

# consolidated profit and loss account

for the year ended 31 December 2003

	Note	2003		2002	
		£'000	£'000	£'000	£'000
<b>Turnover</b>	2		<b>10,221</b>		11,711
Cost of sales			<b>259</b>		355
<b>Gross profit</b>			<b>9,962</b>		11,356
<b>Administrative expenses</b>					
Goodwill amortisation		<b>82</b>		82	
Other (including research and development)		<b>9,489</b>		10,570	
			<b>9,571</b>		10,652
<b>Operating profit</b>	3		<b>391</b>		704
Other interest receivable and similar income	6		<b>101</b>		26
Interest payable and similar charges	7		<b>(37)</b>		(95)
<b>Profit on ordinary activities before taxation</b>	2		<b>455</b>		635
Tax on profit on ordinary activities	8		<b>52</b>		160
<b>Profit for the financial year</b>	20		<b>403</b>		475
Dividends	9		<b>146</b>		146
<b>Retained profit for the financial year</b>			<b>257</b>		329
Basic earnings per share	10		<b>2.75p</b>		3.25p
Diluted earnings per share	10		<b>2.74p</b>		3.23p
Earnings per share before amortisation of goodwill	10		<b>3.31p</b>		3.81p

Reported profits are not materially different to historical cost profits and therefore no separate statement of historical cost profit has been presented.

All amounts relate to continuing operations.

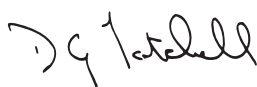
The notes on pages 25 to 32 form part of these financial statements.

# consolidated balance sheet

at 31 December 2003

	Note	2003		2002	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Intangible assets	12		458		540
Tangible assets	13		1,675		1,908
			2,133		2,448
<b>Current assets</b>					
Debtors	15	3,835		4,216	
Cash at bank and in hand		2,490		2,159	
		6,325		6,375	
<b>Creditors: amounts falling due within one year</b>	16	3,067		3,546	
<b>Net current assets</b>			3,258		2,829
<b>Total assets less current liabilities</b>			5,391		5,277
<b>Creditors: amounts falling due after more than one year</b>	17		506		574
<b>Net assets</b>	2		4,885		4,703
<b>Capital and reserves</b>					
Called up share capital	19, 20		146		146
Share premium account	20		1,602		1,602
Merger reserve	20		759		759
Profit and loss account	20		2,378		2,196
<b>Equity shareholders' funds</b>	20		4,885		4,703

The financial statements were approved by the Board on 23 March 2004



**D G Tatchell**  
Director



**C J R Ogle**  
Director

The notes on pages 25 to 32 form part of these financial statements.

# company balance sheet

at 31 December 2003

	Note	2003		2002	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Investments	14		861		861
<b>Current assets</b>					
Debtors	15	1,187		1,158	
Cash at bank and in hand		7		12	
		1,194		1,170	
<b>Creditors:</b> amounts falling due within one year	16	146		146	
<b>Net current assets</b>			1,048		1,024
<b>Net assets</b>			1,909		1,885
<b>Capital and reserves</b>					
Called up share capital	19, 20		146		146
Share premium account	20		1,602		1,602
Profit and loss account	20		161		137
<b>Equity shareholders' funds</b>	20		1,909		1,885

The financial statements were approved by the Board on 23 March 2004



**D G Tatchell**  
Director



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Director

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# consolidated cash flow statement

for the year ended 31 December 2003

	Note	2003		2002	
		£'000	£'000	£'000	£'000
<b>Net cash inflow from operating activities</b>	23		<b>789</b>		2,014
<b>Returns on investments and servicing of finance</b>					
Interest received and similar income		<b>101</b>		26	
Interest paid and similar charges		<b>(31)</b>		(78)	
Interest element of finance lease rental payments		<b>(6)</b>		(17)	
<b>Net cash inflow/(outflow) from returns on investment and servicing of finance</b>			<b>64</b>		(69)
<b>Taxation</b>					
Tax paid			<b>(76)</b>		(234)
<b>Capital expenditure</b>					
Receipts from sale of tangible fixed assets		-		48	
Purchase of tangible fixed assets		<b>(196)</b>		(362)	
<b>Net cash outflow from capital expenditure</b>			<b>(196)</b>		(314)
<b>Equity dividend paid</b>			<b>(146)</b>		(146)
<b>Net cash inflow before financing</b>	24		<b>435</b>		1,251
<b>Financing</b>					
Repayments of loan capital	24	<b>(61)</b>		(53)	
Capital element of finance lease rental payments	24	<b>(43)</b>		(87)	
<b>Net cash outflow from financing</b>			<b>(104)</b>		(140)
<b>Increase in cash in the year</b>	24		<b>331</b>		1,111

The notes on pages 25 to 32 form part of these financial statements.

