Psion Annual Report & Accounts 1997

PSION

"Creating the FUTURE..."

"To create the future a company must first be capable of imagining it."

GARY HAMEL & CK PRAHALAD
Competing for the Future

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THE EARLY 21ST CENTURY will be PROFOUNDLY CHANGED by the DIGITAL REVOLUTION.

Psion has a clear view of its role in the digital age. Psion focuses on mobile computing and data-communications. Psion's key competence is innovation. Successful companies like Psion continuously innovate and adapt to their changing environment to create new business opportunities.

FINANCIAL HIGHLIGHTS

For the Year Ended 31st December 1997

In Thousands Except Per Share Amounts

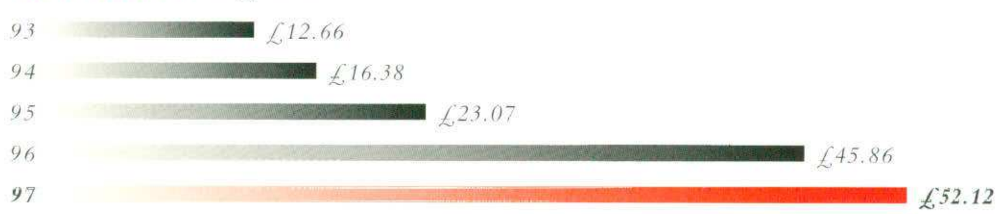
0.02
0.03

	1997	1996
Turnover	**£142,012**	£124,178
Gross Profit	**£50,804**	£50,389
Profit Before Tax	**£11,426**	£16,036
Profit After Tax	**£7,714**	£10,353
Earnings Per Share	**10.30p**	14.57p
Dividends Per Share	**2.50p**	2.25p
Research and Development Expenditure	**£10,934**	£7,731

TURNOVER *In £ millions*

PROFIT BEFORE TAX *In £ millions*

NET ASSETS *In £ millions*



You probably know Psion best as a world leader in palmtop computing. But our business is much broader.

Psion Software *develops and licenses operating systems for mobile digital products.* Psion Industrial *designs, manufactures and supplies mobile computers for commercial and industrial applications.* Psion Dacom *makes PC Card products. Psion Dacom leads Europe in this technology and is one of the top four PC Card manufacturers in the world.*

You probably know Psion as a British company. But we are a worldwide company.

Psion *has sales companies in the United States, in Holland, in Germany and in the UK.* Psion *has a worldwide distribution network which spans forty-five countries and five continents.*

CHAIRMAN'S STATEMENT

1997 was a year of great change both for Psion and the wider IT industry. After a weak performance in the first half of the year, the Company's second half performance was much stronger. Psion benefited in particular from the high demand for the newly-launched Series 5. The Group's increasing diversity will provide the robustness and strength the Group needs to compete in international markets.

RESULTS OVERVIEW Profits in 1997 were held back by the strength of sterling which reduced sales by £12m and profits by £6m, and by the impact of major product introductions in our palmtop division. In addition, we increased our investment in research and development to £10.93m (1996 – £7.73m).

Sales for the year were £142.01m, a rise of 14% over 1996 (£124.18m). Pre-tax profits were £11.43m (1996 – £16.04m). The Directors recommend a final dividend of 1.8p (1996 – 1.6p), making a total of 2.5p (1996 – 2.25p), a rise of 11% and covered four times by earnings.

REVIEW OF OPERATIONS Psion's four product companies, Psion Computers, Psion Industrial, Psion Dacom and Psion Software, have each made substantial progress during the year. Despite the problems created by the strength of sterling, our international markets have grown rapidly. For the first time, non-UK business accounts for the majority of Psion's sales, both by value and by volume. This trend will continue, reflecting the global nature of our industry.

Psion Computers successfully introduced the Series 5, the first Psion product based on 32-bit technology. The Series 5 won wide acclaim and found instant success in the marketplace. Since the launch Psion Computers has shipped more than 200,000 units, establishing the Series 5 as the clear market leader.

Psion Dacom consolidated its position as Europe's leading supplier of PC Card communication products. Moreover, with its recent agreement to supply Dell Computers worldwide, the company has the opportunity to become a world leader in its industry.

