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Company Information

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Directors

T R M Kinsey
(Chairman, non-executive)

P T Miles
(Non-executive)

H R O Humphreys, OBE
(Managing Director)

E B Lambourne
(Technical Director)

C P Martell
(Managing Director, European Business)

K Singh
(Finance Director)

Secretary

K Singh

Registered office

Talbot Way
Small Heath Business Park
Birmingham
B10 0HJ

Registered number

2311487

Nominated Broker and Nominated Adviser

Williams de Broë Plc
1 Waterloo Street
Birmingham
B2 5PG

Bankers

Barclays Bank PLC
PO Box No 3333
15 Colmore Row
Birmingham
B3 2WN

Solicitors

Wragge & Co.
55 Colmore Row
Birmingham
B3 2AS

Auditors

RSM Robson Rhodes LLP
Chartered Accountants
Centre City Tower
7 Hill Street
Birmingham
B5 4UU

Registrars

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

JOB 7121 — PROOF 04 — 05/04/2004

Chairman's Statement

FINANCIAL HIGHLIGHTS

I am very pleased to report that the growth in sales for the second half of 2003 has accelerated from that achieved in the first half of the year. Sales for the year to 31 December 2003 were at the record level of £20.5 million compared with £18.9 million during 2002, an increase of 8.5%. These record sales were achieved partly through an expansion of our distribution network, primarily in the emerging economies of China and India, but also in many of our established markets, including the United States, Germany, Korea and Japan. We have also been successful in broadening the range of applications of our software. Our recent technical developments have made our software more attractive to companies in product design applications such as footwear, packaging and electrical/telecommunications appliances, and also for production machining of high-value components for the aerospace, motor sports and medical industries.

Profit before tax of £1.35 million showed an increase of 26% over last year. As previously reported, the Company philosophy continues to be to increase its investment in product development and in sales and marketing. We firmly believe that this increased investment, while affecting short-term profitability, is essential to the continued long-term growth of the Company. Basic earnings per share were 20.5p compared with 14.0p in the equivalent period last year.

The Company generated £1.3 million in cash during the year, resulting in it being free of debt at the year end.

The Directors are currently undertaking a review of the Company's pension fund and its level of benefits and fund liabilities following the preliminary results of the valuation that was undertaken as at 31 December 2003. The Board recognises the need to provide staff pension benefits whilst managing the risks and cost to the Company.

DIVIDEND

The Board proposes to pay a final dividend of 2.80p per ordinary share (2002 — 2.55p), making the dividend for the full year 3.75p per share (2002 — 3.50p), an increase of 7.1%. It will be paid on 13 May 2004 to shareholders on the Register as at 16 April 2004. The shares are expected to be quoted ex dividend on 14 April 2004.

REVIEW

During 2003, we planned to continue our growth through three key strategies. Firstly, we promoted our capabilities as a supplier of product development solutions, rather than just as a CAD/CAM supplier, through the broadening of our range of products and supporting services. The establishment in 2002 of our consultancy group, which won a number of valuable contracts during the year, continues to be an important element of this broader portfolio. Secondly, we increased the proportion of our business coming from outside the mould and die area, both in other types of toolmaking and in other industries. The results of this wider focus have already been seen, with new customers being gained from companies undertaking production machining and inspection of complex aerospace engine components and airframe structures, and from product design organisations. Thirdly, we will continue to increase our sales to larger organisations as well as to smaller and medium-sized companies.

These clear objectives helped us to succeed despite the poor economic conditions for manufacturing companies that have continued in a number of the territories in which we operate. In addition, a number of external factors disrupted our business, in particular the SARS outbreak in Asia, the conflict in Iraq and the fall in value of the US dollar. This difficult trading environment makes the continued growth in our sales even more impressive. The growth is a strong testament to the excellence of our products, to the quality of our resellers around the world and to the efforts of our employees. After two years in which our second half sales were lower than those for the first half, Delcam returned to its more usual trading pattern in 2003 by achieving higher sales in the second half of the year.

We were very pleased to win a Queen's Award for Enterprise in the Innovation category. Whilst this was awarded specifically in recognition of the continuing innovation in our ArtCAM software, it has provided a boost for all our development staff. We were also pleased to see several of our customers winning awards for excellence in High-Speed Machining and Toolmaking.

Chairman's Statement (continued)

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At the start of 2003, Delcam reorganised its international sales activity into three sectors: Europe, the Americas, and Far East. This new structure was introduced to give improved management of our increasing number of resellers, better coordination of our sales to larger companies that tend to operate in many countries, and closer relationships with suppliers of machine tools and other related equipment that tend to be organised along similar geographic lines.

Europe

Sales of software and maintenance in the region grew by just over 10%, which must be considered a good result given the economic difficulties in the region. The UK subsidiary maintained its revenues despite the contracting manufacturing base in the country. Our Italian subsidiary had a difficult year but this was more than offset by excellent results from Germany, France and Austria.

Americas

The improved conditions for manufacturing towards the end of the year contributed to an 8% increase in sales in North America, despite the weakening of the US dollar against sterling. An even better performance was seen in South America during the second half of the year, with greatly improved political and economic stability in the region leading to a 10% increase in sales over the year.

Far East

Strong growth was seen in most parts of the region. Sales increased by more than one-third in China and Taiwan, and in the ASEAN group of nations. The more established markets of Korea and Japan continued their growth but, as might be expected, at a lower rate than our newer markets.

OUTLOOK

As a global business, it is easy to see how events across the world have affected our performance in certain regions. During 2003, we have again demonstrated that we can continue to achieve good results despite these challenges. The lower value of the US dollar against sterling is expected to adversely affect our growth, as it counteracts some of the expected increase in our sales volumes. Trading in the early part of 2004 gives good reason for optimism, especially if we maintain our traditional pattern of higher sales in the second half of the year.

T R M KINSEY

Chairman

29 March 2004

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

ACTIVITIES AND BUSINESS REVIEW

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

The Group undertakes significant research and development expenditure, which amounted to £5,171,000 during the year (2002 — £4,474,000) and will benefit from research and development tax allowances in the United Kingdom.

DIVIDENDS AND TRANSFERS TO RESERVES

The results are set out on page 12. The retained profit for the year ended 31 December 2003 of £1,013,000 (2002 — £633,000) was transferred to reserves.

An interim dividend of £58,000 was paid in the year (2002: £58,000) as set out in note 10. The directors recommend the payment of a final dividend of £169,000 (2002: £154,000).

DIRECTORS AND THEIR INTERESTS

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

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

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

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

	Ordinary shares of 10p each	
	2003	2002
T R M Kinsey	36,997	36,997
P T Miles	155,000	140,000
H R O Humphreys	965,243	965,243
E B Lambourne	918,304	918,304
C P Martell	135,872	135,872
K Singh	32,466	32,466

As at 26 March 2004 there were no changes in the directors' shareholdings.

In accordance with the Company's Articles of Association, E B Lambourne and T R M Kinsey retire by rotation and, being eligible, offer themselves for re-election. Both directors have service contracts which expire by serving 12 months' and 6 months' notice of termination respectively.

SHARE OPTION SCHEMES

The Company has continued to operate three share option schemes for its employees.

- *Approved Scheme*

On 6 June 1997 approved share options were granted in respect of Ordinary shares (formerly 'A' Ordinary shares), which represented 230,386 Ordinary shares in aggregate, to employees and directors at an exercise price of 280p (168p following dilution resulting from the bonus issue on 15 July 1997) per Ordinary share and unapproved options were granted for Ordinary

Report of the Directors (continued)

shares which represented 19,199 Ordinary shares in aggregate to employees and directors at an exercise price of 20p (diluted to 12p) per Ordinary share. The options are exercisable within the period of 3 to 10 years following the date of grant.

No options were exercised during the year (2002 — none).

