PolyDoc

ANNUAL REPORT 1998

Controlling the production and flow of business knowledge is similar to the management of water: high quality, immediate availability and crystal clarity in a cost effective manner must be ensured.

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COMPANY PROFILE

PolyDoc is an internationally orientated company specialising in the development and provision of business solutions in the rapidly emerging field of Knowledge Management with specific focus on the health care, manufacturing and defence sectors. PolyDoc’s business solutions significantly enhance productivity and quality in text-based knowledge production areas as well as enabling the re-use of knowledge throughout the customer organisation. The major element of each solution is one or more of PolyDoc’s computer software products, enhanced and customised for each individual customer, integrating into their existing or planned Intranet, Internet and general Web-based environment. The company’s software assets include a number of leading edge core components and toolkits that are used to create customised software application products. PolyDoc’s development centres are based in The Netherlands (Amsterdam and Maastricht). It has direct sales operations in the United Kingdom,
The Netherlands and the United States, and is also establishing indirect sales and marketing activities through business partners in each of these territories. Other European countries and the Pacific Rim will follow thereafter. PolyDoc Plc is registered in London, United Kingdom and has its central office in Amsterdam, The Netherlands. The ordinary shares of PolyDoc Plc are publicly traded on the Alternative Investment Market (‘AIM’) of The London Stock Exchange, and on the New Market of the Amsterdam Exchanges (‘NMAX’).

CHAIRMAN'S STATEMENT

Our objective is to be a company with a unique group of software products based on linguistic approaches and methodologies and language management technologies so that we may be at the leading edge of the Knowledge Management market. I believe that 1998 has been a very successful year in our development in that we have established a more substantial customer base with an installed range of products, which will provide a platform for us to build upon in the next important stage of the company's growth.

The Knowledge Management market is a relatively new market where I think PolyDoc is a pioneer in what is undoubtedly one of the most rapidly growing markets in the world of modern technology. The massive growth in Internet and Intranet usage is fuelling the critical need to manage knowledge and information in a structured and comprehensive manner.

I have indicated previously that generally the difficulties in forecasting in such a new area were more a matter of timing than quality or pricing and 1998 has continued to show this to be the case.

FINANCIAL RESULTS

Revenue from business based on QualiFlow, our health care industry product, has started to build, contributing to an increase in total turnover of more than 300% compared to the previous year. With operating costs running at a similar level also compared to the previous year this has resulted in an important reduction in pre-tax losses to £981,000. These improvements are mainly due to the development of the revenue stream contracted early in the year in the health care industry and the continuing pilot work in the defence industry coupled with well-controlled operating costs. We would have hoped to see an even greater reduction in these losses. However as I have previously stated, the early adopters of our products have taken longer to establish than anticipated.

OUTLOOK FOR 1999 AND 2000

The recognition and emphasis on the implementation of Knowledge Management approaches and solutions as a major contributor to the bottom line of most organisations continues to increase and appears to have entered an essential phase. Many businesses have now allocated significant specific budgets for helping to deal with the problems of information overload and the additional competitive pressures on their business where valuable knowledge (intellectual capital) can truly be leveraged. We expect to see an important shift in the market now as many companies move from a planning to an implementation mode, from 'talking' to 'buying' as far as PolyDoc's solutions are concerned.

Pro-GRAM BV a joint venture company, has been formed by three academic/ teaching hospitals in The Netherlands to market, together with PolyDoc, the QualiFlow software and the knowledge created using the software to a broad range of organisations in the Dutch health care industry. PolyDoc has accepted an invitation to become a shareholder in this company. With our health care solution implementations now rapidly leading us to having referenceable customers, joint marketing activities commenced at the beginning of 1999. These developments have already received some enthusiastic press coverage in The Netherlands during March 1999. This joint venture company is ideally placed to accelerate our QualiFlow and Lessenger sales in the Benelux. With more than one hundred potential prospects for these solutions coupled with the backing and credibility of the top leading hospitals, we are confident of achieving good sales success in 1999 and beyond.

In the UK, The Netherlands and the USA the further partnerships now being established, together with the several others under discussion, also give us great confidence of achieving important customer and revenue developments in these territories. This combined with the increased marketing of our NormFlow manufacturing solution and the firm position we expect to establish in the UK defence industry should make 1999 another year of significant revenue growth. It is also expected to firmly place us in each of our target geographies with distinct and strong industry lines of business: Health care, Defence and Manufacturing. With a comprehensive and solid group of partners being further developed and grown throughout 1999, the year 2000 should see PolyDoc firmly on the rapid growth curve for the coming years.

CAPITAL RAISING DEVELOPMENTS

I was pleased to announce that we completed the raising of an additional £1.57 million of interim funding in the form of a convertible loan in July 1998 and a further £0.5 million from the issue of ordinary shares in March this year, and the subsequent extension in April of this year, of the repayment or conversion of the convertible loan from its original date of 31 July 1999 to 31 July 2000. These funds are for interim working capital and to enable us to commit to the joint venture mentioned in the health care section of this statement. We also issued 68,500 ordinary shares to cover the cash consideration in the acquisition of Lessenger Associates BV in December 1998. For the longer term we plan to complete a further, more substantial fund raising later in this current year. This will ensure that we have the cash in place to meet our ongoing financial requirements, and to build upon our business successes in the Health care industry, by expanding into the UK and USA markets, replicating the successful formula we have developed in The Netherlands. Additionally, we will then be in a position to more fully exploit our potential in the lucrative Defence and Manufacturing industries, where we are currently working with our initial customers as also mentioned earlier in this statement. With the above mentioned developments I feel we have now arrived at the next major stage in the development of PolyDoc. It continues to be our objective to become a major player in the burgeoning Knowledge Management industry and with that clearly in our minds we have been putting together our business plans through to the end of the year 2000. With our sights set on giving our shareholders the returns that are clearly available in our market we also announced the appointment of Durlacher Ltd as the company’s Nominated Broker alongside Bell Lawrie Wise Speke the company’s Nominated Adviser. Durlacher has a very strong technology research division which has researched and published extensively on the Knowledge Management industry.

SUMMARY

1998 has shown to be a turning point for PolyDoc both in terms of significant increase in revenues and the establishment of a solid commercial base of customers and references. Simultaneously, our vision of a substantial market for knowledge and content management predicted at PolyDoc's inception five years ago has finally become reality, and we have a clearly defined position* within it. With our unique approach and products we are poised for major growth in the coming years. This year should see continued growth, in particular in our established health care division where we have our core base of major clients and our newly acquired base of over fifty new customers to build upon. We will also continue to invest in our Defence and Manufacturing industry product offerings as we work with our initial customers in those markets to replicate the 'proof of business concept' we have achieved in the Health care sector. By raising further capital we will be able to significantly expand our sales, marketing and partner efforts especially into the very sizeable UK and USA markets. It will enable us to invest in developing our relationships with both our current and future customers and business partners resulting in our bringing ever improving products to our existing markets and beyond. I would very much like to thank everyone within PolyDoc who has worked so hard during the year. I am extremely proud of our achievements in dealing with so many challenges and in laying the foundations for us to have the opportunity of being at the leading edge of the Knowledge Management market.

