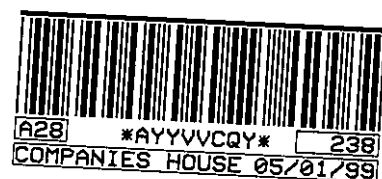


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Registered no: 2947045

Smallworld Systems Limited
Annual report
for the year ended 30 June 1998



Smallworld Systems Limited

Annual report for the year ended 30 June 1998

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Smallworld Systems Limited

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Directors and advisers

Executive directors

R T Green
D R Owen
A P Stafford

Registered Auditors

PricewaterhouseCoopers
Abacus House
Castle Park
Cambridge
CB3 0AN

Secretary and registered office

I H McShane
Elizabeth House
1 High Street
Chesterton
Cambridge
CB4 1WR

Solicitors

Mills & Reeve
112 Hills Road
Cambridge
CB2 1PH

Bankers

Barclays Bank plc
Bene't Street Corporate Business
Centre
PO Box No 2
Cambridge
CB2 3PZ

Directors' report for the year ended 30 June 1998

The directors present their report and the audited financial statements for the year ended 30 June 1998.

Principal activities

The company markets software used for modelling physical networks and enabling related applications for engineering, business and operations support.

Review of business and future developments

The company has continued to develop its operations. The directors continue to be optimistic about the future of the company.

Dividends

The directors do not recommend the payment of a dividend.

Year 2000

The Year 2000 issue relates to the difficulties many computer software applications and operating systems may have in correctly handling dates after 31 December 1999. Companies need to ensure that products sold to customers are compliant and in addition that products bought from third party vendors are compliant.

The company has carried out extensive testing to check that Smallworld GIS and application products will run correctly after 31 December 1999, that they will recognise that the Year 2000 is a leap year, that the current date is correctly retrieved from the operating system, that dates can be entered before, on or after 1 January 2000 and that the manipulation of dates is handled correctly, including storage and retrieval from the database.

Third party vendors, who provide the basic operating systems on which the company operates, have stated that their products will continue to operate properly into the twenty-first century. The company's other key suppliers are also being contacted to ensure compliance so that the company can satisfy itself that applications upon which it is also reliant will continue to function normally after 31 December 1999. The company does not believe there are any material operational issues or costs associated with preparing its internal systems for the Year 2000, but there can be no assurances that the company will not experience serious unanticipated negative consequences and/or material costs caused by undetected errors or defects in the technology used in its, or its customers' internal systems.

Smallworld Systems Limited

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Economic and Monetary Union in Europe (EMU)

The company and its European subsidiaries, including that in the UK, are preparing for the advent of a single currency within parts of the European Union in 1999. Preparations include the upgrading of information systems, where necessary, and the training of staff, to handle euro-denominated transactions, including dual currency transactions between commencement of EMU in 1999 and the first issue of notes and coins in 2002.

The decision as to when formally to adopt the euro as a subsidiary's functional currency will be a local decision by each of the company's European subsidiaries, having regard to the speed of transition to the euro in their local economy. Currently, all subsidiaries' functional currencies are the local currency.

In the short term, the company does not expect the costs or benefits from the introduction of the euro to have a material effect on the company's trading performance. In most cases, upgrades to computer systems to achieve Year 2000 compliance will provide the necessary flexibility to handle euro-denominated transactions.

Directors

The directors of the company at 30 June 1998, all of whom have been directors for the whole of the year ended on that date, were:

R Green
A P Stafford
D R Owen

Directors' interests

A P Stafford and R Green are also directors of the holding company, Smallworldwide plc. Their interests in shares and options over shares of that company are disclosed in the financial statements of Smallworldwide plc.

At 30 June 1998 D R Owen, a director of Smallworld Systems Limited, held options over 15,600 (1997: 20,000) Ordinary shares of 1p each of Smallworldwide plc (see note 15).

Smallworld Systems Limited

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Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors.