124,104 (2002 — 141,961) options of 168p and 10,337 (2002 — 11,815) options of 12p were yet to be exercised at the year end.

- *Unapproved Scheme*

On 6 June 1997 unapproved share options were granted in respect of Ordinary shares, which represent 25,890 Ordinary shares in aggregate, to employees and directors at an exercise price of 260p (156p following dilution resulting from the bonus issue on 15 July 1997) per Ordinary share. The options are exercisable within the period of 3 to 10 years following the date of grant.

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

No options were exercised during the year (2002 — none). Options remaining to be exercised were 12,196 (2002 — 15,851).

Directors have interests in the approved and unapproved share option scheme as follows:

	Options held		Options held		Date from which exercisable	Expiry date
	31 December 2002	Exercise price	31 December 2003			
Approved scheme						
<i>Approved options</i>						
C P Martell	1,229	168p	1,229		6.6.2000	5.6.2007
K Singh	3,077	168p	3,077		6.6.2000	5.6.2007
<i>Unapproved options</i>						
C P Martell	102	12p	102		6.6.2000	5.6.2007
K Singh	256	12p	256		6.6.2000	5.6.2007
Unapproved scheme						
T R M Kinsey	1,333	156p	1,333		6.6.2000	5.6.2007
H R O Humphreys	1,333	156p	1,333		6.6.2000	5.6.2007
E B Lambourne	1,333	156p	1,333		6.6.2000	5.6.2007

At 31 December 2003 the market price of the shares was 166p. During the year the shares traded between a low of 110p and a high of 174p. As at 26 March 2004, no further share options have been granted to the directors.

SERVICE CONTRACTS

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

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

DELCAM EMPLOYEE BENEFIT TRUST

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

- It has been established that the original trustee is a company wholly owned and controlled by Delcam Plc and called Delcam Trustees Limited.
- A beneficiary of the Delcam Employee Benefit Trust is any person who at the material time is a bona fide employee, a former employee of any Group company, or the husband, wife, widow, widower or child (except child under 18 years of age) of any bona fide employee or former employee of a Group company.

Report of the Directors (continued)

- Any company within the Group may from time to time at its sole discretion transfer, pay or credit sums of money to the Trustees to be held in the terms of the Delcam Employee Benefit Trust.
- The primary objectives of the Delcam Employee Benefit Trust are to hold the capital and income of the trust fund upon trust for all or such of the beneficiaries.

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

During the year no shares were purchased by Delcam Trustees Limited. Details are given in note 14 of these financial statements. All shares held by the trust are under option to employees with dividends paid out to staff under the AESOP scheme rules. Costs are written off to the profit and loss account as incurred.

SUBSTANTIAL SHAREHOLDINGS

At 26 March 2004, so far as the Company is aware, the only person, other than directors, holding an interest comprising 3% or more of the Ordinary share capital of the Company was:

	Number of Ordinary shares	Percentage of issued share capital
S M Hobbs	291,233	4.8%

EMPLOYEES

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

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

SPECIAL RESOLUTIONS

The directors draw your attention to resolution 6 set out in the Notice of meeting on page 37. The special resolution will be proposed to allow the directors to make market purchases of ordinary shares in the capital of the Company. Once purchased, the shares will be cancelled and the issued share capital of the Company will be reduced by that amount. The authority is limited to not more than 10% of the current issued share capital.

The directors will only exercise this authority in circumstances where the directors believe it would result in an increase in earnings per share and would be in the interests of the shareholders generally.

The directors will propose to renew the authority to disapply section 89 of the Companies Act 1985 pre-emption rights as set out in resolution 7.

POLICY ON PAYMENT OF CREDITORS

It is the Group's practice to agree payment terms with its suppliers. Payment is made when it can be confirmed that goods and/or services have been provided in accordance with the relevant contractual conditions. At 31 December 2003, the Company's trade creditors represented 45 days (2002 — 42 days) of annual purchases.

FINANCIAL INSTRUMENTS

The Group's principal financial instruments are amounts receivable from customers, cash, foreign currency, bank overdrafts and loans, payments to suppliers and finance leases.

Report of the Directors (continued)

The Group's policy for the financing of its business is principally by the use of a mixture of share capital, retained earnings and bank borrowings.

No financial instruments were entered into during the year under review (2002 — none). In February 2004, Delcam Plc entered into a forward foreign currency contract of US\$1m, which matures on 31 March 2004. The hedge arrangement is in respect of future revenues in US dollars.

Credit risk

The Group relies on maintaining a high quality customer base and places emphasis on good credit management.

Cash flow risk

This is managed by strict control over debtors and application of credit limits.

Interest rate risk

At the present time, the directors do not consider it necessary to use other measures to control this risk. The Group does not have significant borrowings.

Liquidity risk

The Group's assets are principally financed by cash balances, secured floating rate bank loans and overdrafts. Interest on the bank facilities is payable at variable rates above United Kingdom base rates.

Foreign currency risk

The Group has overseas subsidiaries as detailed in note 14. Their revenues and expenses are denominated substantially in their local currencies.

AUDITORS

During the year Deloitte & Touche resigned as auditors and RSM Robson Rhodes LLP were appointed in their place. RSM Robson Rhodes LLP are willing to continue in office and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of directors on 29 March 2004 and signed on behalf of the Board.

K SINGH

Secretary

Corporate Governance

As a company listed on the Alternative Investment Market of the London Stock Exchange, Delcam Plc is not required to comply with the Combined Code (“the Code”). However, the Board of directors has considered the effects of the Code and taken steps to comply with the Code insofar as it can be applied practically, given the size of Delcam and the nature of its operations.

The Audit Committee, comprising the two non-executive directors Mr T R M Kinsey and Mr P T Miles, has met twice during the year.

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

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

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

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

In establishing the systems of internal control, the directors have implemented a control environment, risk management procedures and reporting processes appropriate to the size of the Group. Further procedures will continue to be adopted in respect of all the Group’s activities, especially those overseas, to further improve financial control.

After making appropriate enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

As an AIM listed company, Delcam Plc is not required to comply with the Directors’ Remuneration Report Regulations 2002.

The Remuneration Committee consists of two non-executive directors, Mr T R M Kinsey and Mr P T Miles.

At present the committee annually reviews the level of directors’ remuneration packages. Disclosure of directors’ remuneration is provided in note 7 to the financial statements.

The remuneration of the non-executive directors is determined by the Board.

Statement of Directors' Responsibilities

Company law in the United Kingdom 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 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 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.

The directors are responsible for ensuring that the directors' report and other information included in the annual report is prepared in accordance with UK company law. They are also responsible for ensuring the annual report includes information required by the listing rules of AIM.

The annual report is available on the Company's website. The maintenance and integrity of this website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the website.

Independent Auditors' Report

to the Shareholders of Delcam Plc

We have audited the financial statements on pages 12 to 36.

This report is made solely to the Company's shareholders, 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 shareholders 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 the Company's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom 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 to you 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 is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

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 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 affairs of the Company and the Group as at 31 December 2003 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors
Birmingham, England
29 March 2004

Consolidated Profit and Loss Account

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YEAR ENDED 31 DECEMBER 2003

		2003	Restated 2002
	Note	£'000	£'000
TURNOVER	2	20,451	18,913
Cost of sales		<u>(6,339)</u>	<u>(5,863)</u>
GROSS PROFIT		14,112	13,050
Distribution costs		(5,200)	(4,952)
Administrative expenses		(7,697)	(7,180)
Other operating income		<u>31</u>	<u>244</u>
OPERATING PROFIT	3	1,246	1,162
Share of associates' operating profit		<u>154</u>	<u>62</u>
		1,400	1,224
Interest receivable and similar income	4	30	11
Amounts written off fixed asset investments		—	(46)
Interest payable and similar charges	5	<u>(82)</u>	<u>(119)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,348	1,070
Tax on profit on ordinary activities	8	<u>(110)</u>	<u>(230)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,238	840
Equity minority interests	22	<u>2</u>	<u>5</u>
PROFIT FOR THE FINANCIAL YEAR		1,240	845
Dividends	10	<u>(227)</u>	<u>(212)</u>
RETAINED PROFIT FOR THE YEAR	24	<u>1,013</u>	<u>633</u>
Basic earnings per Ordinary share	11	<u>20.51p</u>	<u>13.98p</u>
Diluted earnings per Ordinary share	11	<u>20.45p</u>	<u>13.78p</u>
Net dividend per share	10	<u>3.75p</u>	<u>3.50p</u>

All activities derive from continuing operations.