# consolidated cash flow statement

for the year ended 31 December 2003

(continued)

	Note	2003 £'000	2002 £'000
<b>Reconciliation of net cash inflow to movement in net funds</b>			
Increase in cash in the year		331	1,111
Cash outflow from decrease in debt and lease financing		104	140
<b>Movement in funds in the year</b>			
Net funds at 1 January 2003	24	435	1,251
	24	1,486	235
<b>Net funds at 31 December 2003</b>			
	24	1,921	1,486

# consolidated statement of total recognised gains and losses

for the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Profit for the year	20	403	475
Unrealised loss on translation of foreign currency net investment		(75)	(96)
<b>Total recognised gains and losses for the year</b>		<b>328</b>	379

The notes on pages 25 to 32 form part of these financial statements.

# notes forming part of the financial statements

for the year ended 31 December 2003

## 1 Accounting policies

The following principal accounting policies have been applied:

### Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

### Basis of consolidation

The Group financial statements include the financial statements of Flomerics Group PLC and its subsidiary undertakings, all of which have been made up to 31 December 2003.

The merger accounting principles have been adopted in the consolidation of the parent Company with Flomerics Limited. The acquisition method of accounting has been adopted in respect of Kimberley Communications Consultants Limited. Under this method the results of businesses acquired by the Group are included from the date of acquisition.

In accordance with the Companies Act 1985 S230(i) a separate profit and loss account of Flomerics Group PLC is not presented and the results of the Company are disclosed in note 11 to the financial statements.

### Goodwill

Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired) is capitalised and amortised over its expected useful economic life.

### Impairment of fixed assets and goodwill

The need for any fixed asset impairment write down is assessed by comparison of the carrying value of the asset against the higher of realisable value and value in use.

### Investments in subsidiary undertakings

Investments in subsidiary undertakings are shown at cost less provision for any impairment in value.

### Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

### Fixed assets and depreciation

Depreciation is provided by the Group to write off the cost less the estimated residual value of tangible fixed assets, except for freehold land by equal instalments over their estimated useful economic lives as follows:

Freehold buildings - 2% per annum  
Software - 33 to 50% per annum  
Hardware - 20 to 33% per annum  
Fixtures and fittings - 20 to 33% per annum

### Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

For consolidation purposes, the assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Exchange differences arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

### Leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

### Pension costs

The Group operates defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

### Deferred taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred. Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

### Turnover

Turnover represents the amounts receivable, net of sales taxes, on the provision of the Group's software, maintenance, consultancy and other services such as training. When a sale is made to a customer of the Group's software the price includes the provision of maintenance (for a perpetual licence this is only for the first year). The maintenance element is deferred and is recognised over the period that the maintenance is provided. Appropriate amounts attributable to maintenance are deferred for each type of licence.

The licence element of the sale is recognised as income when the following conditions have been satisfied:

- 1) The software has been provided to the customer in a form that enables the customer to utilise it.
- 2) There is a contractual relationship between the customer and the Group.
- 3) The ongoing obligations of the Group to the customer, aside from the maintenance are minimal.
- 4) The amount payable by the customer is determinable and there is a reasonable expectation of payment.

## 2 Segmental information

The Group's turnover and profit before taxation for each geographic area of operation by location and by destination relating to its sole class of business is:

	Turnover		Profit Before Taxation	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
United States of America	4,864	5,908	153	9
Europe and Asia Pacific	5,357	5,803	302	626
	10,221	11,711	455	635

The net assets attributable to each geographical segment are:

	2003 £'000	2002 £'000
United States of America	553	479
Europe and Asia Pacific	4,332	4,224
	4,885	4,703

## 3 Operating profit

	2003 £'000	2002 £'000
<b>This is arrived at after charging/(crediting):</b>		
Research and development costs	2,365	2,382
<b>Auditors' remuneration:</b>		
Audit services	53	54
Other fees paid to the auditors and their associates	23	31
<b>Depreciation and other amounts written off tangible fixed assets:</b>		
- Owned	423	479
- Leased	-	74
Amortisation of goodwill	82	82
Hire of plant and machinery - operating leases	66	85
Hire of other assets - operating leases	525	500
Loss/(profit) on disposal of fixed assets	1	(17)

Included within the group audit fee is an amount of £20,000 (2002 - £20,000) in respect of the Company.