A resolution to reappoint the auditors, PricewaterhouseCoopers, will be proposed at the annual general meeting.

By order of the board

A handwritten signature in dark ink, appearing to read 'A. Stafford', is written over a horizontal line.

Director

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 of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board

A handwritten signature in black ink, appearing to be 'A. J. H. H. H.', written over a horizontal line.

Director

Report of the auditors to the members of Smallworld Systems Limited

We have audited the financial statements on pages 7 to 17 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 5 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 company's circumstances, 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 the affairs of the company at 30 June 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers.

Chartered Accountants and Registered Auditors
Cambridge, 5 November 1998.

Smallworld Systems Limited

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Profit and loss account for the year ended 30 June 1998

	Notes	1998 £'000	1997 £'000
Turnover	2	3,729	3,708
Cost of sales		(2,038)	(2,123)
Gross profit		1,691	1,585
Net operating expenses	3	(1,714)	(2,020)
Operating loss		(23)	(435)
Interest receivable and similar income		1	1
Interest payable and similar charges	6	(5)	(14)
Loss on ordinary activities before taxation	7	(27)	(448)
Tax on loss on ordinary activities	8	(2)	128
Retained loss for the financial year	16	(29)	(320)

All revenue and expenses included in the profit and loss account relate to continuing operations.

The company has no recognised gains and losses other than those included in profits and losses above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no material difference between the loss on ordinary activities before taxation and the retained loss stated above, and their historical cost equivalents.

Smallworld Systems Limited

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Balance sheet at 30 June 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	9	346	326
Current assets			
Debtors	10	1,483	897
Cash at bank and in hand		-	4
Creditors: amounts falling due within one year	11	1,483 1,644	901 1,478
Net current liabilities		(161)	(577)
Total assets less current liabilities		185	(251)
Creditors: amounts falling due after more than one year	12	1	36
Net assets		184	(287)
Capital and reserves			
Called up share capital	14	600	100
Profit and loss account	16	(416)	(387)
Equity shareholders' funds	17	184	(287)

The financial statements on pages 7 to 17 were approved by the board of directors on 4/11/98 and were signed on its behalf by:



Director

Smallworld Systems Limited

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Notes to the financial statements for the year ended 30 June 1998

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Going concern

The financial statements are prepared on the going concern basis. The directors have received confirmation from the parent company that it will continue to provide such financial support as the company may require from time to time. The directors therefore consider that the going concern basis of accounting remains appropriate.

Cash flow statement

The company has taken advantage of the exemption available not to include a cash flow statement. A consolidated cash flow statement is included in the consolidated financial statements of the parent company, Smallworldwide plc.

Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Office equipment	20
Motor vehicles	33
Computer equipment	25 - 33
Computer software	25

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting year. Assets held under finance leases are depreciated over the shorter of the lease terms or the useful lives of equivalent owned assets.

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied. Revenue from sales of software products is recognised when the product is delivered and acceptable to the client. Delivery is normally defined as the issue of a licence key to the customer and installation on the client's equipment. However, where the warranty period, as agreed by the customer, is earlier than the issue of a licence key, that date is taken as the delivery date. Contracted income invoiced in advance or arrears for fixed periods is taken to income in equal monthly instalments over the period of the contract.

Warranties

The company's products carry formal guarantees of satisfactory performance for varying periods following their purchase by customers. Provision is made for the estimated costs of unexpired warranties.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. The results of foreign transactions are translated into sterling at the rate of exchange ruling on the date of the transaction.

All foreign exchange differences are taken to the profit and loss account in the period in which they arise.