Psion Industrial relocated to a new integrated office and manufacturing facility in Oxfordshire. With this new focus, the company has been successful in winning major contracts to supply mobile data-capture systems. Recent wins include London Underground in the UK, Mercedes in Germany, Finnair and the USA Today newspaper group in the United States.

Psion Software has demonstrated its quality and depth in both systems and applications through the Series 5 products. Two important third-party licensees were obtained in the year. Major third party licensing opportunities continue to arise, particularly in the emerging 'smart-phone' sector.

➥ Building a group of companies focused on the emerging markets for MOBILE

DAVID POTTER *Chairman* 4th March 1998

David Potter

MANAGEMENT Psion operates in competitive global markets, succeeding through the endeavour and skills of its employees. On behalf of the Board, I would like to express our appreciation to all Psion personnel for their commitment and resourcefulness.

We continue to work hard to broaden the experience on the Board and in senior management. During the year, Nicholas Myers was appointed to the position of Group Managing Director, with full operational responsibility for the Group. He has been well supported in this by the Managing Directors of the operating companies. I am also delighted to welcome Gareth Hughes as a main Board Director. Gareth has been Managing Director of Psion Dacom during the last three years and has led the outstanding growth and performance of that company.

I am pleased to announce the nomination of Mr J. Barrie Morgans to the Board as a Non-Executive Director. Barrie is a previous Chairman, Chief Executive and Financial Director of IBM UK PLC and brings great experience to the Board. Last October, Peter Norman left the Group after serving on the Board of Psion for twelve years. During that period the Group grew more than thirty-fold and, on behalf of shareholders, I thank Peter for his significant contribution. In May of 1998, Sir Ian Morrow will retire from the Board after twelve years as the senior Non-Executive Director. Sir Ian's contribution has been outstanding. I would like to thank him, both personally and on behalf of the Board, for his wisdom and friendship.

DIGITAL INFORMATION PRODUCTS

STRATEGY Over the years, Psion has built substantial assets in its brand, marketing, technology, international distribution and in developing mobile digital markets. We believe there will be a substantial expansion in the markets for general computer products and for dedicated information appliances such as organisers, cellular phones and digital audio products.

Our strategy is to build a horizontal group of companies addressing mobile digital markets. At present we have four companies which focus on palmtop computers, data-communications, industrial terminals and embedded software applications and systems. Your Board intends to continue this process by expanding the Group through organic growth, strategic partnerships and by acquisition.

OUTLOOK The opportunity is for growth in all our markets. We have expanded our position internationally and by market sector. In the data-communication and industrial businesses, new contracts will drive growth. We are well positioned with competitive products in the important and growing palmtop market.

Given our growing markets, we continue to invest and plan for the longer term with confidence. However, with the continuing rapid change in palmtop markets, the Board remains cautious on the immediate outlook.

FINANCIAL REVIEW

RESULTS Psion's 1997 financial performance reflects a year of transition for the Group. Revenues increased by 14% to £142.01m (1996 – £124.18m) and the gross margin was 36% (1996 – 41%). Profits before tax were £11.43m, down from £16.04m in 1996. The results were affected by the introduction of a new generation of products based on 32-bit technology and by the strength of sterling. Investment in research and development was increased by 41% to £10.93m (1996 – £7.73).

The Group's trading performance in the middle part of the year was disrupted by retailers destocking ahead of the launch of the Series 5. The Series 5 was well received and in the last quarter of the year trading was strong in all markets.

The strength of sterling adversely affected the Group's profitability. On a constant currency basis, using the Group's average exchange rates during 1996 and 1997, revenue growth would have been 24% rather than 14% and profit before tax approximately £6m higher than reported.

Despite sterling's strength, overseas sales exceeded 50% of revenues for the first time to reach 55% of Group revenues (1996 – 49%). The performance in Continental Europe was excellent with growth of 29% to £54.58m (1996 – £42.30m). Sales in North America recovered strongly from a weak first half and in the second half sales were 53% ahead of the equivalent period in 1996.

