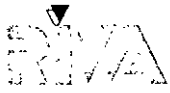


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RIVA GROUP PLC



ANNUAL REPORT AND ACCOUNTS 1996



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COMPANIES HOUSE 28/05/97



Directors and Administration

Directors

PH Giles (Chairman)
DA Bendall
PA Briggs ACA
AS Petrie
L Turndal (Non-executive)
D Turner

Mr Lars Turndal, who is 61 was appointed as a non-executive director on 9 October 1996. Mr Turndal has more than 30 years experience in the computer industry with spells at Digital Equipment Corporation, Sperry Univac and Memorex International before joining Santa Cruz Operation (SCO) in 1988. He was Chairman, President and Chief Executive Officer of SCO and was responsible for taking the Company public on NASDAQ in April 1993. Having left SCO in 1996 Mr Turndal now acts as a non-executive representative on the Board of several companies.

Company Secretary

SP Jones ACA

Registered Office

Crompton House,
Barrs Fold Road,
Wingates Industrial Park,
Westhoughton,
Bolton BL5 3XP
Registered in England No. 1384967

Bankers

The Co-operative Bank p.l.c.
PO Box 101,
1 Balloon Street,
Manchester M60 4EP

Auditors

Arthur Andersen,
Bank House,
9 Charlotte Street,
Manchester M1 4EU

Solicitors

Slater Heelis,
71 Princess Street,
Manchester M2 4HL

Stockbrokers

Albert E Sharp & Co.,
Pinnars Hall,
105/108 Old Broad Street,
London EC2N 1ET

Registrars

Lloyds Bank Registrars,
The Causeway,
Worthing,
West Sussex BN99 6DB

Contents

FINANCIAL SUMMARY	1
CHAIRMAN'S STATEMENT	2
REVIEW OF OPERATIONS	3-5
REPORT OF THE DIRECTORS	6-8
CORPORATE GOVERNANCE	9-10
THE ACCOUNTS	11-30
AUDITORS' REPORT	31
PRINCIPAL SUBSIDIARIES	32
NOTICE OF ANNUAL GENERAL MEETING	33-34
DETACHABLE FORM OF PROXY	35

Financial Summary

YEAR ENDED 31 DECEMBER 1996

	1992	1993	1994	1995	1996
	£000	£000	£000	£000	£000

Results

Turnover	59,426	54,004	58,007	73,022	64,438
Operating profit/(loss)*	1,013	(1,494)	(990)	398	1,028
Net borrowing (cost)/gain	(879)	(695)	380	(216)	(510)
Profit/(loss) before tax	134	(2,189)	(610)	182	518
Tax (charge)/credit	(32)	-	263	(131)	(215)
Profit/(loss) after tax	102	(2,189)	(347)	51	303

*Operating profit/(loss) includes items reported previously as exceptional.

Funding

Shareholders' funds	3,432	1,070	1,008	1,388	1,244
Discounted bills receivable with recourse	408	84	1,253	1,988	973
Other loans and borrowings net of cash	7,862	7,026	2,816	2,734	2,949
Total loans and other borrowings net of cash	8,270	7,110	4,069	4,722	3,922

Share Capital

Ordinary shares of 10 pence ('000)	26,000	26,123	27,012	29,043	30,187
Convertible Preference Shares of £1 ('000)	4,224	4,224	4,224	3,512	3,054
Net asset value per ordinary share (pence)	13.2	4.1	3.7	4.8	4.1
Fully diluted net asset value per share (pence)	10.6	3.6	3.3	4.2	4.2
Earnings/(loss) per ordinary share (pence)	0.2	(8.6)	(1.5)	0.1	0.9


1996 represents our third year of sustained improvement in results. The operating profit of £1,028,000 (1995: £398,000, 1994 loss: £990,000) reflects our focus on margins as it was achieved on turnover levels in line with 1995 after taking account of sterling's appreciation. The profit before tax has increased to £518,000 (1995: £182,000, 1994 loss: £610,000); there will be no dividend payment. Good working capital management continues and has resulted in a reduction in year end net borrowings to £3.9 million (1995: £4.7 million).

Riva is building on its position as Europe's leading independent point of sale systems provider, with expertise in software, hardware and support services. Our customers, the retailers, are continuing to invest in technology as an important part of their competitive advantage. Having traditionally used point of sale equipment to provide data for their internal management, retailers are increasingly using innovative software to improve their marketing. Riva is at the forefront of these software developments with its emphasis at the point of sale, notably with customer loyalty applications.

Our primary market in the UK is the High Street multiple retailers, where we are the market leader in Windows based point of sale software. This position has been confirmed by major contract wins with

Harrods, Sketchley Retail, Coral and the Post Office Counters. In continental Europe our focus is mainly with the supermarkets, providing in-depth expertise in Unix based software. This has led to major new sales in all our markets, including for example Migros, the largest retailer in Switzerland, and the SPAR organisation in Belgium and Denmark. There is a growing awareness of the trend to Windows in this market place and we are working on providing the resilience of Unix based solutions with the user friendliness of Windows.

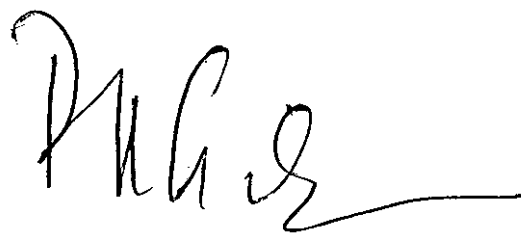
We will continue to pursue our position as the leading independent point of sale systems provider, and look to expand further in the international retail market by increasing our activities in partnership with major IT vendors. We expect the progress of the last three years to continue.



P H Giles

Chairman

2 May 1997



UK Businesses

Riva Systems and Riva Electronics both continued their improvement in profitability during 1996, based on increased activity levels and a higher content of software and project management billing.

Riva Systems

Riva Systems has built upon its success in the Windows based Power range of products, with in excess of 3,000 points of sale now installed. This consolidates our status as Microsoft's Premier Retail Partner in the UK. Working both independently and closely with networking and retail management software partners we have been successful in winning new major accounts such as Harrods, Sketchley Retail and the Post Office Counters. The Power products are now being developed for the next generation with open standards and object linked architecture. We expect this will enable us to remain a step ahead of the competition in our core market. We have also been successful in our Hewlett Packard reseller business, and in the Wholesale division we have committed significant development resources to provide our cash & carry customers with an updated Windows based software solution.

Working closely together Riva Systems and Riva Electronics have combined their software and hardware integration skills to develop a betting shop application for Coral. We have recently signed a £10 million contract as a result and expect that there will

be significant benefits from this product, the Riva Recogniser, in the next few years.

Riva Electronics

Riva Electronics has successfully developed its third party business in hardware and with the Instore2000 successes in Scandinavia has demonstrated its expertise in food supermarket point of sale software. The real benefit for multi-fascia retailers is that Instore2000 represents a hardware independent, very flexible, development tool, enabling a common point of sale software strategy to be adopted across each chain. During 1997 Riva Electronics will increase its third party hardware distribution business and increase its activity in wider international markets with partners, selling the Group's core point of sale software expertise.

