

Registered no: 2947045

Smallworld Systems Limited
Annual report
for the six months ended 30 June 1996



Smallworld Systems Limited

Annual report

for the six months ended 30 June 1996

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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

Coopers & Lybrand
Abacus House
Castle Park
Gloucester Street
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

Smallworld Systems Limited

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Directors' interests

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

At 30 June 1996 D R Owen, a director of Smallworld Systems Limited, held options over 400 (1995: 329) "A" ordinary shares of 1p each of Smallworldwide Limited.

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the board

A handwritten signature in dark ink, appearing to read 'A P Stafford', written in a cursive style.

A P Stafford
Director

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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 period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 P Stafford
Director

Report of the auditors to the members of Smallworld Systems Limited

We have audited the financial statements on pages 6 to 17.

Respective responsibilities of directors and auditors

As described on page 4 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.

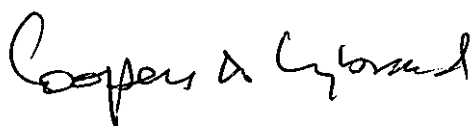
Basis of opinion

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 1996 and of the profit of the company for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



**Chartered Accountants and Registered Auditors
Cambridge**

4 October 1996

Smallworld Systems Limited

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Profit and loss account for the six months ended 30 June 1996

| | Notes | Six months ended 30 June 1996 £ | Period ended 31 December 1995 £ (restated, note 4) |
|--|-------|---|--|
| Turnover | 2 | 1,838,290 | 5,078,281 |
| Cost of sales | | (1,006,253) | (3,174,936) |
| Gross profit | | 832,037 | 1,903,345 |
| Other operating income | | - | 9,087 |
| Net operating expenses | 4 | (810,437) | (1,984,075) |
| Operating profit/(loss) | | 21,600 | (71,643) |
| Interest receivable | 7 | 658 | 11,294 |
| Interest payable and similar charges | 8 | (7,392) | (8,765) |
| Profit/(loss) on ordinary activities before taxation | 9 | 14,866 | (69,114) |
| Tax on profit/(loss) on ordinary activities | 10 | 12,755 | - |
| Retained profit/(loss) for the period | 18 | 2,111 | (69,114) |

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 profit/(loss) on ordinary activities before taxation and the retained profit/(loss) stated above, and their historical cost equivalents.

Smallworld Systems Limited

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Balance sheets at 30 June 1996

| | Notes | 30 June 1996 £ | 31 December 1995 £ |
|--|-------|----------------------|--------------------------|
| Fixed assets | | | |
| Tangible assets | 11 | <u>320,921</u> | <u>289,078</u> |
| Current assets | | | |
| Debtors | 12 | 1,151,941 | 573,063 |
| Cash at bank and in hand | | <u>70,581</u> | <u>111,497</u> |
| | | 1,222,522 | 684,560 |
| Creditors: amounts falling due within one year | 13 | <u>1,406,610</u> | <u>883,963</u> |
| Net current liabilities | | <u>(184,088)</u> | <u>(199,403)</u> |
| Total assets less current liabilities | | <u>136,833</u> | <u>89,675</u> |
| Creditors: amounts falling due after more than one year | 14 | <u>103,836</u> | <u>58,789</u> |
| Net assets | | <u>32,997</u> | <u>30,886</u> |
| Capital and reserves | | | |
| Called up share capital | 16 | 100,000 | 100,000 |
| Profit and loss account | 18 | <u>(67,003)</u> | <u>(69,114)</u> |
| Equity shareholders' funds | 19 | <u>32,997</u> | <u>30,886</u> |

The financial statements on pages 6 to 17 were approved by the board of directors on *4th October '96* and were signed on its behalf by:



A P Stafford
Director

Notes to the financial statements for the six months ended 30 June 1996

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.

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 Limited.

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 period. 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.