Barry Mence,
Executive Chairman.

** Visit our Website: http://www.polydoc.com*

These quotations from some of the most recent Business Strategy and Knowledge Management surveys are of vital importance to PolyDoc stakeholders be they (current and future) customers, shareholders or employees.

“Corporate spend on KM (Knowledge Management) is expected to rise to 5,5% of revenues in three years.”

Cranfield School of Management

“95% of chief executives see knowledge management as an essential ingredient for the success of their company.”

Recent Price Waterhouse Coopers survey

“The best knowledge management technology is provided by small specialist companies.”

Recent Financial Times (KM) supplement

“To exploit the technology, users need an integrated architecture.”

Knowledge Management by research specialist Ovum

There is in each of these quotations, and many other popular Knowledge Management industry views, an essential factor contributing to the near term realisation of PolyDoc's potential.

"Corporate spend heading towards 5,5% of revenues":
After a frustrating period of much interest and formulation of plansby our prospective customers, organisations are finally starting to allocate and spend significant budgets to resolve critical business issues.

"Most CEO's see KM as essential":
The business issues that PolyDoc addressses have the attention and commitment to resolution of top management, the best guarantee for action.

"Best KM technology comes from specialist companies":
As a pioneer in the field of KM software, utilising the latest generic development technology from leading firms like Microsoft® and Oracle® PolyDoc is a specialist KM technology developer with recently proven technology.

"Users need an integrated architecture":
Since its foundation five years ago, initially primarily as a research and development group, PolyDoc has been developing its software following its proprietary methodology and architecture "Integrated Document Production Architecture (IDP/A).

So PolyDoc is unquestionably positioned in an exciting sector of the software marketplace where customer buying activity is now starting to accelerate. Our own marketplace experience from customers and prospects, combined with much research, has shown that in addition to integrated solutions, organisations are demanding comprehensive industry-specific business solutions. For this reason PolyDoc has started to specialise on a focused set of industries where KM solutions are at the top of the business agenda: Health care, Defence and Manufacturing. These markets are being addressed by both PolyDoc and our planned business partners, two of which have recently entered marketing agreements with PolyDoc, one in the UK and the other in the USA. Additional partnerships are being developed both for the current target markets as well as other potentially lucrative sectors. This realisation of partnerships, in line with PolyDoc's consistently stated business strategy, together with the recent formation of our consulting division is expected to help speed up the sales cycles of PolyDoc's products.

Health care

At the end of the first quarter 1998 we signed our first multimillion guilder contract involving three (from a total of eight) academic/teaching hospitals in The Netherlands. Fulfilment of this contract, and the further development of our QualiFlow health care solution, is proceeding according to plan and the other academic hospitals as well as several general hospitals are showing keen interest. We currently expect to sign further substantial business in this area during the current year, as we seek to establish our approach as a form of standard for the Dutch health care industry.

As mentioned earlier in this document, a joint venture company called Pro-GRAM BV has been formed by the initial academic hospitals to market, together with PolyDoc, the QualiFlow software and the knowledge created using the software to a broad range of organisations in the Dutch health care industry. PolyDoc has accepted an invitation to become a shareholder in this company, which has commenced active marketing at the beginning of 1999 and has already received some enthusiastic press coverage in The Netherlands during March 1999.

Another health care business development is the completion of the purchase of Lessenger Associates B.V., a small Dutch-based software developer and supplier to the health care industry. Their products are mature and well established in 7 academic hospitals and more than 50 regional and general hospitals in The Netherlands, as well as a number of large companies outside the hospital sector. In addition to our commitment to support the existing products, we have now started the process that will both add important new functionality to the Lessenger products as well as ensuring integration of the Lessenger family with our QualiFlow health care solution. This should put both PolyDoc and Pro-GRAM in an even stronger position to further accelerate product sales into the substantial health care market - in fact new Lessenger product sales have already been contracted in the first quarter of 1999.

Defence

The StudyFlow pilot executed at DERA, the Defence Evaluation and Research Agency related to the UK Ministry of Defence, was successfully evaluated to be able to start work with the agency on the final stages of justification for the implementation and roll out of a full production PolyDoc system. This contracted work is expected to be concluded in the first half of 1999. Our strategy for penetrating the Defence Industry has also evolved further and a major defence industry manufacturer has expanded the process for evaluating the implementation and benefits of PolyDoc's solutions.

Manufacturing

DSM, the multinational chemical manufacturer, has gone into full production with the latest version (3.0) of NormFlow, our solution for the production and maintenance of standards for the manufacturing and process industries. We have been requested to further extend the scope and use of the product at DSM resulting in additional revenue on top of the ongoing maintenance fees. Further development and volume selling of this new enhanced NormFlow is presently underway, and we would expect to see the commercial results of this during the current year.

Business Partnerships

Our strategy for expanding PolyDoc's business into volume sales has always been to enter into business partnerships with mature organisations with strong customer bases, once we have established the early customers in our chosen industries. The initial target geographies remain the Benelux countries, the UK and the USA. In The Netherlands we have entered an agreement with KPMG to work together with them at one of their major clients on an important Knowledge Management project. When this work is successfully completed we would expect this to lead to a broader arrangement involving more clients and PolyDoc's software products. In addition to the new partnership covering the Benelux with the hospitals' joint venture company, Pro-GRAM, we have recently put a non-exclusive agreement in place with our first full business partner in the United Kingdom. Marlow Consulting, specialising in management consultancy and systems integration, will be focusing with PolyDoc's products on a number of named accounts in the health care and pharmaceutical industries.

Another recent partnership signing will be instrumental in helping PolyDoc enter the North American marketplace. Teltech Corporation is a leader in the Knowledge Management industry providing its products, mainly content management services and information research, to half of the Fortune 500. Under the terms of the agreement Teltech will market PolyDoc software as part of its own solution selling throughout the United States.

Consultancy Services

As often happens when marketing software products, during the past couple of years we have been increasingly requested by our customers and prospects to provide them with services in specific areas of Knowledge and Content Management. In order to capitalise more fully on these opportunities we have recently formed a Consultancy Services group which is focussed on generating additional revenues, as well as bringing potential Software products customers into PolyDoc as paying Services customers. As our business in these areas grows we will then be recruiting additional staff this year specifically for this services group.

1998 has seen good revenue growth and a major increase in the customer base with the Lessenger acquisition bringing the number of customers to over seventy companies and organisations. This has now given rise to significant revenue opportunities with these and many other organisations in 1999 and beyond, such as the multimillion guilder order placed by three leading hospitals in The Netherlands and announced by PolyDoc in March 1998. These new customers will all be taking advantage of the important progress PolyDoc's software development group has made during the course of the year. Our latest generation core software (called XFlow), which is the basis of all of PolyDoc's solutions, has put the company into the leading group of software product developers in the rapidly accelerating Knowledge Management market.