Continental Businesses

After three years of stemming the losses in continental Europe we now have in place a management team capable of achieving further growth and development of the continental businesses.

Riva Holland

Holland's profitability was maintained in 1996 and we succeeded in developing major new account opportunities for 1997. Customers such as Zeemans, Edah, Bijenkorf and Primarkt (Albert Heijn Group) are now amongst our customers. Holland has a

leading position in loyalty and multimedia applications with food supermarket retailers and will expand this side of its business in 1997. We have also won major third party maintenance deals with Vroom & Dreesmann and Intergamma, the largest DIY chain in the Benelux. The software quality is high and the professional team will build upon these successes and generate further profits in 1997.

Riva France

We have made major progress in France in the last two years and it is particularly pleasing to record a profit in this business. We have centralised the service operations in Paris and built a response centre to improve the quality of service to customers. Using modern telephony and contracts administration software we expect to further improve the performance ratios in the coming months to enable us to win third party business and improve the efficiency of the resources deployed in the field.

The software team has worked closely with Switzerland to deliver a point of sale system including software and hardware to Migros, the biggest retailer in Switzerland. This project demonstrates our ability to professionally manage international, cross border developments.

Having consolidated our position as major supplier to Intermarche, with some 7,000 lanes now installed, we are targeting the major national chains, working with partners where necessary, to raise the profile of

the Company. The Decathlon (Auchan Group) sports supermarket reference site now gives us a platform from which to build our general retail position, which will improve the stability and profitability of the Company in the next few years.

Riva Spain

After the heavy losses of previous years it was pleasing to return to a small profit position in Spain. Having resolved the local funding issues and re-established normal commercial relationships with suppliers we have achieved a significant turnaround in results by focusing on our core point of sale expertise. We have developed good customer relationships with the regional multiple food supermarket chains, in particular within the major buying groups in Spain. Whilst it remains a small operation, in 1997 we expect to continue this progress and raise the profile of the Company to target the major national accounts. This should allow us to achieve significant growth over the next few years.

Riva Denmark

Following the losses incurred at the half year we have significantly reshaped the business in Denmark, withdrawing from peripheral activities such as checkout manufacture, development of return bottle machines and the hospitality business. The operation is now focused on point of sale solutions with the supermarket chains, and comprises a software

development and support team, with a service and maintenance operation. We have had significant success with the new Instore2000 software product within the SPAR organisation in Denmark and major retailers are showing keen interest in the new software. The business has been stabilised and we expect to exploit the initial successes in the second half of 1996 by applying a Scandinavian wide strategy with major food supermarket retailers, both independently and with partners.

Riva Switzerland

Switzerland has been re-shaped in 1996, restructuring its hospitality business and focusing on the major food supermarket retailers. The success with Migros is a significant win and one upon which we aim to build in 1997.

Riva Belgium

Belgium recorded a small loss in view of the flat retail market. However a change of focus to the general retail and hospitality sectors helped limit the impact of the Padlock law (limiting new store openings) and we expect an improvement in 1997.

The directors submit their Report and the Audited Accounts for the year ended 31 December 1996.

Activities and Review of Operations

The Company is a holding company providing financial and management services to its trading subsidiaries.

The principal activities of the Group are the development and support of point of sale and store management information software, provision and service of hardware terminals, and professional services associated with their installation and operation by retailers.

Further details of these activities, the development of the Company and its subsidiaries, and likely future developments are given in the Chairman's Statement on page 2 and the Review of Operations on pages 3 to 5.

Results and Dividends

Turnover for the year amounted to £64,438,000 (1995: £73,022,000). The Group's profit before taxation for the year amounted to £518,000 (1995: £182,000). Detailed results for the year are shown in the Profit and Loss account on page 11. The net profit after taxation for the year amounted to £303,000 (1995: £51,000) and after an appropriation for the finance costs of non-equity shares amounting to £31,000 (1995: £31,000) an amount of £272,000 (1995: £20,000) has been transferred to reserves. In view of the deficit on distributable reserves there will be no dividend payment.

Fixed Assets

The directors are of the opinion that there has been no permanent diminution in the value of freehold properties which are stated at cost less accumulated depreciation in the accounts (net book amount £591,000).

Directors

The composition of the Board of directors is shown on the inside front cover.

Mr L Turndal was appointed as a non-executive director on 9 October 1996.

At the Annual General Meeting to be held on 26 June 1997, Mr L Turndal, who was appointed since the last Annual General Meeting, retires and, being eligible, offers himself for re-election. Mr P H Giles retires by rotation and, being eligible, also offers himself for re-election.

Mr D A Bendall, Mr P A Briggs, Mr A S Petrie and Mr D Turner have service contracts with the Company which are terminable by not less than twelve months notice. The contract under which Mr P H Giles provides his services is terminable by six months notice.

Directors' Interests

The interests of the directors serving at 31 December 1996 and their families in the Company's ordinary share capital were as shown in Note 4 to the Accounts. The rights attaching to the shares are summarised in Note 15 to the Accounts.

There have been no changes in the interests of the directors and their families between 31 December 1996 and 2 May 1997.

Details of directors' options under the Company's Employee Share Option Scheme are detailed in Note 4 to the Accounts.

Substantial Shareholdings

As at 18 April 1997 the Company has been notified of the following interests, excluding the interests of directors, representing 3 per cent or more of its present issued ordinary share capital.

No. of ordinary shares	
Pavon Investments Inc	8,676,000
Clerical Medical and General	
Life Assurance Society	2,121,571
Midland Bank International Finance	
Corporation Limited	1,000,000

Loan from FBG Holdings (UK) Limited

FBG Holdings (UK) Limited, a company associated with Pavon Investments Inc., a substantial shareholder in the Company, is the registered holder of 1,579,928 B Cumulative Convertible Redeemable Preference Shares of £1 and has provided on demand loan facilities of £1,580,000. The rights attaching to these shares are summarised in Note 15 to the Accounts and further details of the loan are contained in Note 12 to the Accounts.

Employees

The Group is an equal opportunities employer and continues to employ people on the basis of merit and job suitability. Promotions for all personnel are made on the basis of an individual's abilities and aptitude.

The Group supports the employment of disabled people wherever possible and assists all personnel, both able bodied and disabled, in structuring their careers, giving them training where appropriate. Wherever possible the Group will continue to employ anyone who becomes disabled whilst in its employment. The Group encourages communication between employees and keeps all employees informed of matters affecting them.

Creditor Payment Policy

The policy of the Group is to pay creditors according to negotiated terms.

Donations

No donations or contributions were made during the year to charities or political organisations.

Auditors

Binder Hamlyn resigned as auditors of the Company on 27 March 1997. The directors appointed Arthur Andersen as auditors on the same date to fill the casual vacancy. The Company has received Special Notice of a resolution for the re-appointment of Arthur Andersen as auditors and this resolution is to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

In addition to the re-appointment of Arthur Andersen as auditors, there are three further resolutions to be considered as special business at the Annual General Meeting. Resolutions 4 and 5 relate to the directors' authority to allot shares. Under the Companies Act 1985, directors may only allot unissued shares if authorised to do so by the Articles of Association of the Company or by the shareholders at a general meeting. Riva renews this authority every five years and the previous authority expires in May 1997.

