,054	1,577,127
Opening net funds/(debt)	<u>763,618</u>	<u>(813,509)</u>
Closing net funds	<u>3,096,672</u>	<u>763,618</u>

### **28. Operating lease commitments**

At 31 August 2004 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2004 £	2003 £	2004 £	2003 £
Leases which expire:				
Within one year	149,675	192,827	84,734	57,526
Within two to five years	245,207	415,735	86,988	211,747
After five years	215,584	222,038	-	-
	<u>610,466</u>	<u>830,600</u>	<u>171,722</u>	<u>269,273</u>

# **INCAT International Limited**

## **Notes to the accounts**

**Year ended 31 August 2004**

### **29. Related party transactions**

U Herter, H Hutchinson, A Stebbins and W Zöfgen are directors of INCAT International Limited. The below transactions occurred between INCAT International Limited and the directors, or companies controlled by the directors.

These transactions were conducted in normal commercial terms and at an arms length basis.

Related party	Company	Transaction	2004 Cost £	2003 Cost £
U Herter ) H Hutchinson ) A Stebbins )	GRS & Partners	Rent	140,870	154,743
U Herter		Other services	17,240	-
W Zöfgen		Other services	14,898	-

In addition to the above, Seneca Investment Corp., owned by U Herter, provided management services to INCAT Systems Mexico Inc. with a value of £25,293 (2003 – £138,581). INCAT Systems Inc. also provided management services to Seneca Investment Corp. with a value of £25,293 (2003 – £138,581).

The company has taken advantage of the exemption available under Financial Reporting Standard No. 8 not to disclose transactions between the company and its other fellow subsidiary companies that are eliminated on consolidation in the preparation of the company's consolidated financial statements.