Individual turnover and operating profit in respect of acquisitions during the year are considered not sufficiently material to warrant additional disclosures under FRS 3.

The 2002 restatement reflects a reclassification of selling costs of £673,000 from administrative expenses to distribution costs.

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Statement of Total Recognised Gains and Losses

YEAR ENDED 31 DECEMBER 2003

	2003	2002
	£'000	£'000
Profit attributable to members of the Company	1,240	845
Foreign exchange translation differences on foreign currency net investment in subsidiaries and associated undertakings	<u>(27)</u>	<u>(39)</u>
Total recognised gains and losses	<u>1,213</u>	<u>806</u>

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Note of Historical Cost Profits and Losses

YEAR ENDED 31 DECEMBER 2003

	2003	2002
	£'000	£'000
Profit on ordinary activities before taxation	1,348	1,070
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	<u>33</u>	<u>50</u>
Historical cost profit on ordinary activities before taxation	<u>1,381</u>	<u>1,120</u>
Historical cost retained profit after taxation, minority interest and dividends	<u>1,046</u>	<u>683</u>

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Consolidated Balance Sheet

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AS AT 31 DECEMBER 2003

	Note	2003		2002	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Intangible assets	12		77		45
Tangible assets	13		6,237		6,371
Investments	14		803		768
			<u>7,117</u>		<u>7,184</u>
CURRENT ASSETS					
Stocks	15	177		113	
Debtors	16	5,463		5,384	
Cash at bank and in hand		<u>1,045</u>		<u>593</u>	
		6,685		6,090	
CREDITORS: Amounts falling due within one year	17	<u>(3,514)</u>		<u>(3,773)</u>	
NET CURRENT ASSETS			<u>3,171</u>		<u>2,317</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			10,288		9,501
CREDITORS: Amounts falling due after					
more than one year	18		(279)		(474)
PROVISION FOR LIABILITIES AND CHARGES	20		(33)		(129)
DEFERRED INCOME	21		(1,293)		(1,197)
EQUITY MINORITY INTERESTS	22		<u>14</u>		<u>12</u>
NET ASSETS			<u>8,697</u>		<u>7,713</u>
CAPITAL AND RESERVES					
Called up share capital	23		612		612
Share premium account	24		1,920		1,920
Revaluation reserve	24		2,270		2,303
Capital reserve	24		9		9
Other reserve	24		(10)		(8)
Profit and loss account	24		<u>3,896</u>		<u>2,877</u>
SHAREHOLDERS' FUNDS	25		<u>8,697</u>		<u>7,713</u>
Non-equity shareholders' funds			8		8
Equity shareholders' funds			<u>8,689</u>		<u>7,705</u>
TOTAL SHAREHOLDERS' FUNDS			<u>8,697</u>		<u>7,713</u>

The financial statements were approved by the Board on 29 March 2004 and signed on its behalf by:

H R O HUMPHREYS

Director

Company Balance Sheet

AS AT 31 DECEMBER 2003

	Note	2003		2002	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Intangible assets	12		65		31
Tangible assets	13		5,714		5,819
Investments	14		383		303
			<u>6,162</u>		<u>6,153</u>
CURRENT ASSETS					
Stocks	15	89		43	
Debtors	16	5,702		5,294	
Cash at bank and in hand		248		121	
		<u>6,039</u>		<u>5,458</u>	
CREDITORS: Amounts falling due within one year	17	<u>(2,154)</u>		<u>(2,269)</u>	
NET CURRENT ASSETS			<u>3,885</u>		<u>3,189</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			10,047		9,342
CREDITORS: Amounts falling due					
after more than one year	18		(279)		(474)
PROVISION FOR LIABILITIES AND CHARGES	20		(33)		(129)
DEFERRED INCOME	21		<u>(1,293)</u>		<u>(1,197)</u>
NET ASSETS			<u>8,442</u>		<u>7,542</u>
CAPITAL AND RESERVES					
Called up share capital	23		612		612
Share premium account	24		1,920		1,920
Revaluation reserve	24		2,270		2,303
Capital reserve	24		9		9
Profit and loss account	24		<u>3,631</u>		<u>2,698</u>
SHAREHOLDERS' FUNDS			<u>8,442</u>		<u>7,542</u>
Non-equity shareholders' funds			8		8
Equity shareholders' funds			<u>8,434</u>		<u>7,534</u>
TOTAL SHAREHOLDERS' FUNDS			<u>8,442</u>		<u>7,542</u>

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The financial statements were approved by the Board on 29 March 2004 and signed on its behalf by:

H R O HUMPHREYS

Director

Consolidated Cash Flow Statement

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FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 £'000	2002 £'000
Net cash inflow from operating activities	27	2,421	1,324
Returns on investment and servicing of finance	27	(52)	(108)
Taxation paid		(42)	(236)
Capital expenditure and financial investment	27	(469)	(643)
Equity dividends paid		<u>(212)</u>	<u>(203)</u>
Cash inflow before financing		1,646	134
Financing	27	<u>(346)</u>	<u>(167)</u>
Increase/(decrease) in cash	28	<u>1,300</u>	<u>(33)</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

	2003 £'000	2002 £'000
Increase/(decrease) in cash	1,300	(33)
Cash outflow from decrease in debt and lease finance	<u>346</u>	<u>167</u>
Change in net debt resulting from cash flows	1,646	134
Translation difference	(11)	19
Inception of finance leases	<u>(135)</u>	<u>—</u>
Movement in net debt in the year	1,500	153
Net debt at 1 January	<u>(1,196)</u>	<u>(1,349)</u>
Net funds/(debt) at 31 December	<u>304</u>	<u>(1,196)</u>

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Notes to the Accounts

1. ACCOUNTING POLICIES

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

Basis of accounting

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

Basis of consolidation

The consolidated accounts include the audited financial statements of the Company and all its subsidiaries for the year ended 31 December 2003.

Turnover

Turnover consists of goods and services supplied in the year (excluding VAT).

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

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

Goodwill

On the acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the Group's share of net assets.

Where the cost of acquisition exceeds the values attributable to such net assets, the difference is treated as purchased goodwill. Prior to 1998, goodwill was written off directly to reserves in the year of acquisition as a matter of accounting policy.

In accordance with FRS 10, effective for years ending on or after 23 December 1998, goodwill is now capitalised and amortised over its useful economic life, unless the directors consider a shorter life is more appropriate.

On any subsequent disposal of the businesses to which the above goodwill relates, a charge or credit to the profit and loss account will be made.

Tangible fixed assets

Depreciation is provided to write off the cost or valuation, less estimated residual value, of all fixed assets, over their expected useful lives. The rates used are as follows:

Long leasehold buildings	2% straight line
Plant and machinery	10% – 15% straight line
Computer equipment	20% – 33% straight line
Fixtures and fittings	20% straight line
Motor vehicles	25% straight line

In accordance with the transitional rules of FRS 15, long leasehold buildings are carried at modified historical cost. A policy of annual revaluation has not been adopted.

Stocks and work in progress

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

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

Research and development expenditure

Research and development expenditure is written off to the profit and loss account in the year it is incurred.