Pension costs

The company contributes a fixed percentage of employees' salaries to their individual personal pension plans. The charge for pension costs in the profit and loss account represents the amount of contributions payable in respect of the accounting period.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Smallworld Systems Limited

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2 Turnover

The analysis by geographical area of the company's turnover is set out below:

	1998 £'000	1997 £'000
United Kingdom	3,678	3,336
Rest of Europe	51	336
Other	-	36
	<u>3,729</u>	<u>3,708</u>

3 Net operating expenses

	1998 £'000	1997 £'000
Selling and distribution expenses	1,703	1,963
Administrative expenses	11	57
	<u>1,714</u>	<u>2,020</u>

4 Directors' emoluments

	1998 £'000	1997 £'000
Emoluments (including benefits in kind)	120	107
Pension contributions	5	5

All the directors of Smallworld Systems Limited have been remunerated by other group companies throughout the year. Emoluments relating to directors who are also directors of Smallworldwide plc have been disclosed in the financial statements of Smallworldwide plc. Therefore, the disclosures above relate to the one director who is not also a director of Smallworldwide plc.

Smallworld Systems Limited

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5 Employee information

The average weekly number of persons (including executive directors) employed by the company during the year was:

	1998 Number	1997 Number
By activity		
Sales and marketing	37	42
	<u> </u>	<u> </u>
	1998	1997
	£'000	£'000
Staff costs (for the above persons)		
Wages and salaries	990	1,344
Social security costs	108	131
Other pension costs	47	55
	<u> </u>	<u> </u>
	1,145	1,530
	<u> </u>	<u> </u>

Certain employees of the parent company provide services to the company. No management fee is paid for these services and the numbers and costs of these employees are not included in the above numbers.

6 Interest payable and similar charges

	1998 £'000	1997 £'000
On finance leases and hire purchase agreements	5	14
	<u> </u>	<u> </u>

7 (Loss)/profit on ordinary activities before taxation

	1998 £'000	1997 £'000
(Loss)/profit on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year:		
Tangible owned fixed assets	166	112
Tangible fixed assets held under finance leases	50	66
Auditors' remuneration:		
- audit	17	17
- other	3	7
Hire of other assets - operating leases	189	169
Hire of plant and equipment - operating leases	39	28
Foreign exchange	1	25
	<u> </u>	<u> </u>

Smallworld Systems Limited

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8 Tax on loss on ordinary activities

	1998 £'000	1997 £'000
United Kingdom corporation tax at 21% (1997: 32.5%)	2	(130)
Under provision in respect of prior years	-	2
	<u>2</u>	<u>(128)</u>

9 Tangible fixed assets

	Office equipment £'000	Motor vehicles £'000	Computer equipment £'000	Computer software £'000	Total £'000
Cost					
At 1 July 1997	1	97	702	14	814
Additions	67	78	63	1	209
Transferred from/(to) parent company	32	(14)	2	(1)	19
Disposals	-	(13)	(212)	-	(225)
	<u>100</u>	<u>148</u>	<u>555</u>	<u>14</u>	<u>817</u>
At 30 June 1998					
Depreciation					
At 1 July 1997	-	61	423	4	488
Charge for year	18	41	153	4	216
Transferred from parent company	6	(14)	1	(1)	(8)
Disposals	-	(13)	(212)	-	(225)
	<u>24</u>	<u>75</u>	<u>365</u>	<u>7</u>	<u>471</u>
At 30 June 1998					
Net book value					
At 30 June 1998	<u>76</u>	<u>73</u>	<u>190</u>	<u>7</u>	<u>346</u>
Net book value					
At 30 June 1997	<u>1</u>	<u>36</u>	<u>279</u>	<u>10</u>	<u>326</u>

The net book value of tangible fixed assets held under finance leases and hire purchase contracts included in the above figures are:

	1998 £'000	1997 £'000
Computer equipment	<u>42</u>	<u>92</u>

Smallworld Systems Limited

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Sale and leaseback transactions

The company entered into a sale and leaseback arrangement during 1997 in relation to computer hardware fixed assets. This has been accounted for as a finance lease in accordance with Statement of Standard Accounting Practice 21. The lease has a primary period of 36 months, after which there exists an option to enter into a secondary lease period. The lease obligation recorded at 30 June 1998 resulting from this transaction amounted to £20,000 (1997: £41,000).