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2 Turnover

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

| | Six months ended 30 June 1996 £ | Period ended 31 December 1995 £ |
|----------------|---|---|
| United Kingdom | 1,778,647 | 4,971,260 |
| Rest of Europe | 59,643 | 107,021 |
| | <u>1,838,290</u> | <u>5,078,281</u> |

3 Related party transactions

During the period, the company earned £100,680 (1995: £151,662) of its turnover under normal commercial terms from Southern Electric plc. Southern Electric plc is a shareholder of the parent company, Smallworldwide Limited. It nominates Mr P J Roper to the board of that company. The amount outstanding at 30 June 1996 was £39,554 (1995: £30,090).

The company has taken advantage of the available exemption not to disclose transactions with other group companies which are eliminated on consolidation in the group financial statements.

4 Net operating expenses

Following a review of the group structure the holding company has taken the view that the company, in common with the fellow subsidiary companies, is a sales and marketing organisation. Costs are, therefore, described mainly as sales and distribution expenses below. Costs previously allocated to administrative expenses have now been allocated to cost of sales or selling and distribution expenses as appropriate. The comparative figures for 1995 for both costs and employee numbers have been restated to reflect this change (see note 6).

The effect of this change is to allocate £315,886 of costs in 1996 (1995: £864,076) to cost of sales and £749,396 (1995: £1,884,760) to sales and distribution, which would previously have been shown as administrative expenses.

| | Six months ended 30 June 1996 £ | Period ended 31 December 1995 (restated) £ |
|-----------------------------------|---|---|
| Selling and distribution expenses | 797,552 | 1,946,804 |
| Administrative expenses | 12,885 | 37,271 |
| | <u>810,437</u> | <u>1,984,075</u> |

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5 Directors' emoluments

| | Six months ended 30 June 1996 £ | Period ended 31 December 1995 £ |
|--|---|---|
| Emoluments (including pension contributions and benefits in kind) | <u>28,440</u> | <u>131,034</u> |

At 31 December 1995, provision was made for bonuses of £25,000 which were expected to be paid to directors. The actual bonus paid was less than the amount provided and the excess provision of £10,777 has therefore been released. All the directors of Smallworld Systems Limited have been remunerated by Smallworldwide Limited since 1 January 1996. Emoluments relating to directors who are also directors of Smallworldwide Limited have been disclosed in the financial statements of Smallworldwide Limited. Therefore, the disclosures below relate to all emoluments paid by the company and Smallworldwide Limited to those who are not also directors of Smallworldwide Limited.

Emoluments (excluding pension contributions) include amounts paid to:

| | Six months ended 30 June 1996 £ | Period ended 31 December 1995 £ |
|---------------------------|---|---|
| The chairman | - | - |
| The highest-paid director | <u>26,977</u> | <u>127,865</u> |

The number of directors (including the chairman and the highest-paid director) who received emoluments (excluding pension contributions) in the following ranges was:

| | Six months ended 30 June 1996 Number | Period ended 31 December 1995 Number |
|----------------------|--|--|
| £Nil to £5,000 | 2 | 4 |
| £25,001 to £30,000 | 1 | - |
| £125,001 to £130,000 | - | 1 |

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6 Employee information

The average weekly number of persons (including executive directors) employed by the company during the period was (see note 3):

| | Six months ended 30 June 1996 Number | Period ended 31 December 1995 Number (restated, note 4) |
|---------------------|--|---|
| By activity | | |
| Sales and marketing | 43 | 41 |

| | Six months ended 30 June 1996 £ | Period ended 31 December 1995 £ |
|---|---|---|
| Staff costs (for the above persons) | | |
| Wages and salaries | 690,341 | 1,660,818 |
| Social security costs | 66,379 | 169,001 |
| Other pension costs | 33,034 | 60,752 |
| Employer's Give As You Earn contributions | 35 | 96 |
| | <u>789,789</u> | <u>1,890,667</u> |

7 Interest receivable

| | Six months ended 30 June 1996 £ | Period ended 31 December 1995 £ |
|--------------------------|---|---|
| Bank interest receivable | 658 | 11,294 |