Government grants

Grants receivable are in respect of tangible fixed assets and are treated as other deferred income, which is credited to the profit and loss account in equal instalments over the estimated lives of the related assets.

Investments

Except as stated below, investments held as fixed assets are stated at cost less provision for impairment.

Notes to the Accounts (continued)

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In the consolidated accounts, shares in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the Group's share of the pre-tax profits and attributable taxation of the associates based on audited financial statements for the year ended 31 December 2003. In the consolidated balance sheet, the shares in associates are shown at the Group's share of the net assets, excluding goodwill.

Foreign currencies

All foreign exchange differences arising on transactions undertaken in foreign currencies are taken to the profit and loss account in the period in which they arise. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date unless a forward contract is held in which case the forward rate is used. The trading results of foreign subsidiaries are translated into sterling using the average exchange rate for the year and the difference in relation to closing rates is taken to reserves.

Deferred taxation

Deferred tax is provided in full, in accordance with FRS 19 on those timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Pensions

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

Leased assets

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

Rental charges for operating leases are charged to the profit and loss account in the period to which they relate.

Financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk. The Group does not hold derivative financial instruments for speculative purposes. For a forward foreign currency contract to be treated as a hedge, the instrument is related to actual foreign currency future revenues, reducing the risk of foreign currency exchange movements on the Group's operations. Capital gains and losses on these contracts are unrecognised and are only recognised when the hedge matures.

The Group's other financial instruments are amounts receivable from customers, cash, foreign currency, bank loans, finance leases and payments to suppliers.

2. TURNOVER

a) The analysis of turnover by the Group's geographical market by destination is as follows:

	2003	2002
	£'000	£'000
United Kingdom	4,639	4,949
Europe	7,027	6,766
America	3,783	3,100
Far East	4,091	3,343
Rest of the World	911	755
	<u>20,451</u>	<u>18,913</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

2. TURNOVER (continued)

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

	Turnover		Operating profit/(loss)		Net assets	
	2003	2002	2003	2002	2003	2002
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom	14,142	14,150	1,223	1,213	8,092	7,310
Rest of the World	6,309	4,763	23	(51)	605	403
	<u>20,451</u>	<u>18,913</u>	<u>1,246</u>	<u>1,162</u>	<u>8,697</u>	<u>7,713</u>

3. OPERATING PROFIT

	2003	2002
	£'000	£'000
<i>Operating profit is arrived at after charging:</i>		
Depreciation	616	601
Amortisation of goodwill	24	19
Rentals under operating leases		
— Hire of plant and machinery	562	360
— Other	309	274
Auditors' remuneration		
— audit services	25	26
— non-audit services	6	20
Research and development	<u>5,171</u>	<u>4,474</u>
<i>And crediting the following:</i>		
Rental income	31	244
Government grants	<u>64</u>	<u>64</u>

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4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2003	2002
	£'000	£'000
Bank deposit interest	20	6
Income from investments	<u>10</u>	<u>5</u>
	<u>30</u>	<u>11</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2003	2002
	£'000	£'000
Bank overdraft interest	40	58
Other loans repayable within five years	27	39
Finance charges payable — finance leases	<u>15</u>	<u>22</u>
	<u>82</u>	<u>119</u>

There is no interest payable in respect of associates.

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

6. EMPLOYEES

The average number of employees, including executive directors:

	2003	2002
	No.	No.
Development and production	150	133
Sales and distribution	107	90
Administration	52	37
	<u>309</u>	<u>260</u>

Staff costs, including directors:

	2003	2002
	£'000	£'000
Wages and salaries	9,592	8,761
Social security costs	1,159	942
Other pension costs	568	520
	<u>11,319</u>	<u>10,223</u>

7. DIRECTORS' REMUNERATION

Directors' emoluments

	2003	2002
	£'000	£'000
Fees	33	32
Management remuneration	349	333
Directors' emoluments (*)	382	365
Contributions to defined benefit pension scheme	29	27
	<u>411</u>	<u>392</u>

(*) Directors' emoluments above include taxable benefits and Company pension contributions.

	2003	2002
	£'000	£'000
Remuneration of highest paid director (salary and taxable benefits)	92	88
Company contributions in respect of a defined benefit pension scheme	8	7
	<u>100</u>	<u>95</u>
Accrued pension benefits of highest paid director at 31 December	41	39

	2003	2002
	No.	No.
Number of directors who are members of a defined benefit pension scheme	4	4

No director exercised any share options during the year (2002 — nil).

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

8. TAXATION

	2003 £'000	2002 £'000
Corporation Tax		
United Kingdom corporation tax at 30% (2002 — 30%) based on the profit for the year	158	227
Overseas taxation	<u>6</u>	<u>4</u>
	164	231
Associated undertakings	<u>42</u>	<u>20</u>
Total current tax charge	206	251
Deferred taxation		
Timing differences, origination and reversal	(96)	69
Adjustment in respect of prior years	<u>—</u>	<u>(90)</u>
	<u>110</u>	<u>230</u>
Reconciliation of current tax charge:		
	2003 £'000	2002 £'000
Profit on ordinary activities before tax	<u>1,348</u>	<u>1,070</u>
Tax at 30% thereon	404	321
Expenses not deductible for tax purposes	27	68
Capital allowances in excess of depreciation	(36)	(58)
Movement in short term timing differences	(1)	(11)
Research & development tax credits	(187)	(87)
Overseas tax rates	<u>(1)</u>	<u>18</u>
Total current tax charge	<u>206</u>	<u>251</u>

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9. PROFIT OF PARENT COMPANY

As permitted by section 230 of the Companies Act 1985, the profit and loss account for the parent company is not presented as part of these accounts. The parent company's profit for the financial year amounted to £1,127,000 (2002 — £847,000).

10. DIVIDENDS

	2003 £'000	2002 £'000
Interim paid		
0.95p per Ordinary share (2002 — 0.95p per Ordinary share)	58	58
Final proposed		
2.80p per Ordinary share (2002 — 2.55p per Ordinary share)	<u>169</u>	<u>154</u>
	<u>227</u>	<u>212</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

11. EARNINGS PER ORDINARY SHARE

Basic earnings per Ordinary share is calculated on profit after taxation and minority interests of £1,240,000 (2002 — £845,000) and on a weighted average number of shares of 6,044,478 (2002 — 6,044,478) Ordinary shares of 10p each. The 'C' Ordinary shares do not form part of this calculation.

Diluted earnings per share, which take into consideration the dilutive effect of earnings per share if the outstanding share options were exercised, are calculated on the profit attributable to ordinary shareholders of £1,240,000 (2002 — £845,000) and on a weighted average number of dilutive shares of 6,063,849 (2002 — 6,133,904). The difference in the average number of shares in issue used in the calculation of basic and diluted earnings per share of 19,371 (2002 — 89,426) is due to the premium element of share options outstanding at the end of each financial year, based on the average mid-market share price for that year.

12. INTANGIBLE ASSETS

	Group £'000	Company £'000
Goodwill		
Cost		
At 1 January 2003	83	65
Additions (see note 14)	56	56
At 31 December 2003	139	121
Amortisation		
At 1 January 2003	38	34
Charge for the year	24	22
At 31 December 2003	62	56
Net book value		
At 31 December 2003	77	65
At 31 December 2002	45	31

Goodwill is amortised over 20 years.