Resolution 4 will grant a new authority to the directors to allot shares up to an aggregate nominal amount of £1,473,000. This represents approximately 21.2% of the total issued share capital of the Company at the date of this Report. The directors have no present intention of exercising the authority. The authority will expire on 25 June 2002.

Resolution 5 is to authorise the directors to allot unissued shares for cash, otherwise than pro rata to all the shareholders. The authority covers certain circumstances arising on a rights issue and in other cases is limited to the allotment of shares up to a maximum amount of 1,500,000 shares, under 5% of the current issued ordinary share capital of the Company. This authority expires at the conclusion of the next Annual General Meeting of the Company or 15 months following the passing of the resolution, whichever is earlier.

Resolution 6 amends the Articles of Association of the Company. These amendments are required in order that the Articles of Association comply with the revised Listing Rules of the London Stock Exchange.

Resolution 6 (i) limits the directors' power in Article 26 to refuse to register transfers of shares, on which the Company has a lien, to partly paid shares only. It also states that the power to refuse to register transfers of shares may not be exercised in relation to partly paid shares which are listed on the London Stock Exchange where the refusal to register will prevent dealings in the shares from taking place on an open and proper basis.

Resolution 6 (ii) amends Article 76, which entitles the Company to impose sanctions if a notice has been given under Section 212 of the Companies Act seeking information about interests in the Company's shares and proper information has not been given within the prescribed period. The revised Article limits the sanction available to the Company to the suspension of voting rights.

Resolution 6 (iii) clarifies Article 96, which sets out the rules concerning the voting of directors on proposals in which they have an interest, by adopting the interpretation used in the revised Listing Rules.

By Order of the Board



S P Jones

Secretary

2 May 1997



Statement of Compliance

Prior to 9 October 1996 the Company did not have non-executive representation on the Board. Since that date Mr L. Turndal has been the sole non-executive representative on the Board and the Company has therefore been unable to comply with those paragraphs of the Code of Best Practice (the Code) set out in the Report of the Committee on the Financial Aspects of Corporate Governance (the Cadbury Report) which require, or else depend upon, the appointment of two or more non-executive directors. In respect of paragraph 2.3 of the Code, Mr L. Turndal has not been appointed for a specified term. The directors confirm that in respect of all other paragraphs of the Code the Company has complied throughout the period.

Internal Financial Control

The directors are responsible for ensuring that the Company maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. The directors recognise that such a system can provide only reasonable and not absolute, assurance against material misstatement or loss. The key features of the internal financial control system are as follows:

Organisational control framework

Control is exercised through an organisational structure with clearly defined levels of authority and responsibility and appropriate reporting procedures. Information is regularly provided at all levels and compared with budgeted targets which are reviewed on a monthly basis.

Risk management

The identification of major business risks is carried out in conjunction with operating management and steps are taken to mitigate or manage these where possible.

Financial reporting

The Company operates a comprehensive budgeting system with an annual budget approved by the directors. Monthly trading results, balance sheets and the cash position are reported against the corresponding figures for the budget and previous year. A revised annual rolling trading forecast is prepared on a monthly basis.

Treasury management

The treasury functions of the operating companies are overseen by the Group finance function. Major transactions are authorised at the requisite level and there is appropriate segregation of duties. Regular reports are submitted to the Group finance function, with weekly and rolling 13 week cash flow forecasts submitted to the Board.

Operating company systems

Each operating company maintains financial controls and procedures appropriate to its own business environment conforming to overall standards and guidelines.

The Board has reviewed the effectiveness of the internal control environment of the Group.

Remuneration Policy

As the Company did not have more than one non-executive director at any time during the year, the executive Board has been responsible for determining the remuneration policy for the senior management throughout the Group. Consequently, it has been unable to comply with Section A of the best practice provisions annexed to the Listing Rules concerning remuneration committees. The Board, in framing its remuneration policy, has given full consideration to Section B of the best practice provisions annexed to the Listing Rules.

Remuneration policy

The Group aims to attract, motivate and retain high calibre staff by rewarding them with competitive salary and benefit packages which are linked to individual responsibility and business performance. The packages are reviewed each year or following a change in responsibilities. During the review process reference is made to external benchmarking opportunities and to the level of enhanced performance required to motivate individuals to meet the Group's objectives.

Incentive schemes

Executive directors participate in performance linked annual bonus schemes. These are based on achievement of profit before interest and tax and effective management of net operating assets, in excess of a pre-determined base approved by the Board. The pre-determined rates are specified for each business unit in the Group. Performance linked bonuses are not pensionable.

Share options

The Board is responsible for supervising the Company's share option scheme in accordance with rules approved by shareholders in General Meeting. Details of the share options held by directors are shown in Note 4 to the Accounts.

Service contracts

There are no contracts of service under which directors are employed other than contracts expiring or terminable within one year and without payment of compensation. Details of the unexpired term of directors' service contracts for those directors seeking election or re-election at the forthcoming Annual General Meeting of the Company are as follows:

- Mr P H Giles has a six month rolling contract under which his services are provided; and
- Mr L Turndal does not have a service contract with the Company.

Pensions

The Group operates a number of pension schemes in the UK and overseas. The pension schemes in which the executive directors participate are defined contribution schemes. The Company's contribution to these schemes is shown in Note 4 to the Accounts. Information on the Company's pension plans is shown in Note 21 to the Accounts.

Directors' remuneration

Details of the remuneration paid to directors are shown in Note 4 to the Accounts.

Going Concern

Having reviewed the Group's liquid resources and borrowing facilities and its cash flow forecasts the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Auditors' Statement

The auditors have confirmed that, in their opinion, with respect to the directors' statements on internal financial control and going concern, the directors have provided the disclosures required by paragraph 4.5 of the Code (as supplemented by the related guidance for directors) and paragraph 12.43 (v) of the Listing Rules and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' other statements appropriately reflect the Company's compliance with the other paragraphs of the Code specified for their review. They were not required to perform the additional work necessary to, and did not, express any opinion on the effectiveness of either the Company's system of internal control or its corporate governance procedures nor on the ability of the Company and Group to continue in operational existence.

Directors' Responsibilities

Company law requires the directors to prepare the financial statements 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 Group profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare 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 of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention of fraud and other irregularities. The directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements, and that applicable accounting standards have been followed.

Group Profit and Loss Account

YEAR ENDED 31 DECEMBER 1996

Notes	1996 £'000	1995 £'000
1 Turnover	64,438	73,022
2 Operating profit	1,028	398
3 Net borrowing cost	(510)	(216)
Profit on ordinary activities before taxation	518	182
6 Tax on profit on ordinary activities	(215)	(131)
Profit on ordinary activities after taxation	303	51
17 Finance costs of non-equity shares	(31)	(31)
17 Profit for the year transferred to reserves	272	20
7 Earnings per ordinary share	0.9p	0.1p

Note: All turnover and operating profit derives from continuing activities.