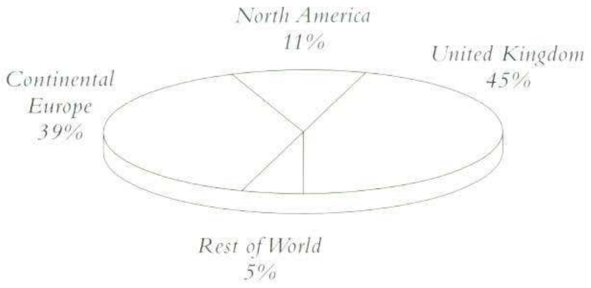
Increasing research and development spend and record capital expenditure highlights

1997 Year £ millions	Actual exchange rates	Growth	Constant exchange rates	Growth
Turnover	142.01	+14%	154.40	+24%
Profit before tax	11.43	-29%	17.50	+9%

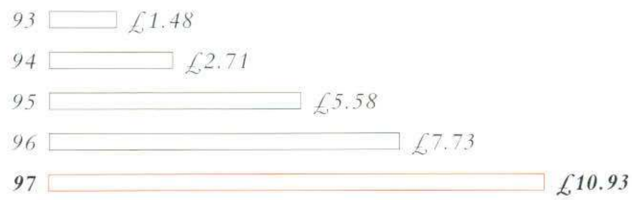
MARINA WYATT *Financial Director* 4th March 1998

Marina Wyatt

Turnover by Destination 1997



Research & Development Expenditure
£ millions



our commitment to INVESTING FOR THE FUTURE

BALANCE SHEET, INVESTMENT AND CASH Net Assets were £52.12m at the end of the year (1996 – £45.86m). Cash generation in the second half was good with more than £10m generated from trading. Cash balances at year end were £22.40m (1996 – £26.47m) and the balance sheet is ungeared except for £0.91m of finance lease liabilities (1996 – £2.10m). During the year £10.37m (1996 – £8.86m) was invested in fixed assets, including a new manufacturing facility in Oxfordshire and additional surface mount assembly lines at each of Psion's three factories.

Expenditure on research and development increased by 41% to £10.93m (1996 – £7.73m), representing 7.7% of turnover (1996 – 6.2%). This investment is vital to Psion's ability to innovate and grow. A significant element of this investment is currently being made in Psion Software's development of software platforms and applications.

TREASURY, TAX AND EPS Psion sells into overseas markets and the purchases of the majority of its components are affected by foreign exchange rates. The Group's exposure to foreign exchange fluctuations is reduced because the Group both buys and sells in overseas markets. Nevertheless, as demonstrated above, sterling's strength had a significant impact on 1997's performance. The Board's policy is to seek to minimise its foreign exchange risks through entering into forward exchange contracts. The results of overseas subsidiaries are translated at average exchange rates for the year. This translation exposure is not hedged as a matter of policy.

The fall in the Group's tax rate from 35.4% in 1996 to 32.5% in 1997 arose from the reduction in the UK corporation tax rate and the utilisation of overseas tax losses.

Earnings per share were 10.30p for the year (1996 – 14.57p). We have proposed an increase in the final dividend to 1.8p, taking the total dividend for the year to 2.5p (1996 – 2.25p). The dividend is covered 4.1 times by earnings.

ACCOUNTING POLICIES Accounting policies applied during the year were consistent with those applied in 1996. During 1997 we introduced long term contract accounting to accommodate the third party licensee contracts entered into by Psion Software. This policy is explained in more detail on page 32 and resulted in long term contract revenues of £0.68m (1996 – £nil) being recorded in the year.

OUTLOOK Psion enters 1998 in a good financial position from which to address the challenges and opportunities which lie ahead.

OPERATIONAL REVIEW

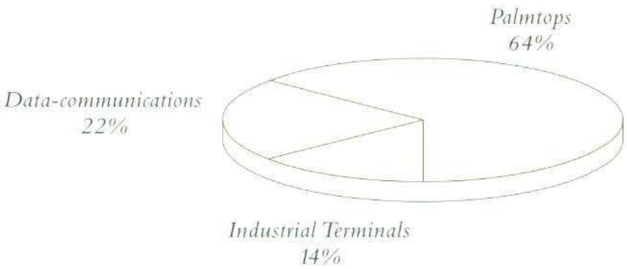
OVERVIEW 1997 was the first full year in which Psion's four product companies have been fully operational after the Group's reorganisation in mid-1996. Each product company focuses on a specific market segment: Psion Computers on palmtop computers, Psion Industrial on handheld computers for industrial and commercial applications, Psion Dacom on mobile network products and Psion Software on operating systems and application software. All the companies made good progress towards developing greater focus on their respective markets. The new organisational structure will also help improve operational effectiveness, especially in supply chain management and distribution logistics. The operations of each product company are outlined in more detail in subsequent pages.