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

13. TANGIBLE ASSETS

Group	Long leasehold buildings £'000	Plant and machinery £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
At 1 January 2003	5,156	1,306	4,015	25	10,502
Additions	5	190	292	—	487
Disposals	—	(82)	(126)	—	(208)
Assets written off	—	—	(359)	—	(359)
Exchange differences	—	—	61	—	61
At 31 December 2003	5,161	1,414	3,883	25	10,483
Depreciation					
At 1 January 2003	307	782	3,033	9	4,131
Charge for the year	103	110	399	4	616
Disposals	—	(82)	(109)	—	(191)
Assets written off	—	—	(340)	—	(340)
Exchange differences	—	—	30	—	30
At 31 December 2003	410	810	3,013	13	4,246
Net book value					
At 31 December 2003	4,751	604	870	12	6,237
At 31 December 2002	4,849	524	982	16	6,371

Group and Company

The net book value of the tangible fixed assets includes £345,000 (2002 — £433,000) in respect of assets held under finance leases. Depreciation charged in the year on those assets amounted to £53,000 (2002 — £71,000).

Land and buildings were revalued in March 2000 by Lambert Smith Hampton, Consulting Surveyors and Valuers, at open market value with existing use basis at £5,000,000. If the property had not been revalued in that year, long leasehold land and buildings would have been carried in the balance sheet at 31 December 2003 at a cost of £2,917,000 (2002 — £2,913,000) and accumulated depreciation of £436,000 (2002 — £377,000). The transitional rules of FRS15 allow land and buildings previously revalued to be carried at this valuation at its modified historical cost.

Company	Long leasehold buildings £'000	Plant and machinery £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
At 1 January 2003	5,156	1,306	2,945	25	9,432
Additions	5	190	178	—	373
Disposals	—	(82)	(7)	—	(89)
Assets written off	—	—	(266)	—	(266)
At 31 December 2003	5,161	1,414	2,850	25	9,450
Accumulated depreciation					
At 1 January 2003	307	782	2,515	9	3,613
Charge for the year	103	110	237	4	454
Disposals	—	(82)	(3)	—	(85)
Assets written off	—	—	(246)	—	(246)
At 31 December 2003	410	810	2,503	13	3,736
Net book value					
At 31 December 2003	4,751	604	347	12	5,714
At 31 December 2002	4,849	524	430	16	5,819

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

14. INVESTMENTS

Group	Other investments £'000	Interests in associated undertakings £'000	Total £'000
Cost			
At 1 January 2003	604	94	698
Additions	9	91	100
Disposals	(139)	—	(139)
Exchange movement	—	(3)	(3)
At 31 December 2003	<u>474</u>	<u>182</u>	<u>656</u>
Share of net assets			
At 1 January 2003	—	259	259
Profits retained in year	—	112	112
Exchange movement	—	(27)	(27)
At 31 December 2003	<u>—</u>	<u>344</u>	<u>344</u>
Provisions			
At 1 January 2003	(189)	—	(189)
Released/(provided) in the year	48	(56)	(8)
At 31 December 2003	<u>(141)</u>	<u>(56)</u>	<u>(197)</u>
Net book value			
At 31 December 2003	<u>333</u>	<u>470</u>	<u>803</u>
At 31 December 2002	<u>415</u>	<u>353</u>	<u>768</u>

Group and Company

Additions in other investments include the shares purchased by Delcam Trustees Limited in the Company. The market value of the 149,930 (2002 — 218,481) shares held at 31 December 2003 was £247,384 (2002 — £273,101) and £303,608 at 26 March 2004. Delcam Trustees Limited also held 78,660 'C' Ordinary shares in Delcam Plc at 31 December 2003 (2002 — 78,660) (see note 23). A provision of £101,529 (2002 — £150,000) exists at 31 December 2003 for the diminution in the value of the shares held. The disposal of 68,551 shares at an original cost of £139,000 relates to Delcam Plc shares, previously held as investments by Delcam Trustees Limited, which have been sold to employees under the AESOP scheme.

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

14. INVESTMENTS (continued)

Company	Shares in Group undertakings £'000	Shares in associated undertakings £'000	Other investments £'000	Total £'000
Cost				
At 1 January 2003	983	63	47	1,093
Additions	<u>36</u>	<u>91</u>	<u>9</u>	<u>136</u>
At 31 December 2003	<u>1,019</u>	<u>154</u>	<u>56</u>	<u>1,229</u>
Provisions				
At 1 January 2003	(751)	—	(39)	(790)
Charge for the year	<u>—</u>	<u>(56)</u>	<u>—</u>	<u>(56)</u>
At 31 December 2003	<u>(751)</u>	<u>(56)</u>	<u>(39)</u>	<u>(846)</u>
Net book value				
At 31 December 2003	<u>268</u>	<u>98</u>	<u>17</u>	<u>383</u>
At 31 December 2002	<u>232</u>	<u>63</u>	<u>8</u>	<u>303</u>

Provisions have been made against the cost of investments in overseas Group undertakings and associated undertakings to impair the carrying value to its share of the net assets of those subsidiaries and associates. Where the subsidiary or associate has net liabilities, the carrying value of investments is restricted to zero.

The Company has shareholdings in the following companies:

Group undertaking	Shareholding	Country of incorporation/ Registration and operation	Gross Investment value £'000
Delcam Trustees Limited	100%	England	—
Delcam Systems Limited	100%	England	—
Delcam Italia SRL	97.5%	Italy	94
Delcam Malaysia	100%	Malaysia	41
Delcam International GmbH	100%	Germany	89
Delcam Japan	80.1%	Japan	470
Delcam International Inc.	100%	Canada	30
Delcam France	100%	France	124
Delcam China	100%	China	135
Delcam Software (India) Private Limited	100%	India	<u>36</u>
			<u>1,019</u>

Delcam Software (India) Private Limited

On 31 March 2003, the Group paid £35,763 to acquire 100% of the issued share capital of Delcam Software (India) Private Limited. This acquisition has been accounted for using the acquisition method of accounting. The company subscribed for shares at par value on the date of its incorporation and therefore no goodwill arose in the Group accounts.

Delcam Trustees Limited is a trust company set up on behalf of the employees Benefit Trust.

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

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

14. INVESTMENTS (continued)

Associated undertakings

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

Investment	Shareholding	Country of incorporation/Registration and operation
Hankook Delcam	30%	Korea
Delcam (North) Programming Services	30%	England
Delcam Taiwan	24.45%	Taiwan
Delcam Desarrollo	25%	Spain
Norcam EEDI Lda	33%	Portugal

Norcam EEDI Lda — acquisition

On 1 April 2003, the Group paid £91,000 to acquire 33% of the issued share capital of Norcam EEDI Lda. This acquisition has been accounted for using the equity method of accounting. Goodwill of £56,000 arose in respect of this acquisition as disclosed in note 12.

All of the associated undertakings carry on the business of agents supplying CAD/CAM systems to overseas markets, except Delcam (North) Programming Services in the UK.

Information relating to other investments

These investments are not accounted for on an equity basis as they are considered immaterial to the Group.

Investment	Shareholding	Country of incorporation/Registration and operation
Delcam Spb	64%	Russia
Delcam Ural	51%	Russia
Delcam BRNO	33%	Czech Republic
Delimex Limited	50%	Bulgaria
Delcam Samara	30%	Russia

Related party transactions

During the year the Company made transactions during the course of normal trading with the following related parties:

	2003	2002
	£'000	£'000
Sales to Group undertakings	3,025	2,821
Sales to associated undertakings	1,859	1,399
Purchases from Group undertakings	726	582
Purchases from associated undertakings	36	45
	<u> </u>	<u> </u>

The year end balances with related parties are included within note 16.

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

15. STOCKS

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Work in progress	26	12	26	13
Finished goods and goods for resale	<u>151</u>	<u>101</u>	<u>63</u>	<u>30</u>
	<u>177</u>	<u>113</u>	<u>89</u>	<u>43</u>

The replacement value of the above stock is not materially different from the values stated.