Group Statement of Total Recognised Gains and Losses

YEAR ENDED 31 DECEMBER 1996

	1996 £'000	1995 £'000
Profit on ordinary activities after taxation	303	51
Currency translation (losses)/gains on foreign currency net investments	(447)	272
Total recognised (losses) / gains relating to the year	(144)	323

Notes	1996 £'000	1995 £'000
Fixed Assets		
8 Tangible assets	3,087	3,702
Current Assets		
10 Stocks	5,821	6,558
11 Debtors	12,667	15,772
Cash at bank and in hand	1,598	2,155
	20,086	24,485
Creditors: amounts falling due within one year		
12 Loans and other borrowings	5,235	6,676
13 Other creditors	15,863	18,738
	21,098	25,414
Net current liabilities	1,012	929
Total assets less current liabilities	2,075	2,773
Creditors: amounts falling due after more than one year		
12 Loans and other borrowings	285	201
13 Other creditors	196	727
	481	928
14 Provisions for liabilities and charges	350	457
Net assets	1,244	1,388
Capital and Reserves		
15 Share capital	6,951	6,951
17 Share premium account	1,320	1,320
17 Special reserve	818	818
17 Other reserve	139	108
17 Profit and loss account	(4,030)	(3,855)
	5,198	5,342
17 Goodwill reserve	(3,954)	(3,954)
19 Shareholders' Funds	1,244	1,388

Note: Share capital and the other reserve include the interests of the non-equity Preference Shareholders as disclosed in Note 19.

Approved by the Board on 2 May 1997

P H Giles, Chairman

P A Briggs, Director

Company Balance Sheet

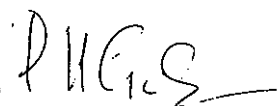
AT 31 DECEMBER 1996

Notes	1996 £'000	1995 £'000
Fixed Assets		
8 Tangible assets	28	36
9 Investments in subsidiaries	7,105	6,956
	7,133	6,992
Current Assets		
11 Debtors	713	1,484
Cash at bank and in hand	187	-
	900	1,484
Creditors: amounts falling due within one year		
12 Loans and other borrowings	3,284	3,940
13 Other creditors	2,645	3,136
	5,929	7,076
Net current liabilities	5,029	5,592
Net assets	2,104	1,400
Capital and Reserves		
15 Share capital	6,951	6,951
17 Share premium account	1,320	1,320
17 Special reserve	818	818
17 Other reserve	139	108
17 Profit and loss account	(7,124)	(7,797)
19 Shareholders' Funds	2,104	1,400

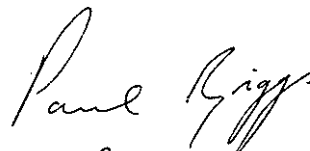
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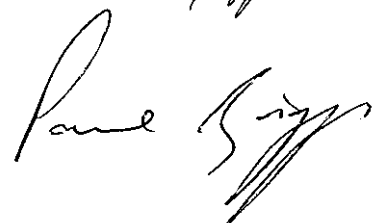
Approved by the Board on 2 May 1997

P H Giles, Chairman



P A Briggs, Director





Group Cash Flow Statement

YEAR ENDED 31 DECEMBER 1996

Notes	1996 £'000	1995 £'000
18 Net cash inflow / (outflow) from operating activities	2,227	(440)
Returns on investments and servicing of finance		
Interest received	16	71
Interest paid	(526)	(591)
Interest element of hire purchase and finance lease rentals	(5)	(1)
Net cash outflow from returns on investments and servicing of finance	(515)	(521)
Taxation		
UK corporation tax repaid	-	94
Overseas taxes paid	(27)	(69)
Net tax (paid) / repaid	(27)	25
Investing activities		
Purchase of tangible fixed assets	(1,059)	(1,265)
Sale of tangible fixed assets	294	204
Net cash outflow from investing activities	(765)	(1,061)
Net cash inflow / (outflow) before financing	920	(1,997)
Financing		
Issue of ordinary shares	-	57
New loans repayable after one year	265	118
New short term loans	112	71
Repayment of bank loans	(100)	(159)
Principal payments under finance leases	(46)	(26)
Expenses paid in connection with refinancing	-	(104)
Net cash inflow / (outflow) from financing	231	(43)
18 Increase / (decrease) in cash and cash equivalents	1,151	(2,040)

The accounts have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

Consolidation

The Group accounts include the results and financial position of the Company and its subsidiaries. The results of subsidiaries acquired are included in the Group profit and loss account from the date of acquisition.

Goodwill, being the excess of the cost of the shares in subsidiaries over the fair value attributable to their net tangible assets on acquisition, is set against reserves in the year of acquisition.

Investments in subsidiaries are stated at cost less amounts written off to reflect any permanent diminution in value.

A separate profit and loss account dealing with the results of the Company only has not been presented as permitted by Section 230 of the Companies Act 1985.

Foreign currencies

All assets, liabilities, and the results of overseas companies denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising from the retranslation of the opening net investment in overseas companies, including appropriate intra-Group currency loans, are taken direct to reserves.

All other exchange adjustments due to fluctuations arising in the normal course of trade are taken into account in arriving at the operating results.

Depreciation

Depreciation is provided on a straight line basis on all tangible fixed assets, other than freehold land, at the following rates calculated to write off the cost of each asset over its expected useful life:

Freehold buildings	2%
Short leaseholds	over the term of the lease
Plant and equipment	10% to 33%

Research and development

Expenditure on research and development is written off as incurred.

Deferred taxation

Deferred taxation is provided using the liability method for timing differences between tax allowances and related accounting treatments where these are regarded as likely to crystallise in the foreseeable future.

Stocks

Stocks are valued at the lower of cost, including appropriate overheads, and net realisable value.

Hire purchase and leasing commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their useful lives. The capital element of future obligations under these arrangements is included within loans and other borrowings in the balance sheet. The interest element is charged to the profit and loss account over the life of the agreements. Rentals paid under operating leases are charged to the profit and loss account on a straight line basis.

Turnover and profit

Turnover comprises amounts receivable for goods and services provided during the year, stated net of sales taxes. Profit is recognised on long term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses.

Pensions

Contributions to the Group's pension schemes and other payments in respect of pensions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group.