TRADING REVIEW The key 1997 event for Psion Computers was the introduction of the Series 5, the first in a range of new palmtop computers based on 32-bit technology. The Series 5 was well received in all markets and demand was buoyant. However, the introduction of the Series 5 in June disrupted the distribution channels for Psion Computers' existing products and significantly affected the company's second and third quarter financial performance.

Psion companies market innovative products which integrate design and technological

NICHOLAS MYERS *Managing Director* 4th March 1998

Sales by Product Group 1997



excellence to MEET THE USER'S NEEDS

Psion Dacom had a successful year with substantial growth in PC Card modem sales, up by 38%. Psion Dacom contributed 22% of Psion's 1997 revenues, increasing from 18% in 1996. Psion Dacom's business is increasingly international, a trend which will continue in 1998. In November 1997 Psion Dacom was appointed as a worldwide supplier of 56k PC Card modems to Dell Computers, the world's third largest PC supplier.

In the first half of 1997 Psion Industrial relocated and staffed a new integrated factory and office facility in Oxfordshire. Despite this disruption, sales were sustained at £19.32m (1996 – £19.64m). New additions to the range included Workabout models with integrated barcode readers and laser scanners. These extensions to the Workabout range have opened the growing automatic identification markets to the company for the first time.

Psion Software has successfully licensed its EPOC32 platform to major multinational companies. In September 1997, Philips was publicly announced as an EPOC32 licensee. Philips intend to use EPOC32 in a range of 'smart-phone' products. Smart-phones are mobile telephones with data capabilities such as e-mail, faxing, and web browsing. Announcements about further licensees will be made in due course. Future revenues from third party licensees depend on the timing of product introductions.

RESEARCH AND DEVELOPMENT Psion's long term success depends on the Group's ability to deliver new and innovative products. To achieve this, each product company has its own research and development function. In 1997, the Group expanded the resources dedicated to research and development. Significant resources were channelled to Psion Software to support the continuing development and customisation of EPOC32 for Group product companies and for new third party licensees. By the end of 1997 the number of research and development personnel in the Group had risen to some 270 people.

MANUFACTURING During 1997 Psion increased its manufacturing capacity significantly. Psion Industrial's new factory commenced production in the summer and new Surface Mount Assembly lines were added at Psion Computers and Psion Dacom, bringing the Group's total capacity to six Surface Mount Assembly lines in three factories.

1998 OUTLOOK During 1998 the product companies will continue to focus on their core markets by developing products and services that extend and enhance their product ranges. The increase in the depth and diversity of the Group's business has strengthened its position ready for the challenges and opportunities which lie ahead.

Psion Computers

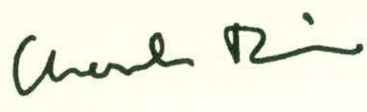
1997 REVIEWED 1997 was a successful year for Psion Computers with over 400,000 computers sold worldwide. With the launch of the Series 5 in June 1997, Psion Computers made the transition from 16-bit to a new generation of 32-bit technology. The Series 5 gives the mobile professional unprecedented computing power in a handheld form. While the Series 5 is independently effective, it readily connects to the PC and inter-operates with a wide range of PC applications. The Series 3 range, with over 1 million units shipped, continues to evolve as a value-line palmtop computer for consumer markets, whilst the Siena is marketed as a high end organiser. All Psion products share the qualities of innovative design, simplicity of use, fitness for purpose and charm.