In the geographies where we are focusing the majority of our efforts – Benelux, United Kingdom, USA – we expect to report significant progress during 1999 in business partnerships as well as achieving solid commercial success with our own direct sales efforts.

During the course of 1998 PolyDoc's product development, support and implementation groups achieved a number of important milestones:

- Development and delivery of software destined for production usage in large organisational environments.
- Implementation of a focused Health care division concentrating on delivery, implementation and marketing of PolyDoc's health care applications.
- Establishment of a customer-satisfaction oriented Helpdesk to support both the increasing number of new PolyDoc users as well as the recently acquired customer base of more than 70 users of Lessenger software.
- Commencement of the process to fully integrate products from generic technology software market leaders such as Microsoft®, Oracle® and Lotus® into PolyDoc's development approach and customer application solutions.

These and other achievements have clearly started to demonstrate PolyDoc's position as a professional supplier of proven technologies for important production environments in large organisations. The main core component of PolyDoc's advanced software solutions, called XFlow, has obtained significant advancements in demonstrating its robustness and flexibility, and continues to place PolyDoc in the leading pack of specialist Knowledge Management technology providers. With the realisation of version 3 of our XFlow software, together with our unique TermFlow component, we and our partners can provide customisable, practical and implementable solutions in line with PolyDoc's consistently stated business strategy.

As one of the first software developers to encompass Web-based publishing, PolyDoc has always kept abreast of Internet and Intranet technologies which are, by definition as collaborative tools, key elements in the adoption of Knowledge Management software as solutions for critical business issues. With this in mind, development of our next version of the core software, XFlow version 4, is well underway and we anticipate availability of software based on this next advancement to begin early in the year 2000.

Key to any software production environment are people, processes and technology. On the latter issue, as mentioned above, PolyDoc is currently active to further integrate industry standard technology into its advanced application solutions. With regard to process, we are making good progress with the implementation of a comprehensive Quality Management approach to organising and managing all parts of our business, with extra emphasis on the core of our activities in software development, production and delivery And with respect to people we are pleased to report that we are in the fortunate position both to have retained all of our key initial innovative research and development staff and to have started to attract key individuals from recognised software industry achievers to join the PolyDoc team.

As reported last year, we were very pleased to receive the prestigious Eureka status for a successive three year period. Now into its second year of this period's funding through the Eureka channels, one of PolyDoc's research projects (ITMC – Integrated Terminology Management Cycle) continued to make good progress both in terms of general innovation and in the demonstration of its capabilities when applied in marketplace environments. We look forward also to continued progress in this area during the current year and to maintaining the international recognition for our innovative concepts and development approach.

Summary

During 1998 PolyDoc has made good progress both in terms of a significant increase in revenues and the establishment of a solid commercial base of customers and references. Simultaneously, our vision of a substantial market for knowledge and content management predicted at PolyDoc's inception five years ago has finally become reality, and we have a clearly defined position* within it. With our unique approach and products we are poised for major growth in the coming years. This year should see continued growth, in particular in our established health care division where we have our core base of major clients and our newly acquired base of over fifty new customers to build upon. We will also continue to invest in our Defence and Manufacturing industry product offerings as we work with our initial customers in those markets to replicate the 'proof of business concept' we have achieved in the Health care sector. This should make 1999 a year of continued revenue growth and ensure the further establishment of a solid commercial track record.

* visit our Website: http://www.polydoc.com

The set of values by which PolyDoc operates its business activities and our employees constantly strive to express are encapsulated in the following four statements.

Customers:
To measurably enhance our customers' business performance, by implementing pragmatic, quality-driven solutions of our knowledge management innovations as part of a long-term relationship and commitment to service.

Shareholders:
To increase shareholder value by globally growing our customer and revenue base in a manner which constantly improves our profitability, both through our own commercial efforts and those of business partners.

Employees:
To encourage personal contribution, creative interaction, open communication and skills improvement and to provide a challenging and stimulating team oriented environment enabling the recruitment and long-term retention of flexible, self-motivating, high-calibre professionals.

Marketplace:
To maintain a leading international position in the Knowledge Management market by reinforcing existing solutions and to continue innovating in the field of language management applied to business performance improvement.

FINANCIAL REPORT

Directors	Barry K. Mence, Executive Chairman Richard V. Maddocks, BSc, Managing Director Huub J.M. Rutten, Drs., Director E.R.E. Iljitsj Wiebenga, C.A. (S.A.), Finance Director Hans Coltof, Dr., Non Executive Director Stuart A. Silcock, FCA, Non Executive Director David C. Geest, Non Executive Director, (resigned 31 December 1998)
Secretary	E.R.E. Iljitsj Wiebenga, C.A. (S.A.)
Registered office	18 Southampton Place London WC1A 2AJ
Registered number	Registered in England and Wales: 3217859
Auditors	Ernst & Young Apex Plaza Reading RG1 1YE
Principal banker	Rabobank Amsterdam b.a. Wilhelminaplantsoen 124 1111 CP Diemen The Netherlands Lloyds Bank Plc 77 High Street Southend-on Sea Essex SS1 1HT
Solicitors	Edge Ellison 18 Southampton Place London WC1A 2AJ Nauta Dutilh Prinses Irenestraat 59 1077 WV Amsterdam The Netherlands
Nominated adviser	Bell Lawrie Wise Speke. (a division of Brewin Dolphin Securities Limited) 48 St. Vincent Street Glasgow G2 5TS
Nominated broker	Durlacher Limited 4 Chiswell Street London EC1Y 4UP

Sponsor	('NMAX') Rabo Securities NV Amstelplein 1 1090 GP Amsterdam The Netherlands
Registrars	('AIM') Independent Registrars Group Limited Balfour House 390/398 High Road Ilford Essex IG1 1NQ

Group profit and loss account for the years ended 31 December

1998 £'000	1997 £'000	Description
891	241	Turnover
(892)	(993)	Cost of sales
(1)	(752)	Gross loss
(502)	(484)	Sales & marketing expenses
(468)	(467)	Administrative expenses
29	136	Other operating income - foreign exchange gains
(942)	(1.567)	Operating loss
13	46	Bank interest receivable
(52)	(6)	Interest payable and similar charges
(981)	(1.527)	Loss on ordinary activities before and after taxation
(5.2p)	(8.2p)	Loss per share -basic and diluted (pence)

Financial Results

The result for the year ended 31 December 1998 both before and after taxation is a loss of £981.000 (1997: £1.527.000) on a turnover of £ 891.000(1997:£241.000).The directors do not propose to declare a dividend.

Review of the Business

Revenue from business based on QualiFlow, our health care industry product, has started to build, contributing to an increase in total turnover of more than 300% compared to the previous year. With operating costs running at a similar level also compared to the previous year this has resulted in an important reduction in pre-tax losses to £981.000. These improvements are mainly due to the development of the revenue stream contracted early in the year in the health care industry and the continuing pilot work in the defence industry coupled with well-controlled operating costs. We would have hoped to see an even greater reduction in these losses. However as we have previously stated the early adopters of our products have taken longer to establish than anticipated.