8 Interest payable and similar charges

| | Six months ended 30 June 1996 £ | Period ended 31 December 1995 £ |
|--|---|---|
| On bank loans and overdrafts | - | 154 |
| On finance leases and hire purchase agreements | 7,392 | 8,611 |
| | <u>7,392</u> | <u>8,765</u> |

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9 Profit/(loss) on ordinary activities before taxation

| | Six months ended 30 June 1996 £ | Period ended 31 December 1995 £ |
|--|---|---|
| Profit/(loss) on ordinary activities before taxation is stated after charging: | | |
| Depreciation charge for the period: | | |
| Tangible owned fixed assets | 44,106 | 99,616 |
| Tangible fixed assets held under finance leases | 33,506 | 23,654 |
| Auditors' remuneration: | | |
| - audit | 13,650 | 12,500 |
| - other | 2,500 | 1,250 |
| Hire of other assets - operating leases | 50,496 | 143,912 |
| Hire of plant and equipment - operating leases | 5,193 | 16,918 |
| Foreign exchange | (20) | - |
| | <u> </u> | <u> </u> |

10 Tax on profit/(loss) on ordinary activities

| | Six months ended 30 June 1996 £ | Period ended 31 December 1995 £ |
|---|---|---|
| United Kingdom corporation tax at 33% (1995: 25%) | 12,755 | - |
| | <u> </u> | <u> </u> |

11 Tangible fixed assets

| | Office equipment £ | Motor vehicles £ | Computer equipment £ | Computer software £ | Total £ |
|-------------------------------|--------------------------|------------------------|----------------------------|---------------------------|----------------|
| Cost | | | | | |
| At 1 January 1996 | 654 | 84,959 | 444,679 | 2,112 | 532,404 |
| Additions | 653 | 14,180 | 100,711 | 3,613 | 119,157 |
| Transferred to parent company | - | (16,720) | - | - | (16,720) |
| At 30 June 1996 | <u>1,307</u> | <u>82,419</u> | <u>545,390</u> | <u>5,725</u> | <u>634,841</u> |
| Depreciation | | | | | |
| At 1 January 1996 | 128 | 25,047 | 217,797 | 354 | 243,326 |
| Charge for period | 127 | 13,736 | 63,163 | 586 | 77,612 |
| Transferred to parent company | - | (7,018) | - | - | (7,018) |
| At 30 June 1996 | <u>255</u> | <u>31,765</u> | <u>280,960</u> | <u>940</u> | <u>313,920</u> |
| Net book value | | | | | |
| At 30 June 1996 | <u>1,052</u> | <u>50,654</u> | <u>264,430</u> | <u>4,785</u> | <u>320,921</u> |
| Net book value | | | | | |
| At 31 December 1995 | <u>526</u> | <u>59,912</u> | <u>226,882</u> | <u>1,758</u> | <u>289,078</u> |

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

| | 30 June 1996 £ | 31 December 1995 £ |
|--------------------|----------------------|--------------------------|
| Motor vehicles | 50,654 | 50,209 |
| Computer equipment | 128,342 | 50,482 |
| | <u>178,996</u> | <u>100,691</u> |

Sale and leaseback transactions

In June 1996 the company entered into a sale and leaseback arrangement in relation to computer hardware fixed assets acquired in the period from January to June 1996. This has been accounted for as a finance lease in accordance with Statement of Standard Accounting Practice (SSAP) 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 1996 resulting from this transaction amounted to £43,115.