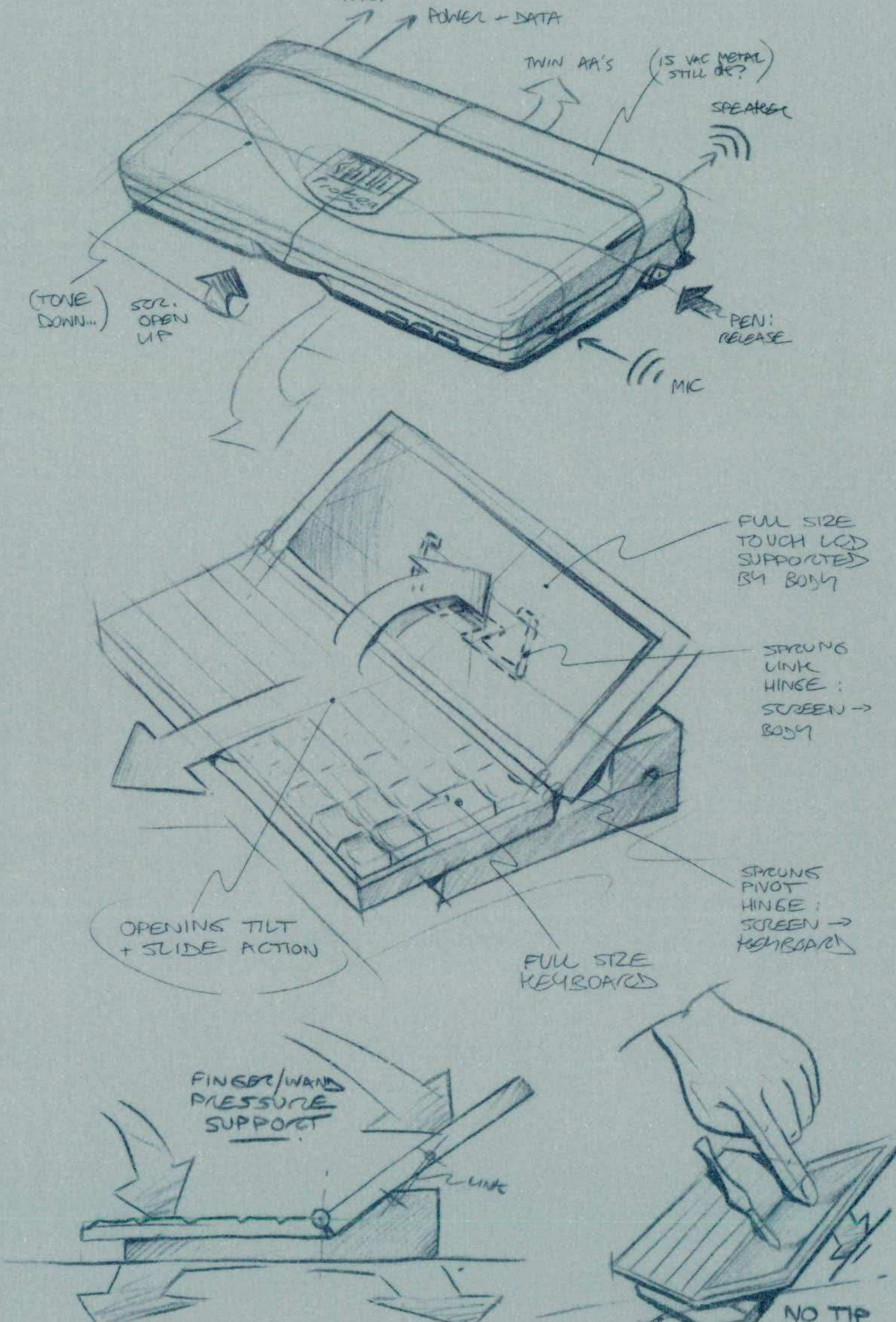
The Series 5 was an immediate success, reaping media accolades both for the excellence of its hardware design as well as for the depth and sophistication of its software. Early demand outstripped initial production volumes, although this position improved as volumes rose through the year. During the first half of 1997 the imminent introduction of Series 5 affected demand for the existing Series 3 and Siena products. During the second half of the year, sales recovered as the market recognised the Series 5 as a complementary extension of Psion's existing product range rather than as a replacement for the Series 3.

Despite the market turbulence caused by the first products based on Microsoft's Windows CE, overseas sales were excellent. Encouragingly, sales into non-Psion company countries rose especially strongly, even in territories where the Series 5 was not available. In 1997, more than a third of Psion Computers' sales were to these countries.