PolyDoc continues to be a technology driven company operating in the Knowledge Management market and has a growing asset base consisting of many software components and methodologies. The Board considers PolyDoc to have a unique product formula based on linguistic approaches and methodologies and language management technologies. It provides a bridge between the providers (and "inputers") of knowledge and the technology already used by the knowledge users/seekers to access and retrieve knowledge. Simply stated, PolyDoc provides the ability to capture, structure, codify publish and reuse text-based knowledge.

Within the knowledge management market, PolyDoc research indicates that it is currently the only company offering centralised harmonisation of language and knowledge capture mechanisms to enable the structuring and codification of text-based knowledge production. Market research shows that this is an area where customers are now increasingly seeking solutions.

PolyDoc's business solutions significantly enhance productivity and quality in text-based knowledge production areas as well as enabling the re-use of knowledge throughout the customer organisation. With these issues now being high on the list to be solved of most large companies, the future for PolyDoc's business appears better than ever.

Future Developments

PolyDoc sees its future in the further development and marketing of its following products:

- QualiFlow In hospitals and health care organisations. Reference is made in the Chairman's Statement to Pro-GRAM BV a joint venture company formed by three academic/teaching hospitals in The Netherlands to market, together with PolyDoc, the QualiFlow software and the knowledge created. PolyDoc has accepted an invitation to become a shareholder in this company.

- ResearchFlow In any large manufacturing organisation, including pharmaceutical and high technology companies, as well as any research organisation (commercial, academic or government).

- NormFlow For any large manufacturing company or utility.

- ProfileFlow For any large information- based organisation or governmental department (Corporate Yellow Pages/skills & experience memory).

- XFlow combined with Customisation Toolkit plus TermFlow PolyDoc's latest generation base software to fulfil business partner aspirations in both specific industry sectors and in a generic manner for Systems Integrator companies.

- QuickScan & Detector PolyDoc's methods & tools for inventory of processes, preliminary valuation of knowledge assets and indication of potential improvements and savings.

PolyDoc aims to grow through its own and business partner marketing efforts in the United Kingdom, USA and Benelux and elsewhere predominantly through business partnerships. It is anticipated that a significant contribution to longer term growth will be received through a strategic alliance with a large global partner.

Research & Development

In the area of information and language technology PolyDoc continues to invest in research to ensure the Company's products and core software remain at the leading edge of proven technologies. This includes the ITMC research project being partly funded by Eureka. In addition to the application products mentioned above further products are planned to be developed together with business partners through a customer- and market-driven approach.

Year 2000

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond. This is a complex and pervasive issue. The operation of our business depends not only on our own products and computer platforms, operating systems and application software, but also to some degree on those of our suppliers, customers and business partners. Given this complexity, it is not possible for any organisation to guarantee that no year 2000 problems will arise. We have investigated the risks to our business resulting from the date change to the year 2000, and have developed prioritised action plans to deal with the key risks. PolyDoc's own products have been developed with year 2000 compliance in mind. With regard to our hardware platforms, operating systems and application software, the Board believes that the group will have achieved an acceptable state of readiness and also believes that it will be able to deal promptly with significant failures or issues that might arise.

The Board is satisfied that the total cost of modifications to the group's systems and products will not be significant.

The directors during the year and at 31 December 1998 and their interests in the share capital of the Company (all beneficially held except those marked with an asterisk, * which are held as trustee), were as follows:(the changes between S.A. Silcock's beneficial and non-benficial holdings relate to his children being over 18)

		Number of		
	Ordinary Shares		**Share Options**	
Director	**31 December 1998**	**1 January 1998**	**31 December 1998**	**1 January 1998**
B. K. Mence	8.337.800	8.337.800	-	-
R. V. Maddocks	25.000	25.000	400.000	400.000
H. J. M. Rutten	507.500	507.500	-	-
E. R. E. I. Wiebenga	340.000	340.000	-	-
H. Coltof	-	-	100.000	100.000
S. A. Silcock	192.450	204.150	-	-
S. A. Silcock	107.010*	95.310*	-	-
D.C. Geest	-	-	-	-

Of the 8.337.800 Ordinary Shares mentioned above B. K. Mence beneficially owns and is the registered holder of 4.490.000 Ordinary Shares and he is, or his wife or children are, potential beneficiaries under trusts holding an aggregate of 3.847.800 Ordinary Shares representing 20.56% of the voting rights of which trusts directors of Lawfords Ltd., in the Isle of Man, are trustees and are registered as the holders of such shares. S.A. Silcock is a shareholder in Lawfords Ltd. in the Isle of Man. An Extraordinary General Meeting of the Company held on 28 July 1998, approved the subscription by B.K. Mence for £ 523.640 5% Convertible Loan Stock at par and to subscribe on or before 31 December 2000 to Warrants for 300.000 Ordinary Shares at £ 1.46 per share. If not exercised by that date the Warrants shall lapse.

On 28 July 1998, the Company issued £1,570,920 5% Convertible Loan Stock 1999 ("Convertible Loan Stock"). £523,640 of the Convertible Loan Stock was subscribed for by Barry Mence following independent shareholders' approval as required by The Panel on Takeovers & Mergers ("the Panel"). Following agreement between the Company and the Loan Stockholders, including Barry Mence, the redemption date and the conversion date for the Convertible Loan Stock has been moved from 31 July 1999 to 31 July 2000 save that the extension of the conversion date for the Convertible Loan Stock held by Barry Mence from 31 July 1999 to 31 July 2000 is subject to independent shareholders' approval. Because the extension in the conversion date for the Convertible Loan Stock held by Barry Mence is a variation of the terms of the Convertible Loan Stock acquired by Barry Mence which were approved at the shareholders meeting on 28 July 1998, the Panel requires that shareholders permission be sought for this variation.

The notice of annual general meeting accompanying this report includes a resolution to that effect which must be approved by over 50% of the votes cast on a poll on which poll the shares held by Barry Mence or in which he is interested will not be voted. The Panel has required that shareholders be provided with the following information:

The minimum price per Ordinary Share at which conversion of the Convertible Loan Stock can take place is 20p, (the nominal value of the Ordinary Shares). While the Directors (other than Barry Mence) consider that it is extremely unlikely that this would occur, Barry Mence's maximum potential holding of Ordinary Shares would be as illustrated below. If Barry Mence converted all his Convertible Loan Stock at 20p per share and subscribed all his Warrants (details of which were set out in the Circular to shareholders of 10 July 1998 ("the Circular") and neither of the other holders of Convertible Loan Stock converted any of their Convertible Loan Stock or subscribed any of their Warrants, his interests in the Ordinary Shares would increase to 50.87%.

The table below illustrates Barry Mence's maximum potential interests in Ordinary Shares on this basis.