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1996

1 Turnover and operating profit

Turnover and operating profit were attributable entirely to the principal activities of the Group as set out in the report of the directors. In the opinion of the directors the Group's business activities constitute for the purpose of segmental reporting one class of business and one geographical segment. Turnover by origin, which is not materially different to turnover by destination unless otherwise noted, was as follows:

	1996	1995
	£'000	£'000
United Kingdom - domestic market	25,507	25,637
- rest of Europe	2,156	1,678
- rest of World	207	-
	27,870	27,315
France	15,366	17,821
The Netherlands	8,747	10,336
Rest of Europe	12,455	17,550
	64,438	73,022

2 Operating profit

	1996	1995
	£'000	£'000
Turnover	64,438	73,022
(Decrease) / increase in stocks of finished goods and work in progress	(553)	333
Raw materials, consumables and finished goods	(26,508)	(30,022)
Other external charges	(11,760)	(16,580)
Staff costs (Note 5)	(23,575)	(25,266)
Depreciation	(1,014)	(1,089)
	1,028	398

Operating profit is stated after charging / (crediting) the following items:

	996	1,087
Depreciation on owned assets		
Depreciation on assets held under finance leases and hire purchase contracts	18	2
Operating lease rentals - plant and equipment	2,034	1,838
Operating lease rentals - properties	1,379	1,724
Research and development - staff costs	600	608
Research and development - external charges	140	117
Auditors' remuneration	158	165
Profit on disposal of tangible fixed assets	(17)	(26)

Amounts paid to Arthur Andersen and their associates by the Company and its UK subsidiaries in respect of non-audit services in 1996 were £26,000 (1995: £35,000).

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1996

3 Net borrowing cost

	1996	1995
	£'000	£'000
Interest payable:		
On bank loans and overdrafts	(277)	(265)
On other loans and bills of exchange	(244)	(208)
On hire purchase and finance lease borrowings wholly repayable within five years	(5)	(1)
	(526)	(474)
Interest receivable on bank deposits	16	51
Net interest payable	(510)	(423)
Net gain on waiver of other loans (Note 18)	-	207
Net borrowing cost	(510)	(216)

4 Directors

a) Shareholdings

The directors' interests in the shares of the Company were as follows;

	31 December 1996		31 December 1995	
	£1 'A'		£1 'A'	
	10p Convertible		10p Convertible	
Beneficial interests:	Ordinary	Preference	Ordinary	Preference
D A Bendall	205,000	-	205,000	-
P A Briggs	20,000	-	20,000	-
P H Giles*	500,000	993,641	-	1,193,641
A S Petrie	10,000	-	10,000	-
D Turner	1,714,500	-	1,714,500	-
Non-beneficial interests:				
D Turner	157,500	-	157,500	-

Mr L Turndal has had no interest in the shares of the Company since his date of appointment.

*At 31 December 1996 Mr P H Giles also held 15,000,000 (31 December 1995: Nil) non-voting Deferred Shares of 1p each which have the restricted rights as disclosed in Note 15.

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1996

4 Directors (continued)

b) Options

Options have been granted to directors as follows:

	31.12.95	Granted	31.12.96	Exercise Price	Date Exercisable	Date Expires
D A Bendall	50,000	-	50,000	23.0p	28.9.98	28.9.05
D A Bendall	100,000	-	100,000	23.0p	28.9.00	28.9.05
P A Briggs	-	50,000	50,000	25.0p	20.11.99	20.11.06
P A Briggs	-	70,000	70,000	25.0p	20.11.01	20.11.06
A S Petrie	333,445	-	333,445	17.1p	14.5.90	14.5.97

The market price at 31 December 1996 was 23.5p (31 December 1995: 29p) and the range during the year was 23p to 40p.

c) Emoluments

The emoluments of the directors of the Company were as follows:

	Salary and Fees	Executive Bonus	Other Benefits	Total 1996	Total 1995	Pensions 1996	Pensions 1995
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
D A Bendall	92	13	35	140	40	4	2
P A Briggs	65	-	8	73	62	3	3
P H Giles *	157	-	-	157	154	-	-
A S Petrie	92	46	6	144	133	5	5
D Turner	92	46	9	147	144	9	9
L Turndal **							
(appointed 9 October 1996)	3	-	-	3	-	-	-
J Berry **							
(resigned 3 April 1995)	-	-	-	-	3	-	-
D Dace **							
(resigned 3 April 1995)	-	-	-	-	3	-	-
	501	105	58	664	539	21	19

* Executive Chairman and highest paid director.

** Non-executive director.

The Remuneration Policy of the Company is explained in the Corporate Governance Section of this Annual Report.

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1996

5 Employees

	1996	1995
	Number	Number
The average monthly number of employees during the year was:		
Marketing and systems support	254	230
Service technicians and installation	447	417
Manufacturing	76	87
Administration	100	92
General management	18	16
	895	842

	1996	1995
	£'000	£'000
Staff costs during the year amounted to:		
Wages and salaries	19,220	20,618
Social security costs	3,202	3,182
Other pension and health costs	1,153	1,466
	23,575	25,266

Pension and health costs include a gain of £222,000 (1995: £Nil) arising on the discharge of overseas pension liabilities (Note 21).

6 Tax on profit on ordinary activities

	1996	1995
	£'000	£'000
Overseas - current year taxation	39	131
Overseas - deferred taxation	78	-
UK - current year taxation	98	-
Total tax charge	215	131

The tax charge on profits earned by certain UK and overseas subsidiaries arises since losses elsewhere within the Group are not available for offset.

7 Earnings per ordinary share

The calculation of the earnings per ordinary share is based on an available profit of £272,000 (1995: £20,000) expressed on 30,183,672 shares (1995: 28,791,604 shares) being the weighted average number of ordinary shares in issue during the year.

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1996

8 Tangible fixed assets

	Freehold properties £'000	Short leaseholds £'000	Plant and equipment £'000	Total £'000
Group				
Cost				
At 31 December 1995	840	1,362	8,409	10,611
Exchange adjustment	(131)	(167)	(887)	(1,185)
Additions	-	183	898	1,081
Disposals	-	(12)	(1,577)	(1,589)
At 31 December 1996	709	1,366	6,843	8,918
Depreciation				
At 31 December 1995	102	918	5,889	6,909
Exchange adjustment	(17)	(123)	(640)	(780)
Charge for the year	33	135	846	1,014
Disposals	-	(13)	(1,299)	(1,312)
At 31 December 1996	118	917	4,796	5,831
Net book amount				
At 31 December 1996	591	449	2,047	3,087
At 31 December 1995	738	444	2,520	3,702

Plant and equipment comprises computer equipment, fixtures and fittings, tools and equipment, and motor vehicles. The net book amount of assets held under finance leases and hire purchase contracts, which is included above under the plant and equipment heading, is £53,000 (1995: £71,000).

	Cost £'000	Depreciation £'000	Net book amount £'000
Company			
Plant and Equipment only			
At 31 December 1995	116	80	36
Additions / charge for the year	10	18	(8)
Disposals	(27)	(27)	-
At 31 December 1996	99	71	28

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1996

9 Investments in subsidiaries - Company

	Unlisted shares in subsidiaries £'000	Loans to subsidiaries £'000	Total Investment £'000
At 31 December 1995 - Cost	19,736	4,303	24,039
At 31 December 1995 - Provision	(14,312)	(2,771)	(17,083)
At 31 December 1995 - Net book amount	5,424	1,532	6,956
Waiver of loans to Group Companies	-	(449)	(449)
Additional investment in subsidiaries	-	598	598
At 31 December 1996 - Net book amount	5,424	1,681	7,105

10 Stocks - Group

	1996 £'000	1995 £'000
Raw materials and consumables	649	833
Work in progress	308	305
Finished goods and goods for resale	4,864	5,420
	5,821	6,558

There is no material difference between the historical cost and the current replacement cost of stocks.