12 Debtors

| | 30 June 1996 £ | 31 December 1995 £ |
|-------------------------------------|----------------------|--------------------------|
| Amounts falling due within one year | | |
| Trade debtors | 1,051,976 | 524,810 |
| Amounts owed by fellow subsidiaries | 59,643 | - |
| Prepayments and accrued income | 40,322 | 45,445 |
| Other debtors | - | 2,808 |
| | <u>1,151,941</u> | <u>573,063</u> |

13 Creditors: amounts falling due within one year

| | 30 June 1996 £ | 31 December 1995 £ |
|--|----------------------|--------------------------|
| Trade creditors | 64,604 | 51,354 |
| Obligations under finance leases and hire purchase contracts | 76,275 | 38,891 |
| Amounts owed to parent company | 626,730 | 346,773 |
| Corporation tax | 9,947 | - |
| Other taxation and social security | 87,090 | 161,801 |
| Other creditors | 2,286 | 2,390 |
| Accruals | 171,807 | 126,489 |
| Deferred income | 367,871 | 156,265 |
| | <u>1,406,610</u> | <u>883,963</u> |

Included in accruals is £6,535 (1995: Nil) relating to pension contributions which have subsequently been paid.

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14 Creditors: amounts falling due after more than one year

| | 30 June 1996 £ | 31 December 1995 £ |
|---|----------------------|--------------------------|
| Obligations under finance leases and hire purchase contracts: | | |
| Due between one and two years | 69,954 | 40,185 |
| Due between two and five years | 33,882 | 18,604 |
| | <u>103,836</u> | <u>58,789</u> |

15 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 | |
|---|------------------------|--------------------------|
| | 30 June 1996 £ | 31 December 1995 £ |
| Tax effect of timing differences because of: | | |
| Excess of tax allowances over depreciation | (9,784) | (1,125) |
| Other timing differences | (3,271) | (9,953) |
| | <u>(13,055)</u> | <u>(11,078)</u> |

16 Called up share capital

| | 30 June 1996 £ | 31 December 1995 £ |
|---|----------------------|--------------------------|
| Authorised | | |
| 100,000 ordinary shares of £1 each | <u>100,000</u> | <u>100,000</u> |
| | £ | £ |
| Allotted, called up and fully paid | | |
| 100,000 ordinary shares of £1 each | <u>100,000</u> | <u>100,000</u> |

17 Options in the shares of Smallworldwide Limited

At 30 June 1996 D R Owen held options over 400 (1995: 329) "A" ordinary shares of 1p each of Smallworldwide Limited. These were issued between 14 October 1995 and 26 January 1996 and are exercisable between 6 April 1998 and the tenth anniversary of issue at £136.64 per share.

18 Reserves

| | £ |
|--|------------------------|
| At 1 January 1996 | (69,114) |
| Profit retained for the financial period | 2,111 |
| | <u> </u> |
| At 30 June 1996 | <u><u>(67,003)</u></u> |

19 Reconciliation of movements in shareholders' funds

| | 1996 £ | 1995 £ |
|--|----------------------|----------------------|
| Profit/(loss) for the financial period | 2,111 | (69,114) |
| New share capital issued | - | 100,000 |
| | <u> </u> | <u> </u> |
| Net increase in shareholders' funds | 2,111 | 30,886 |
| Opening shareholders' funds | 30,886 | - |
| | <u> </u> | <u> </u> |
| Closing shareholders' funds | <u><u>32,997</u></u> | <u><u>30,886</u></u> |

20 Financial commitments

At 30 June 1996 annual commitments under non-cancellable operating leases taken out by the company were as follows:

| | 1996 | | 1995 | |
|-----------------------------------|----------------------------|-------------------|----------------------------|-------------------|
| | Land and buildings £ | Other £ | Land and buildings £ | Other £ |
| Expiring within one year | - | 4,446 | - | - |
| Expiring within two to five years | - | 2,962 | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | - | 7,408 | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

At 30 June 1996, a number of non-cancellable operating lease contracts had been taken out by Smallworldwide Limited, the parent company, on behalf of the company. These are disclosed in the financial statements of Smallworldwide Limited.

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21 Capital commitments

At 30 June 1996 commitments to capital expenditure were as follows:

| | 1996 £ | 1995 £ |
|--|---------------|-----------|
| Authorised by the directors but not yet contracted for | <u>12,494</u> | <u>-</u> |

22 Ultimate parent company

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

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