	Total Issued Share Capital	**Barry Mence Interests in Ordinary Shares**	
	No.	**No.**	**%**
Ordinary Shares in issue at the date of this document	19.208.885	8.337.800	43.41
Maximum number of Ordinary Shares which potentially may be issued to Barry Mence on conversion			
Conversion of Convertible Loan Stock at 20p per share	2.618.200	2.618.200	
Warrant subscription	300.000	300.000	
Ordinary Shares in issue on this basis	22.127.085	11.256.000	50.87

Shareholders are advised that, should Barry Mence's interests in the Ordinary Shares exceed 50%, Barry Mence would be free to increase his interests in the Ordinary Shares further without incurring any obligation under Rule 9 of the City Code on Takeovers and Mergers to make a general offer to shareholders.

Neither Barry Mence nor his family trusts has dealt in the Ordinary Shares during the period 12 months before the date of posting of these Report and Accounts. There are no agreements, arrangements or understandings (including any compensation arrangements) existing between Barry Mence and any of the Directors, shareholders or recent shareholders of the Company having any connection with or dependence upon these proposals. There are no agreements, arrangements or understandings pursuant to which any securities acquired by Barry Mence as a result of these proposals will be transferred to any other persons.

The mid market prices of the Ordinary Shares as derived from the London Stock Exchange Daily Official List on the first dealing day of each of the six months immediately before the date of this Report and Accounts and on the last practicable date prior to the publication of this document, were are follows:

Date	Mid price	
1 December 1998	145 p	
4 January 1999	1421 2	p
1 February 1999	1571 2	p
1 March 1999	1471 2	p
1 May 1999	1521 2	p
4 May 1999	1611 2	p
24 May 1999	172 p	

The change in the redemption and conversion date for the Convertible Loan Stock was effected by an Extraordinary Resolution in writing dated 12 April 1999 of all the holders of the Convertible Loan Stock agreed to by the Company. The resolution was passed pursuant to the power given by the Convertible Loan Stock Instrument to a meeting of holders of the Convertible Loan Stock, or written resolution in place thereof, to assent to any modification or abrogation of the provisions contained in the conditions set out in that instrument or to which the Convertible Loan Stock is subject proposed or agreed to by the Company.

No changes other than those set out above have been made to the Convertible Loan Stock.

Copies of the agreement dated 22 June 1998 for the subscription of the Convertible Loan Stock, the Convertible Loan Stock Trust Instrument, the Circular and the Extraordinary Resolution changing the redemption and conversion date to 31 July 2000 will be available for inspection at the registered office of the company, 18 Southampton Place London WC1A 2AJ from the posting of these Report and Accounts to shareholders until the conclusion of the Annual General Meeting.

The options granted to R.V. Maddocks and H.Coltof on 28 August 1996, are at an exercise price of 20 p per share exercisable at any time before 17 July 2001. The midmarket share price ranged from 117.50p to 297.50p during the financial year.

(b) Save as disclosed above, no Director (or member of his family) or connected persons within the meaning of Section 346 of the Companies Act 1985 has any interest, beneficial or non-beneficial, in the share capital of the company.

Substantial Shareholdings

The Directors are aware of the following persons who as at 24 May 1999 are interested directly or indirectly in three per cent or more of the company's issued Ordinary Shares:

Name	No. of % issued Ordinary Shares	Ordinary Shares
Brandon Limited	1.633.647	8.50 %
NPM Capital NV	1.365.649	7.11 %

In addition, as set out in paragraph (a) above, B. K. Mence and members of his family have interests in 8.337.800 Ordinary Shares (43.41%).

Share Option Schemes

PolyDoc Plc Share Option Schemes: On 28 August 1996 the Directors adopted and the company in general meeting approved a share option scheme to provide for the grant to certain directors and employees of PolyDoc NV of options over Ordinary Shares in exchange for the surrender by such directors and employees of their existing options over shares in PolyDoc NV and to provide for the grant by the company of subsequent new options over Ordinary Shares to employees of the Group.

Contracts

Service contracts between the company and the executive directors are terminable on 6 months notice.

Creditor payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 1998, the company had an average of 63 days purchases outstanding in trade creditors.

Auditors

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

Approved by the Board on 27 May 1999.

E.R.E.I. Wiebenga
Secretary

The remuneration committee of PolyDoc Plc is responsible for determining the contract terms, remuneration and other benefits for executive directors, including performance related bonus schemes. The committee comprises the non-executive directors. It is chaired by Hans Coltof. The details of directors' interests in options is set out in the Directors' Report.

The fees and emoluments of all directors are as follows:

1998 £'000	**1997 £'000**	**Description**
19	18	Fees
29	29	Other emoluments
238	243	Basic remuneration
47	46	Benefits
15	15	Pension contributions
348	351	

Executive directors:

The emoluments of the executive directors for the financial year are as follows:

	Barry Mence		Richard Maddocks		Huub Rutten		Iljitsj Wiebenga	
	1998	**1997**	**1998**	**1997**	**1998**	**1997**	**1998**	**1997**
	£	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Basic salary	67.721	68.412	79.137	81.264	59.352	60.947	31.655	32.507
Benefits	11.409	11.510	15.729	14.842	11.866	11.261	8.198	8.156
Subtotal	**79.130**	**79.922**	**94.866**	**96.106**	**71.218**	**72.208**	**39.853**	**40.663**
Pension contributions	3.600	4.200	6.975	7.221	2.739	2.500	1.461	1.500
Total	**82.730**	**84.122**	**101.841**	**103.327**	**73.957**	**74.708**	**41.314**	**42.163**

Pension contributions are to a defined contribution scheme.

The basic salaries have remained unchanged. The lower emoluments in 1998 are caused by differences in exchange rates.

Non executive directors:
The fees of the non executive directors for the year are as follows:

Hans Coltof		**Stuart Silcock**		**David Geest**		
1998	**1997**	**1998**	**1997**	**1998**	**1997**	
£	**£**	**£**	**£**	**£**	**£**	
6.300	6.564	6.392	6.564	6.272	5.079	Fees
-	-	28.629	29.221	-	-	Other emoluments
6.300	6.564	35.021	35.785	6.272	5.079	Total

The basic fees have remained unchanged. Certain of the other emoluments in 1998 are lower due to differences in exchange rates.

The emoluments of Hans Coltof (in 1997) and Stuart Silcock were paid to Van der Bunt Management Consultants and Lawfords Limited, Chartered Accountants, of which they are a partner and director respectively.

Service contracts

Details of the directors' service contracts are given in the Directors' Report.

Statement of Directors' responsibilities in respect of the accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that year. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the company will continue in business;

The directors confirm that they have complied with the above requirements in preparing the accounts. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts 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.