11 Debtors

	Group 1996 £'000	Group 1995 £'000	Company 1996 £'000	Company 1995 £'000
Due within one year				
Trade debtors	11,345	14,180	-	-
Amounts owed by subsidiaries	-	-	545	1,444
Corporation tax	130	-	130	-
Other debtors	742	722	22	14
Prepayments and accrued income	450	870	16	26
	12,667	15,772	713	1,484

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1996

12 Loans and other borrowings

	Group 1996 £'000	Group 1995 £'000	Company 1996 £'000	Company 1995 £'000
Borrowings are repayable as follows:				
Within one year				
Bank loans and overdrafts	2,269	2,702	1,378	2,034
Bills discounted at banks with recourse	973	1,988	-	-
Other loans	1,966	1,938	1,906	1,906
Finance leases and hire purchase contracts	27	48	-	-
	5,235	6,676	3,284	3,940
After one year				
Bank loans	254	118	-	-
Other loans	9	52	-	-
Finance leases and hire purchase contracts	22	31	-	-
	285	201	-	-
Total loans and other borrowings	5,520	6,877	3,284	3,940
Bank loans and overdrafts are repayable as follows:				
Not by instalments - within one year	2,099	2,647	1,378	2,034
By instalments:				
- within one year	170	55	-	-
- after one and within two years	162	118	-	-
- after two and within five years	92	-	-	-
Total bank loans and overdrafts	2,523	2,820	1,378	2,034
Obligations under finance leases and hire purchase contracts are repayable as follows:				
Within one year	27	48	-	-
After one and within two years	22	17	-	-
After two and within five years	-	14	-	-
Total	49	79	-	-

The Group has provided security, by way of fixed and floating charges over certain Group assets, in respect of Group bank loans and overdrafts amounting to £1,914,000 at 31 December 1996 (1995: £2,579,000) and in respect of other loans amounting to £1,906,000 at 31 December 1996 (1995: £1,906,000).

Other loans include the following: (i) a secured loan from Mr T A Milne, a former director, amounting to £326,000 at 31 December 1996 (1995: £326,000) which bears interest at a rate of 3 per cent above one month LIBOR and is repayable on demand. (ii) a secured loan from FBG Holdings (UK) Limited amounting to £1,580,000 at 31 December 1996 (1995: £1,580,000) which bears interest at a rate of 1% per annum and is repayable on demand.

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1996

12 Loans and other borrowings (continued)

Bank loans and overdrafts are subject to variable rates of interest.

Company bank loans and overdrafts amounting to £1,378,000 (1995: £2,034,000) and other loans amounting to £1,906,000 (1995: £1,906,000) are secured by fixed and floating charges over certain Group assets. The Company has guaranteed the borrowings of certain subsidiaries amounting to £734,000 (1995: £349,000).

13 Other creditors

	Group 1996	Group 1995	Company 1996	Company 1995
	£'000	£'000	£'000	£'000
Amounts falling due within one year				
Trade creditors	7,514	9,558	112	43
Amounts owed to subsidiaries	-	-	2,362	2,830
UK corporation tax	228	-	-	-
Overseas taxes	85	73	-	-
Other taxation and social security	2,398	2,814	3	13
Accruals	3,019	3,223	168	250
Deferred service income	2,111	1,530	-	-
Payments received on account	55	1,267	-	-
Pensions	453	273	-	-
	15,863	18,738	2,645	3,136
Amounts falling due after more than one year				
Pensions	-	461	-	-
Other taxation and social security	196	266	-	-
	196	727	-	-

14 Provisions for liabilities and charges

	Deferred Taxation £'000	Warranty Provisions £'000	Total £'000
Group			
At 31 December 1995	-	457	457
Exchange adjustment	-	(51)	(51)
Utilised during the year	-	(506)	(506)
Charged to profit and loss account	78	372	450
At 31 December 1996	78	272	350

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1996

15 Share Capital

	Authorised		Allotted, Called Up and Fully Paid	
	Number	£'000	Number	£'000
Equity shares:				
Ordinary Shares of 10p each				
At 1 January 1996	43,781,584	4,378	29,043,918	2,905
Issued during the year deriving from the conversion of A Preference Shares	1,142,885	114	1,142,885	114
At 31 December 1996	44,924,469	4,492	30,186,803	3,019
Non-equity shares:				
A Convertible Preference Shares of £1 each				
At 1 January 1996	1,931,797	1,932	1,931,797	1,932
Converted during the year	(457,154)	(457)	(457,154)	(457)
At 31 December 1996	1,474,643	1,475	1,474,643	1,475
B Convertible Preference Shares of £1 each				
At 1 January and 31 December 1996	1,579,928	1,580	1,579,928	1,580
Non-voting Deferred Shares of 1p each				
At 1 January 1996	53,447,930	534	53,447,930	534
Issued during the year deriving from the conversion of A Preference Shares	34,286,550	343	34,286,550	343
At 31 December 1996	87,734,480	877	87,734,480	877
Total Share Capital at 31 December 1996		8,424		6,951
Total Share Capital at 31 December 1995		8,424		6,951

During the year, 457,154 A Convertible Preference Shares were converted into 1,142,885 Ordinary Shares of 10p each and 34,286,550 non-voting Deferred Shares of 1p each.

The Convertible Preference Shares carry the right to a preferential dividend of 1p per share net per annum, payable half yearly on 30 June and 31 December in each year, and to interest on unpaid dividends at 2% per annum over The Co-operative Bank p.l.c. base rate.

The preference shares are to be redeemed by the Company at £1 per share, together with any arrears of dividend and accrued interest, on 31 December 1999 if outstanding on that date. On a return of capital holders of Convertible Preference Shares are entitled to the nominal value of their shares, together with all arrears of dividend and accrued interest, in priority to any payment to holders of other classes of shares.

15 Share Capital (continued)

Holders of Convertible Preference Shares are not entitled to vote at general meetings of the Company unless the preferential dividend is six months or more in arrears or the meeting involves the consideration of certain items of business specified for this purpose in the Articles of Association of the Company.

Convertible Preference Shares are convertible into Ordinary Shares on each 30 June and 31 December up to and including 31 December 1999 at the rate of 10 Ordinary Shares for every 4 A Convertible Preference Shares and 10 Ordinary Shares for every 8 B Convertible Preference Shares. Entitlement to any arrears of dividend and accrued interest thereon lapses on conversion.

The non-voting Deferred Shares of 1p each are created under the authority given by the passing on 8 May 1992 of the resolution to create the Convertible Preference Shares and derive from the balance (if any) of a holding of Convertible Preference Shares which remains following conversion of that holding into Ordinary Shares. Non-voting Deferred Shares have no voting rights, no right to receive any dividend or other distribution and have deferred rights of participation on a return of capital.