10 Debtors

	1998 £'000	1997 £'000
Amounts falling due within one year		
Trade debtors	1,310	604
Prepayments and accrued income	173	163
Corporation tax (amount receivable for Group Relief)	-	130
	<u>1,483</u>	<u>897</u>

11 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Bank loans and overdrafts	18	-
Trade creditors	132	152
Obligations under finance leases and hire purchase contracts	35	57
Amounts owed to parent company	715	664
Corporation tax	2	-
Other taxation and social security	133	40
Other creditors	5	-
Accruals	166	233
Deferred income	438	332
	<u>1,644</u>	<u>1,478</u>

12 Creditors: amounts falling due after more than one year

	1998 £'000	1997 £'000
Obligations under finance leases and hire purchase contracts:		
Due between one and two years	<u>1</u>	<u>36</u>

Smallworld Systems Limited

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13 Deferred taxation

No deferred taxation has been recognised in the financial statements as the amount is an asset which is not expected to reverse. The amount of the unrecognised asset is as follows:

	Amount unrecognised	
	1998	1997
	£'000	£'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	21	19
Other timing differences	3	7
	<u>24</u>	<u>26</u>

14 Called up share capital

	1998	1997
	£'000	£'000
Authorised		
600,000 (1997: 100,000) ordinary shares of £1 each	600	100
	<u>600</u>	<u>100</u>
	£'000	£'000
Allotted, called up and fully paid		
600,000 (1997: 100,000) ordinary shares of £1 each	600	100
	<u>600</u>	<u>100</u>

On 18 March 1998 the authorised share capital was increased to 600,000 ordinary shares of £1 each. 500,000 ordinary shares of £1 each were subscribed for by Smallworldwide plc for cash of £500,000.

15 Options in the shares of Smallworldwide plc

At 30 June 1998 D R Owen held options over 15,600 (1997: 20,000) Ordinary shares of 1p each of Smallworldwide plc. These were issued between 14 October 1995 and 23 September 1997 and are exercisable between 6 April 1999 and 22 September 2006 at between £3.416 and \$11.00 per share.

16 Reserves

	£'000
At 1 July 1997	(387)
Loss for the financial year	(29)
	<u>—</u>
At 30 June 1998	(416)
	<u>—</u>

Smallworld Systems Limited

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17 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Share capital subscribed for (note 14)	500	-
Loss for the financial year	(29)	(320)
	<u> </u>	<u> </u>
Net increase/(decrease) in shareholders' funds	471	(320)
Opening shareholders' funds	(287)	33
	<u> </u>	<u> </u>
Closing shareholders' funds	184	(287)
	<u> </u>	<u> </u>

18 Financial commitments

At 30 June 1998 annual commitments under non-cancellable operating leases taken out by the company were as follows:

	1998		1997	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiring within one year	-	1	-	1
Expiring within two to five years	-	10	-	4
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	-	11	-	5
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

At 30 June 1998, a number of non-cancellable operating lease contracts had been taken out by Smallworldwide plc, the parent company, on behalf of the company. These are disclosed in the financial statements of Smallworldwide plc.

19 Capital commitments

At 30 June 1998 commitments to capital expenditure were as follows:

	1998 £'000	1997 £'000
Contracted but not provided for	-	7
	<u> </u>	<u> </u>

Smallworld Systems Limited

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20 Related party transactions

The company is a wholly owned subsidiary in the Smallworldwide plc group and has applied the exemption in paragraph 3(c) of FRS 8 "Related Party Disclosures". This exemption permits the non-disclosure of transactions and balances with related parties that are included within the consolidated financial statements of Smallworldwide plc.

21 Ultimate parent company

The directors regard Smallworldwide plc, a company registered in England and Wales, as the immediate and ultimate parent company. Copies of the parent's consolidated financial statements may be obtained from:

The Secretary
Smallworldwide plc
Elizabeth House
1 High Street
Chesterton
Cambridge
CB4 1WR