Group profit and loss account
For the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Turnover	**2**	891	241
Cost of sales		(892)	(993)
Gross loss		(1)	(752)
Sales and Marketing expense		(502)	(484)
Administrative expense		(468)	(467)
Other operating income - foreign exchange gains		29	136
Operating loss	**3(a)**	(942)	(1.567)
Bank interest receivable		13	46
Interest payable and similar charges	**5**	(52)	(6)
Loss on ordinary activities before and after taxation		(981)	(1.527)
Loss per share-basic and diluted (pence)	**8**	(5.2p)	(8.2p)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Group statement of total recognised gains and losses

1998 £'000	1997 £'000	Description
(981)	(1.527)	Loss on ordinary activities after taxation
47	(170)	Exchange difference on retranslation of net assets of subsidiary undertakings
(934)	(1.697)	Total recognised gains and losses relating to the year

Reconciliation of shareholders' funds

1998 £'000	1997 £'000	Description
261	1.059	Shareholders' funds at 1 January
(934)	(1.697)	Total recognised gains and losses in year
		Other movements:
167	991	New shares issued (including share premium)
15	-	Shares to be issued
-	(92)	Share issue costs
(491)	261	Shareholders' funds at 31 December (all equity interests)

At 31 December 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Intangible assets	9	540	192
Tangible assets	10	203	223
		743	415
Current assets			
Debtors	12	127	104
Cash at bank and in hand		674	434
		801	**538**
Creditors: amounts falling due within one year	14	2.032	375
Net current assets/(liabilities)		**(1.231)**	**163**
Total assets less current liabilities		**(488)**	**578**
Creditors: amounts falling due after more than one year	15	3	317
		(491)	**261**
Capital and reserves			
Called up share capital	17	3.773	3.743
Shares to be issued	18	15	-
Share premium account	18	2.213	2.076
Profit and loss account	18	(6.492)	(5.558)
Shareholders' funds (all equity interests)		**(491)**	**261**

Barry K. Mence
Executive Chairman
27 May 1999

COMPANY BALANCE SHEET

At 31 December 1998

Notes	1998 £'000	1997 £'000	
			Fixed assets
11	4.777	2.820	Investments
			Current assets
12	2.737	3.017	Debtors
	95	-	Cash at bank and in hand
	2.832	**3.017**	
14	1.613	23	Creditors: amounts falling due within one year.
	1.219	2.994	Net current assets
	5.996	**5.814**	**Total assets less current liabilities**
			Capital and reserves
17	3.773	3.743	Called up share capital
18	15	-	Shares to be issued
18	2.213	2.076	Share premium account
18	(5)	(5)	Profit and loss account
	5.996	**5.814**	**Shareholders' funds (all equity interests)**

Barry K. Mence
Executive Chairman
27 May 1999

GROUP STATEMENT OF CASH FLOWS

For the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Net cash outflow from operating activities	3(b)	(699)	(1.547)
Return on investments and servicing of finance			
Interest received		13	46
Interest paid		(50)	(4)
Interest element of finance lease rental payments		(2)	(2)
		(39)	**40**
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets		(247)	(107)
Payments to acquire tangible fixed assets		(52)	(131)
		(299)	**(238)**
Acquisitions and disposals			
Purchase of subsidiary undertaking		(95)	-
Net cash acquired with subsidiary undertaking		2	-
		(93)	**-**
Management of liquid resources			
(Increase)/decrease in short term deposits		(401)	803
Net cash outflow before financing		(1.531)	(942)
Financing			
Issue of ordinary share capital		110	991
Share issue costs		-	(92)
New long term loan		1.571	336
Repayment of long term loan		(299)	-
Repayment of capital element of finance lease		(12)	(19)
		1.370	**1.216**
(Decrease)/increase in cash		**(161)**	**274**

1. Accounting policies

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated accounts include the results of the company and its subsidiary undertakings. The excess of the cost of acquisition of Lessenger Associates BV over its net asset value has been included as goodwill under intangible fixed assets. The acquisition of PolyDoc NV in 1996 was accounted for as a merger under the provisions of Financial Reporting Standard No. 6.

Tangible fixed assets

Tangible fixed assets are stated at historical cost, less accumulated depreciation. Tangible fixed assets are depreciated on a straight line basis at 20% per annum on cost over their expected useful lives.

Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred for a specific product is capitalised as an intangible asset when its future recoverability can reasonably be regarded as assured. The assets are amortised on a straight line basis over their estimated useful economic life which is currently estimated to be 5 years. The registration expenses of patents and trademarks are written off as incurred.

Grants and subsidies

Certain development projects benefit from a European funding programme which makes subsidy payments on the basis of six-monthly returns. Grants and subsidies are credited to the profit and loss account so as to match with the expenditure to which they relate.

Goodwill

Goodwill arising on consolidation is capitalised and amortised on a straight line basis over its estimated useful economic life up to a presumed maximum of 20 years. The goodwill arising on the acquisition of Lessenger Associates BV during the year is being amortised over 10 years. Goodwill is reviewed for impairment at the end of the first full year financial year after acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Long term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Deferred taxation
Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions and other post retirement benefits, to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Foreign currencies
Company: Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account. Group: The assets and liabilities of the subsidiary undertaking are translated at the rate of exchange ruling at the balance sheet date. The profit and loss account is translated at the average rate of exchange. The exchange difference arising on the retranslation of the subsidiary undertaking is taken directly to reserves. All other translation differences are taken to the profit and loss account.

Pensions
PolyDoc contributes to the personal pension arrangements of certain employees, the costs of which are charged in the profit and loss account as incurred.

Leasing
Assets held under finance leases, which are leases where substantially all risks and rewards of ownership of the assets have passed to the group are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under financial leases are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged to the profit and loss account over the periods of the financial lease and represent a constant proportion of the balance of capital repayments outstanding. Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

2. Turnover and segmental information

Turnover (excluding valued added tax) represents the amounts derived from the provision of services and software supplied which fall within the group's ordinary activities. The group operates in one principal area of activity, that of the design of software systems and the development, production and marketing of software products and methodologies. It operates within three geographical markets, the Benelux, the United Kingdom and the United States of America.

An analysis of turnover by destination is given below:

1998 £'000	1997 £'000	Description
722	93	The Benelux
166	111	United Kingdom
3	37	United States of America
891	241	

An analysis of turnover, loss on ordinary activities, before taxation, and net assets by source is as follows:

1998 £'000 The Netherlands	1997 £'000 The Netherlands	Description
891	241	Turnover
(981)	(1.527)	Loss on ordinary activities before taxation
(491)	284	Net assets/(liabilities)

The United Kingdom has no turnover by source or losses on ordinary activities before taxation, and had net liabilities of £ nil (1997: £23.000) by source. The United States of America has no turnover by source or losses on ordinary activities before taxation or any net liabilities (1997: £ nil).

3. Operating Loss

(a) This is stated after charging/(crediting)

1998 £'000	1997 £'000	Description
20	26	Auditors' remuneration - audit services *
1.197	1.155	Research and development expenditure written off
66	23	Amortisation of deferred development expenditure
(304)	(162)	Eureka subsidies
(29)	(136)	Foreign exchange gains
63	60	Depreciation of owned assets
9	7	Depreciation of assets held under finance leases
94	67	Operating lease rentals - land and buildings
79	83	Operating lease rentals - motor vehicles

*£ 8.915 (1997: £ 6.000) of this relates to the company.