16 Share Option Scheme

The following options were outstanding at 31 December 1996 under the Company's employee share option scheme:

Exercisable	Number of Ordinary Shares of 10p each		Option Price	Date Granted
	1996	1995		
Between 1990 and 1997	666,890	666,890	17.1p	14 May 1987
Between 1994 and 2001	21,190	36,060	38.0p	28 May 1991
Between 1998 and 2005	50,000	50,000	23.0p	28 September 1995
Between 1999 and 2006	262,850	-	25.0p	20 November 1996
Between 2000 and 2005	100,000	100,000	23.0p	28 September 1995
Between 2001 and 2006	457,145	-	25.0p	20 November 1996

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1996

17 Reserves

	Share premium account	Special reserve	Other reserve	Profit and loss account
Group	£'000	£'000	£'000	£'000
At 31 December 1995	1,320	818	108	(3,855)
Currency translation losses	-	-	-	(447)
Finance costs of non-equity shares	-	-	31	-
Retained profit for the year	-	-	-	272
At 31 December 1996	1,320	818	139	(4,030)

	Share premium account	Special reserve	Other reserve	Profit and loss account
Company	£'000	£'000	£'000	£'000
At 31 December 1995	1,320	818	108	(7,797)
Finance costs of non-equity shares	-	-	31	-
Retained profit for the year	-	-	-	673
At 31 December 1996	1,320	818	139	(7,124)

The other reserve represents the arrears of dividends on Convertible Preference Shares accumulated since 1992. The dividend in respect of the Preference Shares has not been paid as the Company has a deficit on its profit and loss account. The special reserve was created pursuant to a Court Order dated 10 June 1991 and is to be treated as non-distributable.

Goodwill	1995 and 1996
Goodwill arising on the acquisition of subsidiaries of £17,066,000 has been written off:	£'000
Against share premium account (in accordance with a Court Order dated 10 June 1991)	13,112
To goodwill reserve	3,954
Total	17,066

The profit on ordinary activities after taxation dealt with in the accounts of the Parent Company is £704,000 (1995: loss £157,000).

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1996

18 Cash Flow Statement

(a) Reconciliation of operating profit to net cash inflow / (outflow)	1996	1995
from operating activities	£'000	£'000
Operating profit	1,028	398
Depreciation	1,014	1,089
Profit on sale of tangible fixed assets	(17)	(26)
Reduction / (increase) in stocks	87	(202)
Reduction / (increase) in debtors	1,843	(2,551)
(Reduction) / increase in creditors	(1,676)	803
Other items	(52)	49
Net cash inflow / (outflow) from operating activities	2,227	(440)

(b) Analysis of changes in cash and cash equivalents	1996	1995
during the year	£'000	£'000
Balance at 1 January	(2,480)	(481)
Net cash inflow / (outflow) before adjusting for the effect		
of foreign exchange rate movements	1,151	(2,040)
Effect of foreign exchange rate changes	(145)	41
Balance at 31 December	(1,474)	(2,480)

			Change
(c) Analysis of cash and cash equivalents as shown in	1996	1995	in year
the balance sheet	£'000	£'000	£'000
Cash at bank and in hand	1,598	2,155	(557)
Bank loans and overdrafts	(2,099)	(2,647)	548
Discounted bills receivable	(973)	(1,988)	1,015
	(1,474)	(2,480)	1,006

Bank loans repayable within one year of £58,000 (1995: £55,000) are not cash equivalents and have been dealt with in the financing section of the Cash Flow Statement. Discounted bills receivable with a maturity of less than three months, amounting to £973,000 (1995: £1,988,000) are included in cash and cash equivalents.

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1996

18 Cash Flow Statement (continued)

(d) Analysis of changes in financing during the year	Share capital		Loans	
	including		and other	
	premium		borrowings	
	1996	1996	1995	1995
	£'000	£'000	£'000	£'000
Balance at 1 January	8,271	2,242	8,214	2,335
New capital leases	-	22	-	90
Cash inflow from financing	-	231	57	4
Waiver of other loans	-	-	-	(207)
Effect of foreign exchange rate changes	-	(47)	-	20
Balance at 31 December	8,271	2,448	8,271	2,242

On 22 September 1995 Mr T A Milne, a former director of the Company, disposed of his interest in 6,897,616 ordinary shares in the Company. As part of the placing agreement Mr Milne waived £207,000 of debt in favour of the Company, generating a profit of the same amount.

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1996

19 Reconciliation of movements in Group shareholders' funds

	1996	1995
	£'000	£'000
Profit on ordinary activities after taxation	303	51
Currency translation differences	(447)	272
New share capital issued including share premium	-	57
Net (reduction) / increase in shareholders' funds	(144)	380
Opening shareholders' funds	1,388	1,008
Closing shareholders' funds	1,244	1,388

	Group 1996	Group 1995	Company 1996	Company 1995
	£'000	£'000	£'000	£'000
Closing shareholders' funds are attributable to:				
'A' Convertible Preference Shareholders	1,541	1,983	1,541	1,983
'B' Convertible Preference Shareholders	1,652	1,636	1,652	1,636
Non-voting Deferred Shareholders	-	-	-	-
Total non-equity interests	3,193	3,619	3,193	3,619
Equity interests	(1,949)	(2,231)	(1,089)	(2,219)
Total shareholders' funds	1,244	1,388	2,104	1,400

20 Financial commitments

Capital expenditure

The aggregate amounts authorised and contracted but not included in the Group accounts at 31 December 1996 was £122,000 (1995: £Nil).

Operating leases - Group

The commitments under lease agreements payable during the next financial year are as follows:	Leasehold property	Other operating leases		
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Leases expiring within one year	68	116	935	847
After one and within five years	767	795	1,300	1,280
After five years	366	617	186	-
	1,201	1,528	2,421	2,127

Notes to the Accounts

YEAR ENDED 31 DECEMBER 1996

21 Pensions

The Group operates a number of pension schemes in the UK and overseas, the assets of which are in most cases held in independently administered funds. The net pension charge for the Group was £876,000 (1995: £1,104,000) of which £711,000 (1995: £933,000) related to overseas schemes.

In the UK the Group operates a defined benefit scheme and also defined contribution schemes.

The pension cost of the UK defined benefit scheme has been assessed in accordance with the advice of qualified, independent actuaries using the attained age method. At 1 April 1994 the actuarial valuation showed the market value of assets to be £8,045,000 and the actuarial value of the assets was 117% of the benefits that had accrued to members. The actuarial surplus was £919,000 and on the advice of the actuaries, Group funding of this scheme continues to be suspended.

The principal assumptions used in the 1994 actuarial valuation are that the investment return will be 9% per annum, that salary increases will average 7% per annum and that present and future pensions will increase at the rate of 3% per annum.

On 31 March 1997 benefits provided by this scheme ceased to accrue on a defined benefit basis following changes to the scheme agreed between the Trustees and the Company whereby the scheme is being converted to a Contracted Out Mixed Benefit Scheme.

As a result of these changes, the net pension charge for the Group of this scheme was £Nil (1995: £26,000). At the balance sheet date the difference between the amount charged in the accounts and the amount transferred to the scheme was £43,000 which is shown in Note 13 (other creditors), (1995: £43,000).