16. DEBTORS

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade debtors	4,276	4,357	1,527	1,865
Amounts owed by subsidiary undertakings	—	—	3,318	2,721
Amounts owed by undertakings in which the Company has a participating interest	547	433	547	433
Other debtors	278	304	25	71
Prepayments and accrued income	<u>362</u>	<u>290</u>	<u>285</u>	<u>204</u>
	<u>5,463</u>	<u>5,384</u>	<u>5,702</u>	<u>5,294</u>

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank overdrafts (note 19)	—	837	—	461
Bank loans (note 19)	355	374	207	200
Finance lease obligations	107	104	107	104
Trade creditors	808	761	482	490
Other taxation and social security	521	629	303	239
Other creditors	716	386	268	247
Corporation tax	253	131	253	121
Accruals	585	397	365	253
Dividends proposed	<u>169</u>	<u>154</u>	<u>169</u>	<u>154</u>
	<u>3,514</u>	<u>3,773</u>	<u>2,154</u>	<u>2,269</u>

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank loans (note 19)	139	350	139	350
Finance lease obligations (note 19)	<u>140</u>	<u>124</u>	<u>140</u>	<u>124</u>
	<u>279</u>	<u>474</u>	<u>279</u>	<u>474</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

19. FINANCIAL INSTRUMENTS

The Group's policies as regards financial instruments are set out in the Directors' Report on page 7 and the accounting policies on page 18.

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk. The Group does not hold derivative financial instruments for speculative purposes. For a forward foreign currency contract to be treated as a hedge, the instrument is related to actual foreign currency future revenues reducing risk of foreign currency exchange movements on Group operations. Gains and losses on these contracts are unrecognised and only recognised when the hedge matures.

Short-term debtors and creditors have been excluded from all disclosures below except the currency profile.

Financial liabilities

All financial liabilities as at 31 December 2003 are subject to floating rates with the exception of finance leases. The reference rate for floating rate financial liabilities is United Kingdom base rates.

Total financial liabilities in the Group are £741,000 (2002 — £1,789,000). These comprise a £346,000 (2002 — £550,000) bank loan that bears interest at 1.75% (2002 — 1.75%) above base rate, a £148,000 (2002 — £174,000) bank loan in Italy that bears interest at 2% above the European base rate, a bank overdraft of £nil (2002 — £837,000), and obligations under finance lease contracts of £247,000 (2002 — £228,000). The bank loans and overdraft are secured by fixed and floating charges over the Group's tangible assets.

Borrowing facilities

Overdraft facilities are reviewed periodically in the normal course of business. The Group has no committed undrawn loan facilities. Undrawn overdraft facilities are detailed below.

Fair values of financial assets and liabilities

The directors consider that the fair value of the Group's financial assets and liabilities materially equate to their book values. Fair values of fixed rate liabilities have been assessed by reference to the discounted cash flows.

Maturity profile of financial liabilities

	Bank borrowings £'000	Finance leases £'000	2003 Total £'000	Bank borrowings £'000	Finance leases £'000	2002 Total £'000
Within 1 year or less or on demand	355	107	462	1,211	104	1,315
More than 1 year but not more than 2 years	139	103	242	200	100	300
More than 2 years but not more than 5 years	—	37	37	150	24	174
Gross financial liabilities	494	247	741	1,561	228	1,789

The Group had £976,000 (2002 — £566,000) of committed undrawn overdraft facilities at 31 December 2003 (all in one year or less). The Group had no other undrawn borrowing facilities.

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

19. FINANCIAL INSTRUMENTS (continued)

Interest rate profile

	Total £'000	Floating rate £'000	Fixed rate £'000	Weighted average interest rate %	Fixed rate financial liabilities Weighted average for period which the rate is fixed (years)
At 31 December 2003					
Sterling	593	346	247	4.8	2.0
Euro	148	148	—	—	—
	<u>741</u>	<u>494</u>	<u>247</u>		
At 31 December 2002					
Sterling	1,381	1,153	228	7.7	1.8
Euro	161	161	—	—	—
US Dollars	120	120	—	—	—
Japanese Yen	127	127	—	—	—
	<u>1,789</u>	<u>1,561</u>	<u>228</u>		

Interest rates on floating rate assets and liabilities are based on the relevant country's bank base rates.

Financial assets

	2003 £'000	2002 £'000
Sterling	63	123
Euro	87	153
Japanese Yen	137	186
US Dollars	331	28
Malaysian Ringgits	134	71
Chinese Yuan	48	29
Canadian Dollars	13	3
Indian Rupees	232	—
	<u>1,045</u>	<u>593</u>

Currency profile

The Group has the following cash deposits, overdrafts and other short-term debtors and creditors in foreign currency. The table below states the sterling equivalent of the subsidiaries that hold currency in denominations other than their own local currency.

	UK £'000	China £'000	Canada £'000	2003 Total £'000	UK £'000	China £'000	Canada £'000	2002 Total £'000
US Dollars	2,666	18	119	2,803	2,065	19	9	2,093
Euro	2,262	—	—	2,262	1,742	—	—	1,742
Japanese Yen	67	—	—	67	355	—	—	355
	<u>4,995</u>	<u>18</u>	<u>119</u>	<u>5,132</u>	<u>4,162</u>	<u>19</u>	<u>9</u>	<u>4,190</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

19. FINANCIAL INSTRUMENTS (continued)

Hedging

The Group's income arises partly in foreign currency, the majority of which is denominated in US dollars. The Group has entered into a US\$1m forward foreign currency contract in February 2004, which is due to mature on 31 March 2004.

20. PROVISIONS FOR LIABILITIES AND CHARGES

	Group and Company £'000			
Deferred taxation				
Balance at 1 January 2003	129			
Movement in the year	<u>(96)</u>			
Balance at 31 December 2003	<u>33</u>			
Deferred taxation comprises:				
	Provided		Unprovided	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Capital allowances in excess of depreciation	36	131	—	—
Short-term timing differences	(3)	(2)	—	—
Taxation on valuation surplus	<u>—</u>	<u>—</u>	<u>691</u>	<u>691</u>
	<u>33</u>	<u>129</u>	<u>691</u>	<u>691</u>

21. DEFERRED INCOME

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Maintenance income to be recognised within one year	1,204	1,022	1,204	1,022
Maintenance income to be recognised after more than one year	44	66	45	66
Other income to be recognised within one year	30	64	30	64
Other income to be recognised after more than one year	<u>15</u>	<u>45</u>	<u>14</u>	<u>45</u>
	<u>1,293</u>	<u>1,197</u>	<u>1,293</u>	<u>1,197</u>

Deferred maintenance income represents amounts invoiced in advance in respect of contracts for the provision of software maintenance. Other deferred income represents grant income received.

22. EQUITY MINORITY INTERESTS

	£'000
At 1 January 2003	(12)
Share of loss for the year	<u>(2)</u>
At 31 December 2003	<u>(14)</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

23. SHARE CAPITAL

	2003 £'000	2002 £'000
Authorised		
7,750,000 Ordinary shares of 10p each	775	775
150,000 'C' Ordinary shares of 10p each	15	15
	<u>790</u>	<u>790</u>
Issued, called up, allotted and fully paid		
6,044,478 (2002 — 6,044,478) Ordinary shares of 10p each	604	604
Called up, allotted and not fully paid		
78,660 (2002 — 78,660) 'C' Ordinary shares of 10p each	8	8
	<u>612</u>	<u>612</u>

Delcam Trustees Limited, a 100% owned subsidiary company, held 149,930 Ordinary shares and 78,660 'C' Ordinary shares at 31 December 2003.

The 'C' Ordinary shares have no rights to vote, attend general meetings or to any dividend, but will automatically convert into an equal number of Ordinary shares upon being fully paid up. These shares are classified as non-equity until that time.

The Company has continued to operate three share option schemes for its employees.

- **Approved Scheme**

On 6 June 1997 approved share options were granted in respect of Ordinary shares (formerly 'A' Ordinary shares), which represented 230,386 Ordinary shares in aggregate, to employees and directors at an exercise price of 280p (168p following dilution resulting from the bonus issue on 15 July 1997) per Ordinary share and unapproved options were granted for Ordinary shares which represented 19,199 Ordinary shares in aggregate to employees and directors at an exercise price of 20p (diluted to 12p) per Ordinary share. The options are exercisable within the period of 3 to 10 years following the date of grant.