In the view of the directors, the turnover and operating loss of Lessenger Associates BV, since acquisition on 3 December 1998 is not material for the purpose of analysing the performance of continuing operations between acquisitions and other.

(b) Reconciliation of operating loss to net cash outflow from operating activities

	1998 £'000	1997 £'000
Operating loss	(942)	(1.567)
Depreciation	72	60
Amortisation	66	23
Intangible Fixed assets written off	-	9
Loss on disposal of Tangible Fixed Assets	-	8
decrease in debtors	9	107
Increase/(decrease) in creditors and provisions	50	(14)
Exchange movements	46	(173)
Net cash outflow from operating activities	(699)	(1.547)

4. Staff Costs

	1998 £'000	1997 £'000
Wages and salaries	857	923
Social security costs	74	40
Other pension costs	29	23
	960	**986**

The directors' emoluments are disclosed in the Report on Directors' Remuneration on page 22.

The average monthly number of employees during the year was made up as follows:

	1998 Number	1997 Number
Full time employees	25	25
Contracted employees	6	5
	31	**30**

5. Interest Payable and Similar Charges

	1998 £'000	1997 £'000
Bank loans and overdrafts	16	4
Convertible loan stock	34	-
Finance charges on finance leases	2	2
	52	**6**

6. Taxation

There was no tax charge during the year (1997:£ nil). Tax losses are available for carry forward by the Group the amount of which is under discussion with the relevant authorities in the UK and The Netherlands. In accordance with the group's policy no provision has been made for the potential deferred tax asset on these losses.

7. Loss attributable to members of the parent company

The loss dealt with in the accounts of the parent company for 1998 was nil (1997:£ nil). Advantage has been taken of Section 230 of the Companies Act 1985 not to present a profit and loss account for the parent company.

8. Loss Per Ordinary Share

The calculation of basic loss per ordinary share is based on a loss, of £ 981.000 (1997: £ 1.527.000), and 18.730.633 (1997: 18.652.691) ordinary shares, being the weighted average number of ordinary shares in issue during the year. All potential ordinary shares are antidilutive.

9. Intangible Fixed Assets

Goodwill	**Development costs**	**Total**	**Group**
£'000	**£'000**	**£'000**	
			Cost
-	214	214	At 1 January 1998
-	25	25	Exchange adjustments
167	227	394	Additions
167	466	633	At 31 December 1998
			Amortisation
-	22	22	At 1 January 1998
-	5	5	Exchange adjustments
-	66	66	Provided during the year
-	**93**	**93**	
			Net book value
167	373	540	At 31 December 1998
-	192	192	At 31 December 1997

Goodwill arising on the acquisition of Lessenger Associates BV is being amortised evenly over the directors' estimate of its useful life of 10 years.

10. Tangible Fixed Assets

Group	Computer equipment £'000	Furniture and fittings £'000	Total £'000
Cost			
At 1 January 1998	227	110	337
Exchange adjustment	17	7	24
Additions	38	-	38
Disposals	-	-	-
At 31 December 1998	**282**	**117**	**399**
Depreciation			
At 1 January 1998	92	22	114
Exchange adjustments	7	3	10
Provided during the year	50	22	72
Disposals	-	-	-
At 31 December 1998	**149**	**47**	**196**
Net book value			
At 31 December 1998	133	70	203
At 31 December 1997	135	88	223

The net book value of furniture and fittings above includes an amount of £ 27.000 (1997: £ 36.000) in respect of assets held under finance leases. Other than those held under finance leases, fixed assets are free and unencumbered.

11. Investments

Company	Investment in subsidiary undertakings £'000
Cost	
At 31 December 1997	2.820
Additions	1.957
At 31 December 1998	4.777

On 18 May 1998 the company acquired a further 1.200.000 shares in its subsidiary company, PolyDoc NV for a consideration of £ 1.790.000 satisfied by setting off the obligation to pay part of the intercompany balances.

On 3 December 1998 the group acquired Lessenger Associates BV for consideration of £ 168.000, satisfied by the payment in cash of £ 95.000, and by the issue of 40.000 ordinary shares of 20p each. A further 10.000 ordinary shares of 20p may be issued as additional consideration in the next 12 months if certain conditions are met. In the view of the directors the additional consideration will be payable and accordingly it has been provided for as shares to be issued at £1.46, the market price on the date of the acquisition.

Goodwill arising on the consolidation of Lessenger Associates BV has been included in the consolidated balance sheet and is being amortised over the directors' estimate of its useful life of 10 years.

Analysis of the acquisition of Lessenger Associates BV:

Book value £'000	**Company**
32	Debtors
2	Cash
34	
33	Creditors falling due within one year
1	**Net assets**
167	Goodwill arising on acquisition
168	
	Discharged by:
58	Fair value of shares issued
15	Shares to be issued
95	Cash
168	

Lessenger Associates BV made a loss after tax of £1.000 in the year ended 31 December 1998 (1997 - £ 700). There was a profit of £2.500 in the period 1 January 1998 to 3 December 1998.

Details of the investments in which the group or company holds more than 20% of the nominal value of any class of share capital are as follows:

Name of company	**Country of registration (or incor-poration) and operation**	**Holding**	**Proportion of voting rights and of business**	**Nature of business**
PolyDoc NV	The Netherlands	Ordinary shares	100%	Knowledge Management Software developer
Lessenger Associates BV	The Netherlands	Ordinary shares	100%	Document Management Software supplier

12. Debtors

Description	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Trade debtors	85	72	-	-
Amounts owed by subsidiary undertakings	-	-	2.737	3.017
Other debtors	-	-	-	-
Prepayments and accrued income	42	32	-	-
	127	**104**	**2.737**	**3.017**

Trade debtors are free and unencumbered.

13. Net debt

(a) Reconciliation of net cash flow to movement in net debt

	1998 £'000	1997 £'000
(Decrease)/increase in cash	(161)	274
Repayment of long term loans	299	(336)
Cash inflow from increase in debt	(1.571)	-
Repayments of capital elements of finance leases	12	19
Cash (inflow)/ outflow from change in liquid resources	401	(803)
Change in net debt resulting from cash flows	(1.020)	(846)
Exchange differences	-	37
Other	-	(51)
Movement in net debt	**(1.020)**	**(860)**
Net debt at 1 January	**103**	**963**
Net debt at 31 December	**(917)**	**103**

(b) Analysis of net debt

	1 January 1998 £'000	Cashflow £'000	31 December 1998 £'000
Cash at bank	433	(161)	272
Liquid resources	1	401	402
New long term loan	(299)	299	-
Convertible loan stock	-	(1.571)	(1.571)
Finance leases	(32)	12	(20)
	103	**(1.020)**	**(917)**

Liquid resources are included within cash at bank and in hand on the balance sheet.