## 4 Remuneration of Directors

	2003 £'000	2002 £'000
Directors' emoluments	269	246
Contributions to money purchase pension schemes	16	16

Directors' emoluments are detailed in the Report from the Remuneration Committee.

There were 2 (2002 - 2) Directors in the Company's defined contribution pension scheme during the year.

## 5 Employees

Staff costs consist of:

	2003 £'000	2002 £'000
Wages and salaries	5,008	5,603
Social security costs	602	653
Other pension costs (see note 21)	231	140
	5,841	6,396

During the year the average number of employees, including Executive Directors, was as follows:

	2003	2002
Number of employees		
Sales and marketing	36	36
Technical staff	61	75
Administration	23	24
	120	135

**6 Other interest receivable and similar income**

	2003 £'000	2002 £'000
Exchange gains	9	-
Other interest receivable	46	26
Rental Income	46	-
	<b>101</b>	26

**7 Interest payable and similar charges**

	2003 £'000	2002 £'000
On bank loans and overdrafts	31	45
Exchange losses	-	33
Finance charges payable in respect of finance leases and hire purchase contracts	6	17
	<b>37</b>	95

**8 Taxation**

	2003 £'000	2002 £'000
<b>Current tax</b>		
UK corporation tax on profits of the year	60	99
Double tax relief	(60)	(99)
Overseas tax	102	184
Adjustment in respect of previous years	(50)	9
Total current tax	<b>52</b>	193
<b>Deferred tax</b>		
Reversal of timing difference ( <i>note 18</i> )	-	(33)
Taxation on profit on ordinary activities	<b>52</b>	160

The tax assessed for the year is different to the standard rate of corporation tax in the UK.  
The differences are explained below:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	455	635
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% ( <i>2002 – 30%</i> )	137	191
<b>Effects of:</b>		
Enhanced relief for research and development	(201)	(220)
Other permanent differences	30	(20)
Depreciation in excess of capital allowances	97	145
Utilisation of brought forward losses	-	(14)
Unrelieved current year tax losses	60	38
(Over)/underprovision in prior years	(50)	9
Tax rate differences	1	-
Unrelieved overseas tax	15	64
Timing differences	(37)	-
Current tax charge for year	<b>52</b>	193

**9 Dividends**

	2003 £'000	2002 £'000
Proposed 1p per share ( <i>2002 – 1p</i> )	146	146

**10 Earnings per share**

	2003	2002	2003	2002	2003	2002
	£'000	£'000	Weighted average number of shares No'000	Weighted average number of shares No'000	Earnings per share pence	Earnings per share pence
Profit for the financial year before goodwill amortisation	485	557	14,647	14,647	3.31	3.81
Goodwill amortisation	(82)	(82)	-	-	(0.56)	(0.56)
Profit for the financial year	403	475	14,647	14,647	2.75	3.25
Dilutive effect of share options	-	-	77	62	(0.01)	(0.02)
	403	475	14,724	14,709	2.74	3.23

The diluted earnings per share have been calculated using an average share price of 62 pence (2002 - 65 pence).

The Company has elected to show the earnings per share figures before the amortisation of goodwill, as this is a measure widely used by analysts.

**11 Profit for the financial year**

The Group profit for the year includes a profit after tax and before dividends paid and payable of £170,000 (2002 - £172,000) which is dealt with in the financial statements of the parent Company.

**12 Intangible fixed assets**

	Goodwill £'000
<b>Cost</b>	
At 31 December 2002 and 31 December 2003	820
<b>Amortisation</b>	
At 31 December 2002	280
Charged in year	82
At 31 December 2003	362
<b>Net book value</b>	
At 31 December 2003	458
At 31 December 2002	540

Goodwill arises following the acquisition of Kimberley Communications Consultants Limited in 1999 and is being written off over 10 years based on the expected useful life of the products and development acquired.