The net pension charge of the UK defined contribution schemes, representing contributions payable, amounted to £165,000 (1995: £145,000). At 31 December 1996 there were no outstanding contributions due to these schemes (1995: £Nil).

The pension costs of overseas schemes within the Group is determined in accordance with local conditions and practice and amounts to £711,000 (1995: £933,000). The reduction in the pension costs of these schemes reflects a gain of £222,000 (1995: £Nil) arising on the discharge of pension liabilities in The Netherlands (Note 5). At 31 December 1996 there were outstanding contributions due to these schemes amounting to £410,000 (1995: £691,000) which is shown in Note 13 (other creditors).

Auditors' Report to the Shareholders of Riva Group Plc

We have audited the financial statements on pages 11 to 30 which have been prepared under the historical cost convention and the accounting policies set out on page 15.

Respective responsibilities of directors and auditors.

As described on page 10 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

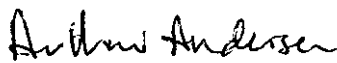
Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1996 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

Bank House,
9 Charlotte Street
Manchester M1 4EU

2 May 1997

Principal Subsidiaries

The principal subsidiaries of Riva Group Plc, which are all wholly owned, are listed below. All of the companies shown are incorporated or registered and operate in the countries indicated.

Holding Companies

Hugin Sweda International Limited *, England

Hugin Sweda Holdings BV, The Netherlands

Sales Companies

Riva Systems Limited *, England

Riva BV, The Netherlands

Riva Systems SA, Belgium

Riva Sistemas de Informacion SA, Spain

Riva Systems A/S, Denmark

Hugin Sweda-Systems AG, Switzerland *

Riva France SA, France

Design, manufacture and supply of EPoS equipment and software

Riva Electronics Limited *, England

* Companies denoted by an asterisk are direct subsidiaries of Riva Group Plc. Companies not denoted by an asterisk are owned through a holding company.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Riva Group Plc will be held at its registered office, Crompton House, Barrs Fold Rd, Wingates Industrial Park, Westhoughton, Bolton, BL5 3XP, on 26 June 1997 at 12.00 noon for the transaction of the following business:

1. To receive and adopt the report of the directors and the accounts for the year ended 31 December 1996 and the report of the auditors thereon.
2. To re-elect as directors Mr L Turndal, who was appointed since the last Annual General Meeting, and Mr P H Giles who retires by rotation.

Special Business

3. To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

That Arthur Andersen be appointed auditors to hold office until the conclusion of the next General Meeting at which accounts are laid before the Company and that their remuneration be fixed by the directors.

4. To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

That the directors be and they are hereby generally and unconditionally authorised, pursuant to Section 80 of the Companies Act 1985, to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of that Act) up to an aggregate nominal amount of £1,473,000, provided that this authority shall expire on 25 June 2002, except that the Company may before such expiry make an offer or agreement which would or might require the allotment of relevant securities after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

5. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

That, subject to the passing of resolution No. 4, the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985, to allot equity securities of the Company (within the meaning of Section 94 of that Act) for cash pursuant to the authority conferred by resolution No. 4 as if Section 89 (1) of that Act did not apply to such allotment, provided that this power shall be limited to:

- (i) the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares where the equity securities respectively attributable to the interests of all the holders of ordinary shares are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject to such exclusions or other arrangements as the directors may think fit to deal with fractional entitlements or legal or practical problems under the laws of, or the regulations of any recognised regulatory authority or stock exchange in, any territory; and
 - (ii) the allotment of equity securities for cash otherwise than mentioned in sub-paragraph (i) above up to an aggregate amount not exceeding 1,500,000 ordinary shares;
- and shall expire 15 months following the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company except that the Company may before such expiry make an offer or agreement which would or might require the allotment of equity securities 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.

Notice of Annual General Meeting

6. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

That the Articles of Association of the Company be and they are hereby amended:-

- (i) by deleting the last sentence of Article 26 and adding to the end of that Article the following:-

"The directors may also refuse to register any transfer of any share (not being a fully paid up share) on which the Company has a lien. The directors shall not, however, refuse to register any transfer or renunciation of partly paid shares which are listed on the London Stock Exchange on the grounds that they are partly paid shares in circumstances where such refusal would prevent dealings in such shares from taking place on an open and proper basis."

- (ii) by deleting the words "or to exercise any other right conferred by membership in relation to meetings of the Company", commencing on line 3 of Article 76;

- (iii) by inserting after Article 96(7) the following new Article 96(8):

"96(8)(a) In determining whether a director has a material interest for the purposes of Article 96(2) and Article 96(3)(d) the interest of the director and any interest known to him of any person connected with him (within the meaning of Section 346 of the Act) shall be aggregated.

96(8)(b) For the purposes of Article 96(3)(d) a person shall be treated as the holder of shares if he has an interest in such shares (as the term "interest in shares" is used in Sections 198 to 211 of the Act)."

By Order of the Board



S P Jones
Secretary
2 May 1997



Crompton House,
Barrs Fold Road,
Wingates Industrial Park,
Westhoughton,
Bolton BL5 3XP

Notes

The Company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the Company as at 6 pm on Tuesday 24 June 1997 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6 pm on 24 June 1997 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company. Forms of proxy, which are enclosed, must be received at the office of the Company's Registrars 48 hours before the time of the meeting.

Detachable Form of Proxy

Form of Proxy for use by holders of ordinary shares having the right to attend and vote at the Annual General Meeting on 26 June 1997.

I/webeing (a) registered holder(s) of ordinary shares in Riva Group Plc hereby appoint the Chairman of the Meeting (Note 2)

.....
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 26 June 1997 and at any adjournment thereof.

Signature Date.....

Ordinary Business	For	Against
1. To receive and adopt the report of the directors and the audited accounts for the year ended 31 December 1996		
2. To re-elect the following persons as directors: Mr L Turndal Mr P H Giles		
Special Business: (Resolutions as set out on notice of meeting)		
3. To appoint Arthur Andersen as auditors and to authorise the directors to fix their remuneration.		
4. To renew the directors' authority to allot unissued shares up to an aggregate amount of £1,473,000.		
5. Authorising the directors to disapply pre-emption rights.		
6. To amend the Articles of Association of the Company in order that they comply with the Listing Rules of the London Stock Exchange.		

Please indicate your voting instructions by inserting a cross in the appropriate place. Return of a signed Proxy without specific directions will enable your proxy to vote, in the event of a poll, as he sees fit.

Notes

1. To be valid this form of proxy must be lodged with the Registrars of the Company not less than 48 hours before the time of the meeting.
2. If desired "The Chairman of the Meeting" may be deleted and another name inserted as proxy. A proxy need not be a member of the Company.
3. If you do not indicate how you wish your proxy to vote on any resolution the proxy will vote as he thinks fit, or abstain from voting.
4. A proxy may demand or join in demanding a poll, and may vote only on a poll.
5. In the case of a Corporation the proxy must be executed under its common seal or under the hand of its attorney or an officer duly authorised.

2nd FOLD

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3rd FOLD AND TUCK IN

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