14. Creditors: amounts falling due within one year

Company		Group		
1998	**1997**	**1998**	**1997**	
£'000	**£'000**	**£'000**	**£'000**	
1.571	-	1.571	-	5% Convertible loan stock
-	-	17	14	Obligations under finance leases
-	-	306	226	Trade creditors
2	8	25	45	Other taxes and social security costs
40	15	113	90	Accruals
1.613	**23**	**2.032**	**375**	

The 5% Convertible loan stock was issued to the company's three largest shareholders on 31 July 1998 and was repayable or convertible into ordinary shares at a conversion price of £ 1.46 on 31 July 1999,at the option of the loan stockholders. Interest on the Convertible Loan Stock is payable on 30 June and 31 December. On 12 April 1999, the repayment or conversion was extended to 31 July 2000 as disclosed in note 20. The amount of £ 1.571.000 is thus included in current liabilities at 31 December 1998, although it became an amount falling due after more than one year on 12 April 1999.

15. Creditors: amounts falling due after more than one year

Company		Group		
1998	**1997**	**1998**	**1997**	
£'000	**£'000**	**£'000**	**£'000**	Bank loan falling due between one and
-	-	-	299	two years
-	-	3	18	Obligations under finance leases
-	**-**	**3**	**317**	

The bank loan had an interest rate of 6%, and was repaid on 31 July 1998.

16. Obligations under leases

Amounts due under finance leases and hire purchase contracts:

1998	**1997**	**Group**
£'000	**£'000**	
		Amounts payable:
17	16	Within one year
4	19	In two to five years
21	35	
1	3	Less finance charges allocated to future periods
20	**32**	

The company had no amounts due under finance leases and hire purchase contracts. At 31 December 1998 the group had annual commitments under operating leases as set out at the top of the next page:

Group l	other	and & buildings	other	land & buildings
	1998	**1998**	**1997**	**1997**
Operating leases which expire	**£'000**	**£'000**	**£'000**	**£'000**
within one year	26	-	8	-
in two to five years	63	100	48	91
	89	**100**	**56**	**91**

The company had commitments under operating leases as at 31 December 1998 amounting to £4.000 (1997: £ nil) expiring within one year and £12.000 expiring within two to five years (1997: £16.000).

17. Share Capital

Company

Authorised	**Number**	**£'000**
Equity:		
Ordinary shares of 20p each at 31 December 1998 and 31 December 1997	30.000.000	6.000

Allotted, called up and fully paid		
Equity:		
Ordinary shares of 20p each at 31 December 1997	18.715.385	3.743
Ordinary shares of 20p each at 31 December 1998	18.863.885	3.773

On 15 October 1998, 30.000 ordinary shares were issued for cash at 20p each. On 20 October 1998, 10.000 ordinary shares were allotted for cash to a holder of share options at 20p each. On 9 December 1998 68.500 ordinary shares of 20p each were issued at £1.46 for cash and a further 40.000 ordinary shares of 20p each were issued at £1.46 as part consideration for the acquisition of Lessenger Associates BV. As described in note 11, a further 10.000 ordinary shares will be issued to the vendors of Lessenger Associates BV if certain conditions are met.

An Extraordinary General Meeting of the Company held on 28 July 1998, approved the subscription by each of B.K. Mence, NPM Capital NV and Brandon Ltd, of £523.640 5% Convertible Loan Stock at par the conversion terms of which are described in note 14, as well as the award of 300.000 Warrants each. The Warrants did not attract any consideration. Each Warrant entitles the holder to subscribe on or before 31 December 2000, for one Ordinary Share at £1.46 per share. If not exercised by that date the Warrants shall lapse.

Share option scheme

The company has specified a maximum of 900.000 ordinary shares over which options could be granted under any employee share option scheme. During 1998, 80.000 options were not taken up and became available for re-issue and 10.000 options were exercised at 20p. During 1998 the company has granted options over 69.000 ordinary shares to employees, at a subscription price equal to the market price of 170p. at the date of the grant, leaving a balance at 31 December 1998, of 100.000 ordinary shares over which options could be granted. Options granted to directors are specified in the Directors' Report. The balance of options are held by employees. Share options are granted by the Board of directors on a discretionary basis.

Options subsisting under the share option scheme at 31 December 1998 were:

Year options granted	**Number of options**	**Exercise price pence per share**	**Period during which options exercisable**
1996	660.000	20	1998-2006
1997	71.000	64,5-197.5	2000-2007
1998	69.000	170	2001-2008

18. Shareholders' funds

Share capital £'000	**Shares to be issued £'000**	**Share Premium Account £'000**	**Profit and Loss Account £'000**	**Total £'000**	**Group**
3.743	-	2.076	(5.558)	261	At 1 January 1998
30	-	137	-	167	Arising on share issues
-	15	-	-	15	Shares to be issued
-	-	-	(981)	(981)	Retained loss for the year
-	-	-	47	47	Exchange differences on retranslation of net assets and results of subsidiary undertaking
3.773	**15**	**2.213**	**(6.492)**	**(491)**	**At 31 December 1998**

Dutch law requires that an amount equal to the net book value of the amounts capitalised in respect of development costs be transferred from the profit and loss reserve to a non-distributable legal reserve. To this extent £ 373.000 (1997: £ 192.000) of PolyDoc NV's profits (if available) would not be distributable as at 31 December 1998.

Shareholders' funds
Company

	Share capital £'000	Shares to be issued £'000	Share Premium Account £'000	Profit and Loss Account £'000	Total £'000
At 31 December 1997	3.743	-	2.076	(5)	5.814
Arising on share issues	30	-	137	-	167
Shares to be issued	-	15	-	-	15
At 31 December 1998	**3.773**	**15**	**2.213**	**(5)**	**5.996**

19. Contingent liabilities

Company
In accordance with Article 403, Paragraph 1, Subsection b, Book 2 of the Dutch Civil Code (B.W.), PolyDoc Plc guarantees the liabilities of PolyDoc NV and agrees with the departure from the regulations in Title 9 Book 2 of the Dutch Civil Code (B.W.), that prescribes the submission of the accounts of PolyDoc NV to the Trade Register in The Netherlands. As a consequence PolyDoc NV need not file its accounts at the Trade Register.

20. Post Balance Sheet Events

On 20 January 1999, a further 5.000 ordinary shares were allotted for cash to a holder of share options at 20p each. On 12 March 1999, a further 340.000 ordinary shares were issued for £ 499.800 in cash giving a share premium of £431.800.

On 12 April 1999, the repayment or conversion of the £ 1.570.920 Convertible Loan Stock held by the Company's three largest ordinary shareholders, was extended from its original date of 31 July 1999 to 31 July 2000. This amount has been included in amounts falling due within one year at 31 December 1998. Further details of the change in the redemption and conversion date can be found in the Directors' Report.

On 19 February 1999 Lessenger Associates BV changed its name to Lessenger BV.

AUDITORS' REPORT TO THE SHAREHOLDERS OF POLYDOC PLC

We have audited the accounts on pages 25 to 41 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 30 and 31.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 24, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and by our profession's ethical guidance. We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the company is not disclosed. We read the other information contained in the Annual Report and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 1998 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
Reading

27 May 1999

POLYDOC PLC

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