**13 Tangible assets**

	Freehold land and buildings £'000	Software £'000	Hardware £'000	Fixtures and fittings £'000	Total £'000
<b>Cost</b>					
At 31 December 2002	1,225	814	2,939	630	5,608
Additions	7	72	112	5	196
Disposals	-	(5)	(27)	-	(32)
Exchange adjustment	-	(7)	(24)	(17)	(48)
At 31 December 2003	1,232	874	3,000	618	5,724
<b>Depreciation</b>					
At 31 December 2002	-	667	2,580	453	3,700
Provided for the year	8	120	229	66	423
Disposals	-	(5)	(26)	-	(31)
Exchange adjustment	-	(7)	(22)	(14)	(43)
At 31 December 2003	8	775	2,761	505	4,049
<b>Net book value</b>					
At 31 December 2003	1,224	99	239	113	1,675
At 31 December 2002	1,225	147	359	177	1,908

The net book value of tangible fixed assets includes an amount of £Nil (2002 - £48,000) in respect of assets held under finance leases and similar hire purchase contracts. The amount of depreciation charged during the year for such assets amounted to £Nil (2002 - £74,000).

## 14 Fixed asset investments

Company	£'000
<b>Shares in subsidiary undertakings at cost and net book value</b>	<b>861</b>
At 1 January and 31 December 2003	

The following subsidiary undertakings, all of which specialise in virtual prototyping software and other related activities, have all been included in the consolidated financial statements:

Name	Country of incorporation or registration
Flomerics Limited	England and Wales
Flomerics, Inc.	USA
Kimberley Communications Consultants Limited	England and Wales
Flomerics Asia Limited	Hong Kong
Flomerics Nordic AB	Sweden
Flomerics S.E. Asia Pte Ltd.	Singapore

All companies are wholly owned (the holding in Flomerics, Inc. is indirectly held).

## 15 Debtors

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Trade debtors	3,051	3,345	-	-
Amounts owed by subsidiary undertaking	-	-	1,186	1,158
Other debtors	28	13	-	-
Prepayments and accrued income	756	858	1	-
	<b>3,835</b>	4,216	<b>1,187</b>	1,158

All debtors are due within one year.

## 16 Creditors: amounts falling due within one year

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Other loans (secured)	63	56	-	-
Obligations under finance leases and hire purchase contracts (see note 17)	-	43	-	-
Trade creditors	204	200	-	-
Corporation tax	29	53	-	-
Other taxation and social security	231	261	-	-
Dividend proposed	146	146	146	146
Accruals and deferred income	2,394	2,787	-	-
	<b>3,067</b>	3,546	<b>146</b>	146

**17 Creditors: amounts falling due after more than one year**

<b>Group</b>	<b>2003</b> £'000	2002 £'000
Other loans (secured)	506	574

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	<b>2003</b> £'000	2002 £'000
Within one year	-	43

The amount shown in Other loans represents a mortgage taken out by a subsidiary company, Flomerics Limited, to facilitate the purchase of a freehold property intended for the expansion of the Group. The mortgage is guaranteed by the Company and is secured on the property itself. The mortgage is being repaid over ten years and the interest rate is 1.25% over 3 month LIBOR. The mortgage is repayable as follows:

	<b>2003</b> £'000	2002 £'000
Within one year	63	56
In one to two years	67	63
In two to five years	223	211
In more than five years	216	300
	<b>569</b>	630

**18 Provisions for liabilities and charges**

<b>Group</b>	<b>2003</b> £'000	2002 £'000
Deferred taxation:		
At 31 December 2002	-	33
Credit for the year	-	(33)
At 31 December 2003	-	-

The amounts provided for deferred taxation are 2003 - £Nil (2002 - £Nil). A deferred taxation asset amounting to £437,000 (2002 - £280,000) has not been recognised on the basis that the Group will not be able to take advantage of its disclaimed capital allowances, unutilised losses and the timing difference on provisions in the short term.

There is an unprovided deferred tax asset in the Company of £105,000 in unutilised losses.