No options were exercised during the year (2002 — none).

124,104 (2002 — 141,961) options of 168p and 10,337 (2002 — 11,815) options of 12p were yet to be exercised at the year end.

- **Unapproved Scheme**

On 6 June 1997 unapproved share options were granted in respect of Ordinary shares, which represent 25,890 Ordinary shares in aggregate, to employees and directors at an exercise price of 260p (156p following dilution resulting from the bonus issue on 15 July 1997) per Ordinary share. The options are exercisable within the period of 3 to 10 years following the date of grant.

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

No options were exercised during the year (2002 — none). Options remaining to be exercised were 12,196 (2002 — 15,851).

24. RESERVES

	Group and Company			Group	Company
	Capital Reserve	Share premium account	Revaluation Reserve	Profit and loss account	Profit and loss account
	£'000	£'000	£'000	£'000	£'000
At 1 January 2003	9	1,920	2,303	2,877	2,698
Profit for the year	—	—	—	1,240	1,127
Dividends	—	—	—	(227)	(227)
Exchange rate loss	—	—	—	(27)	—
Transfer from revaluation reserve to profit and loss reserve	—	—	(33)	33	33
At 31 December 2003	<u>9</u>	<u>1,920</u>	<u>2,270</u>	<u>3,896</u>	<u>3,631</u>

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Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

24. RESERVES (continued)

The cumulative amount of positive goodwill deducted from reserves as at 31 December 2003 amounted to £50,468 (2002 — £50,468). The negative goodwill added to reserves as at 31 December 2003 was £9,712 (2002 — £9,712).

Group

Other reserve —

Foreign exchange fluctuations reserve	£'000
At 1 January 2003	(8)
Movement in the year	(2)
	<u>(10)</u>
At 31 December 2003	<u>(10)</u>

25. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2003 £'000	2002 £'000
Profit for the financial year	1,240	845
Dividends paid and proposed	(227)	(212)
Movement in exchange fluctuation reserve	(2)	—
Exchange rate loss	(27)	(39)
	<u>984</u>	<u>594</u>
Net addition to shareholders' funds	984	594
Opening shareholders' funds	7,713	7,119
	<u>8,697</u>	<u>7,713</u>
Closing shareholders' funds	8,697	7,713

26. FINANCIAL COMMITMENTS

Capital commitments

At 31 December 2003 the Group and Company had no capital commitments (2002 — £nil).

Operating lease commitments

At 31 December 2003 the Group and Company had annual commitments under non-cancellable other operating leases as set out below:

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Land and buildings				
Leases which expire:				
Within two to five years	260	216	—	—
After five years	56	56	56	56
	<u>316</u>	<u>272</u>	<u>56</u>	<u>56</u>
Other leases				
Leases which expire:				
Within one year	17	20	17	20
Within two to five years	480	428	181	180
	<u>497</u>	<u>448</u>	<u>198</u>	<u>200</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

27. NOTES TO THE CASH FLOW STATEMENT

Reconciliation of operating profit to operating cash flows

	2003	2002
	£'000	£'000
Operating profit	1,246	1,162
Depreciation	616	601
Amortisation of goodwill	24	19
Release of government grants	(64)	(64)
Loss on tangible fixed assets written off	19	57
Loss/(profit) on sale of tangible fixed assets	3	(32)
(Increase)/decrease in stocks	(64)	73
Increase in debtors	(79)	(402)
Increase/(decrease) in creditors	720	(90)
	<u>2,421</u>	<u>1,324</u>
Net cash inflow from operating activities		
Returns on investments and servicing of finance		
Interest received	30	11
Interest paid	(67)	(97)
Interest element of finance lease rental payments	(15)	(22)
	<u>(52)</u>	<u>(108)</u>
Net cash outflow for returns on investments and servicing of finance		
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(487)	(663)
Proceeds from disposal of tangible fixed assets	15	42
Payments to acquire investments (note 14)	(136)	(22)
Proceeds from disposals of investments (note 14)	139	—
	<u>(469)</u>	<u>(643)</u>
Net cash outflow for capital expenditure and financial investment		
Financing		
Loan repayments	(230)	(200)
Loan advances	—	174
Capital element of finance lease payments	(116)	(141)
	<u>(346)</u>	<u>(167)</u>
Net cash outflow from financing		

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Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

28. ANALYSIS OF NET FUNDS/DEBT

	At 1 January 2003 £'000	Cash flow £'000	Exchange movements £'000	Other non-cash changes £'000	At 31 December 2003 £'000
Cash at bank and in hand	593	463	(11)	—	1,045
Bank overdraft	(837)	837	—	—	—
	(244)	1,300	(11)	—	1,045
Debt due within one year	(374)	230	—	(211)	(355)
Debt due after one year	(350)	—	—	211	(139)
Finance leases	(228)	116	—	(135)	(247)
	<u>(1,196)</u>	<u>1,646</u>	<u>(11)</u>	<u>(135)</u>	<u>304</u>

Non-cash changes

Other non-cash changes relate to the Group entering into finance lease arrangements with a total capital inception value of the lease of £135,000 (2002 — £nil).

29. PENSION COSTS

The contributions paid to the Delcam UK defined benefit scheme amounted to £520,000 (2002 — £469,000). Contributions outstanding at the year end were £nil (2002 — £nil).

The directors are currently undertaking a review of the Company's pension fund and its level of benefits and fund liabilities following the preliminary results of the valuation that was undertaken by Aon Consulting as at 31 December 2003, which are yet to be finalised. The Board recognises the need to provide staff pension benefits whilst managing the risks and cost to the Company. Therefore, the last full actuarial valuation of the scheme was performed as at 6 April 2001 using the projected unit method. This disclosed a long-term deficit of £1,928,000, representing 25% of the market value of assets. The main actuarial assumption was that the investment returns would exceed the rate of salary increases by 2.8%. In the opinion of the actuary the current and future contribution rates will eliminate the deficit over a reasonable period from the valuation date and the scheme will be able to fully meet its liabilities. The funding level of the Minimum Funding Requirement ("MFR") was sufficiently adequate at 115% of the scheme's liabilities. The market value of the scheme's assets was £5,648,000.

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

As required by SSAP 24, the figures included in the accounts in respect of the Company pension scheme are based on an actuarial valuation carried out as at 6 April 2001. This does not take into account any impact of the fall in general stock market values since that date. Any such impact will be reflected in the next SSAP 24 triennial valuation, which is currently being performed by the Company's actuary, based upon which subsequent pension costs will be determined until the adoption of FRS 17.

Financial Reporting Standard FRS 17 — Retirement Benefits

The Group and Company operate a defined benefit scheme called the Delcam Retirement Benefits Scheme ("the scheme") and the last full funding valuation on it was carried out as at 6 April 2001. A qualified independent actuary has determined a FRS 17 valuation based as at 31 December 2003 for the disclosures below.

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

29. PENSION COSTS (continued)

The Projected Unit valuation method has been used.