**19 Share capital**

	<b>2003</b> £'000	2002 £'000
<b>Authorised</b>		
20,000,000 ordinary shares of 1p each	200	200
<b>Allotted, called up and fully paid</b>		
14,646,580 ordinary shares of 1p each	146	146

As at 31 December 2003, unexercised options, which have not lapsed, totalling 532,008 have been granted under the Group's Share Option Schemes as follows:

Number of shares	Date of grant	Exercise price per share	Exercise dates
50,000	13 April 1999	£0.40	2002-2009
100,000	4 October 1999	£0.545	2002-2009
43,750	24 April 2002	£0.84	2005-2012
101,000	1 August 2002	£0.53	2005-2012
22,144	11 September 2002	£0.475	2005-2012
35,214	28 February 2003	£0.455	2006-2013
70,000	7 April 2003	£0.51	2006-2013
109,900	31 July 2003	£0.69	2006-2013

## 20 Reconciliation of movements in shareholders' funds

Group	Share capital £'000	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000	2003 Total £'000	2002 Total £'000
Profit for the financial year	-	-	-	403	403	475
Dividend proposed	-	-	-	(146)	(146)	(146)
Currency translation movement	-	-	-	(75)	(75)	(96)
Net addition to shareholders' funds	-	-	-	182	182	233
Opening shareholders' funds	146	1,602	759	2,196	4,703	4,470
Closing shareholders' funds	146	1,602	759	2,378	4,885	4,703

Company	Share capital £'000	Share premium account £'000	Profit and loss account £'000	2003 Total £'000	2002 Total £'000
Profit for the financial year	-	-	170	170	172
Dividend proposed	-	-	(146)	(146)	(146)
Net addition to shareholders' funds	-	-	24	24	26
Opening shareholders' funds	146	1,602	137	1,885	1,859
Closing shareholders' funds	146	1,602	161	1,909	1,885

## 21 Pension scheme

The Group operates defined contribution pension schemes. The pension charge for the year represents contributions payable by the Group to the schemes and amounted to £231,000 (2002 - £140,000). At the end of the financial year contributions amounting to £6,000 (2002 - £2,000) were payable to the funds and are included in creditors.

## 22 Commitments under operating leases

As at 31 December 2003, the Group had annual commitments under non-cancellable operating leases as set out below:

	2003 Land and buildings £'000	2003 Other £'000	2002 Land and buildings £'000	2002 Other £'000
<b>Operating leases which expire:</b>				
Within one year	47	42	76	53
In two to five years	334	11	297	23
Over five years	154	-	154	-
	535	53	527	76

**23 Reconciliation of operating profit to net operating cash flows**

	2003 £'000	2002 £'000
Operating profit	391	704
Depreciation and amortisation charge	505	635
Loss/(profit) on disposal of fixed assets	1	(17)
Exchange differences	(70)	(80)
Decrease in debtors	381	893
Decrease in creditors	(419)	(121)
Net cash inflow from operating activities	789	2,014

**24 Analysis of net funds**

	At 1 January 2003 £'000	Cash flow £'000	Other non-cash changes £'000	At 31 December 2003 £'000
Cash in hand and at bank	2,159	331	-	2,490
Debt due after one year	(574)	5	63	(506)
Debt due within one year	(56)	56	(63)	(63)
Finance leases	(43)	43	-	-
Total	1,486	435	-	1,921

**25 Financial instruments**

The Group's financial instruments comprise borrowings, forward exchange contracts, cash and various items such as trade debtors and trade creditors etc. that arise directly from its operations. It is not Group policy to trade in financial instruments.

Borrowings comprise a mortgage taken out on the property that was acquired in 2001. The amount outstanding on the mortgage at the end of 2003 was £569,000 (2002 - £630,000). It is repayable over ten years.

There is no material difference between the book value and the fair value of the financial instruments in the current or prior year.

**Interest rate Risk**

From its cash deposits the Group earns interest at varying rates. Cash is placed on deposit overnight or for longer periods according to needs and rates available. During the year sums were placed with a bank other than the Group's principal banker in order to obtain more favourable rates.

The Group is exposed to interest rate fluctuations on the mortgage. The agreed interest rate is 1.25% over 3 month LIBOR.

**Foreign Currency Risk**

The Group has a significant subsidiary in the United States (Flomerics Inc.) which pays a licence fee to a Group company (Flomerics Limited) in the United Kingdom for sales that it makes. The currency exposure to these payments is partly hedged by forward exchange contracts.

During the year Flomerics Limited also entered into forward exchange contracts to partly hedge its exposure to the Yen from sales made by its Japanese distributor.

The Group also has an exposure to fluctuations in various European currencies but it was not the policy to hedge against this during 2003.

Unrecognised gains on hedges at the 31 December 2003 were £6,000 (2002 - loss £28,000). Gains expected to be recognised in the profit and loss account for the next period, in respect of current contracts based on prevailing exchange rates at 11 February 2004, are £6,000 (2002 - £28,000).