	2003 £'000	2002 £'000	2001 £'000
Balance sheet items			
Value of Scheme assets	7,941	5,592	6,043
Value of Scheme liabilities	(12,180)	(9,836)	(8,442)
Deficit in the Scheme	(4,239)	(4,244)	(2,399)
Related deferred tax asset	1,272	1,273	718
Net pension deficit	<u>(2,967)</u>	<u>(2,971)</u>	<u>(1,681)</u>

The assets in the Scheme and the expected rates of return were:

	Expected rate of return		Expected rate of return		Expected rate of return	
	2003 % p.a.	2003 £'000	2002 % p.a.	2002 £'000	2001 % p.a.	2001 £'000
Equities	7.8%	7,924	7.5%	5,577	7.0%	4,903
Bonds	4.8%	—	4.8%	—	5.0%	861
Cash	2.8%	17	2.5%	15	2.7%	279
Total market value of assets	<u>7.8%</u>	<u>7,941</u>	<u>7.5%</u>	<u>5,592</u>	<u>6.7%</u>	<u>6,043</u>

An analysis of the amount, which would have been charged to operating profit, is as follows:

	2003 £'000	2002 £'000
Current service cost	377	395
Past service cost	—	—
Total operating charge	<u>377</u>	<u>395</u>

An analysis of the amount, which would have been charged to other financing cost, is as follows:

	2003 £'000	2002 £'000
Interest on pension scheme liabilities	572	535
Expected return on pension scheme assets	(455)	(431)
Finance cost	<u>117</u>	<u>104</u>
Overall profit and loss charge	<u>494</u>	<u>499</u>

The movement in the scheme deficit during the year is as follows:

	2003 £'000	2002 £'000
Deficit at 1 January	(4,244)	(2,399)
Current service cost	(377)	(395)
Contributions	520	1,069
Other finance cost	(117)	(104)
Actuarial losses	(21)	(2,415)
Deficit at 31 December	<u>(4,239)</u>	<u>(4,244)</u>

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Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2003

29. PENSIONS (continued)

An analysis of the amounts which would have been recognised in the Statement of Total Recognised Gains and Losses (STRGL) is as follows:

	2003	2002
	£'000	£'000
Actual return less expected return on Pension Scheme assets	925	(1,654)
Experience gains/(losses) arising on Pension Scheme liabilities	600	(466)
Changes in financial assumptions underlying Pension Scheme liabilities	<u>(1,546)</u>	<u>(295)</u>
Actuarial loss recognised in the STRGL	<u>(21)</u>	<u>(2,415)</u>
Reserves note		
Profit and loss reserve excluding pension deficit	3,896	2,877
Net pension liability	<u>(2,967)</u>	<u>(2,971)</u>
Profit and loss reserve	<u>929</u>	<u>(94)</u>
Net assets note		
Net assets excluding pension deficit	8,697	7,713
Net pension liability	<u>(2,967)</u>	<u>(2,971)</u>
Net assets	<u>5,730</u>	<u>4,742</u>
	2003	2002
Actuarial assumptions		
Discount rate	5.60% p.a.	5.60% p.a.
Salary escalation (excluding merit increases)	3.55% p.a.	3.11% p.a.
LPI increases in pensions in payment	2.80% p.a.	2.36% p.a.
Increase in retail prices index	2.80% p.a.	2.36% p.a.
Expected return on scheme assets	7.80% p.a.	7.50% p.a.
	2003	2002
History of experience gains and losses		
Difference between the expected and actual return on scheme assets:		
Amount £000	925	(1,654)
Percentage of scheme assets	12%	(30%)
Experience gains and losses on scheme liabilities:		
Amount £000	600	(466)
Percentage of the present value of the scheme liabilities	5%	(5%)
Total amount recognised in statement of total recognised gains and losses:		
Amount £000	(21)	(2,415)
Percentage of the present value of the scheme liabilities	0.2%	25%

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Delcam Plc will be held at Delcam Plc, Small Heath Business Park, on 6 May 2004 at 3.00 p.m. for the following purposes.

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AS ORDINARY BUSINESS

1. To receive the report of the directors and financial statements for the year ended 31 December 2003.
2. To approve a final dividend on the Ordinary shares of 2.8p per share for the year ended 31 December 2003.
3. To re-elect Mr E B Lambourne, who retires by rotation, as a director of the Company.
4. To re-elect Mr T R M Kinsey, who retires by rotation, as a director of the Company.
5. To reappoint the auditors and to authorise the directors to fix their remuneration.

AS SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions as Special Resolutions:

6. That the Company is, pursuant to section 166 of the Companies Act 1985, hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 10p ("Ordinary shares") each in the capital of the Company provided that:
 - (i) the maximum number of ordinary shares hereby authorised to be purchased is 604,447 (representing 10 per cent of the Company's issued ordinary share capital);
 - (ii) the minimum price which may be paid for an ordinary share is 10p per ordinary share (exclusive of any applicable taxes and expenses);
 - (iii) the maximum price (exclusive of any applicable taxes and expenses) which may be paid for an ordinary share is not more than 5 per cent above the average of the market values for an ordinary share published by the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased;
 - (iv) the authority hereby conferred shall expire on 29 October 2005; and
 - (v) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract.
7. That the directors be and they are hereby empowered pursuant to Section 95(1) of the Companies Act 1985 to exercise all powers of the Company to allot equity securities of the Company (as defined in Section 94 of that Act) for cash as if Section 89(1) of the Companies Act 1985 did not apply to such allotment provided that the power hereby conferred shall be limited to:
 - i) the allotment of equity securities in connection with a rights issue in favour of the holders of Ordinary Shares and the holders of any other shares or securities of the Company which by their terms are entitled to participate in such rights issue where the equity securities allotted are in proportion (as nearly as may be) to, on a record date fixed by the directors, the respective number of shares held by such shareholders; and
 - (ii) the allotment (otherwise than pursuant to paragraph (i) above) wholly for cash of equity securities up to an aggregate nominal amount of £30,222 (approximately 5 per cent of the issued Ordinary Share capital of the Company) and unless

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previously renewed, revoked or varied such power shall expire on the earlier of 15 months from the date on which this Resolution is passed and the conclusion of the Annual General Meeting falling in 2005, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board

K SINGH

Secretary
Talbot Way
Small Heath Business Park
Birmingham
B10 0HJ
8 April 2004

Notes:

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



OFFICE USE

Accepted
Shares

Form of Proxy

I/We
(Name in Block Capitals)

of

being (a) member(s) of Delcam Plc, HEREBY APPOINT the Chairman of the Meeting or

..... as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 6 May 2004 and at any adjournment thereof and direct him/her to vote on the resolutions set out in the Notice of Meeting as indicated below.

SIGNED this day of 2004 Signature

Please indicate with an X in the spaces below how you wish your votes to be cast. Unless otherwise indicated, the proxy will vote or abstain as he/she thinks fit.

	Ordinary Business	For	Against
1	To receive and adopt the report of the directors and the financial statements for the year ended 31 December 2003, together with the report of the auditors.		
2	To approve a final dividend on the Ordinary shares of 2.8p per share for the year ended 31 December 2003.		
3	To re-elect Mr E B Lambourne, who retires by rotation, as a director of the Company.		
4	To re-elect Mr T R M Kinsey, who retires by rotation, as a director of the Company.		
5	To reappoint the auditors and to authorise the directors to fix their remuneration.		
	Special Business		
6	To authorise the purchase of own shares.		
7	To disapply Section 89 of the Companies Act 1985 in respect of pre-emption rights.		

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NOTES

1. A member may appoint a proxy of his/her own choice (who need not be a member of the Company). If such an appointment is made, the words "the Chairman of the Meeting or" should be deleted and the name and address of the person appointed as proxy should be inserted in the space provided.
2. Any alteration in this Form of Proxy should be initialled.
3. Completion and return of the Form of Proxy will not preclude a member from attending and voting at the Meeting should he/she subsequently decide to do so.
4. If the appointor is a Corporation this Form of Proxy must be under its Common Seal, or under the hand of some officer of the Corporation duly authorised in writing in that behalf.
5. To be valid, this Form of Proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's Registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA, not less than 48 hours before the Meeting.
6. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s). Seniority will be determined by the order in which the names stand in the Register of members in respect of the joint holding.

Second fold

BUSINESS REPLY SERVICE
Licence No. BM3865

2



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

First fold

Third fold
and tuck in flap opposite

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