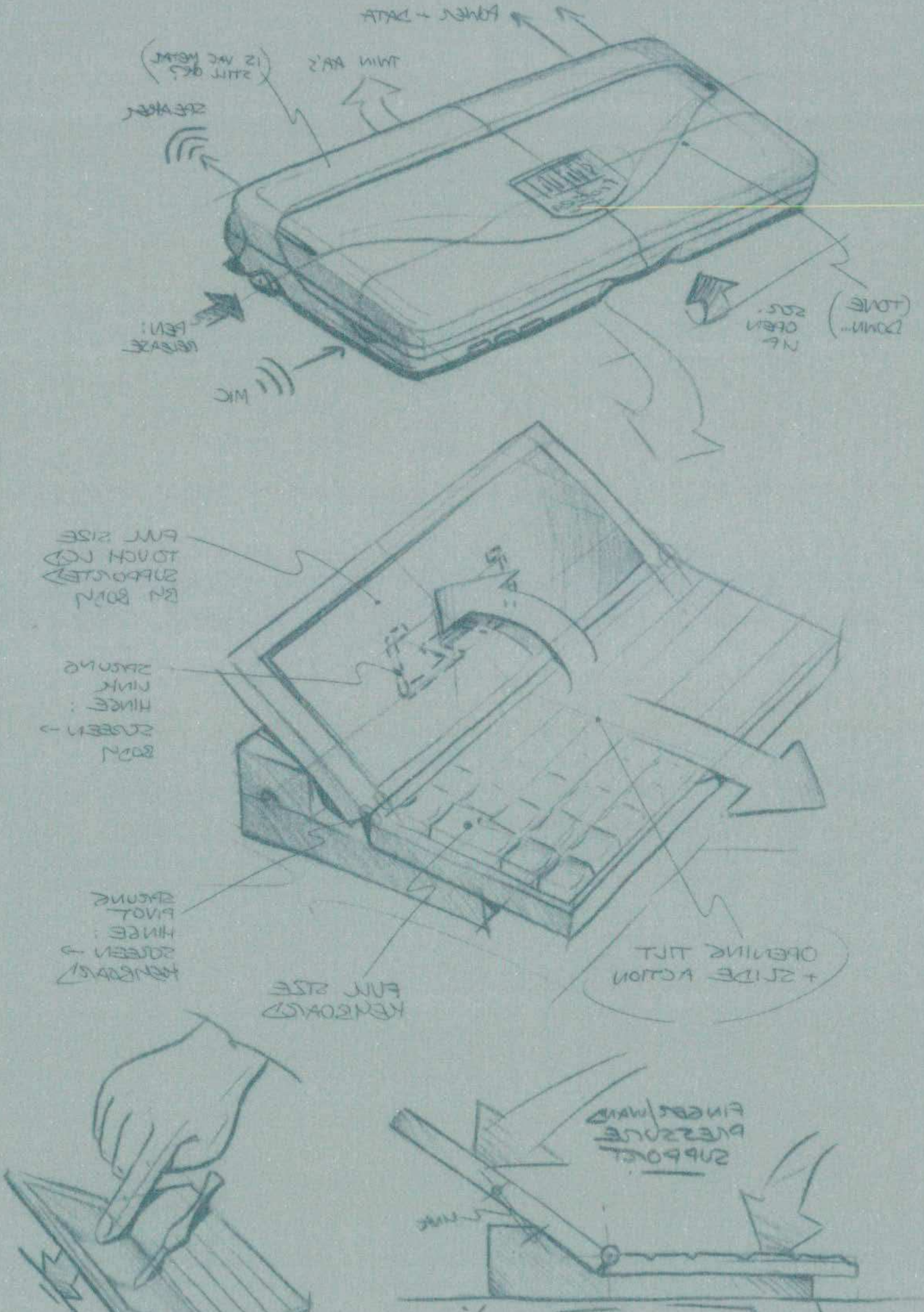
1998 OUTLOOK Psion Computers enters 1998 with many opportunities in a growing market with a range of market-leading, competitively priced products which will continue to set the standard for handheld products. The Company will maintain and enhance its competitiveness through new product introductions, incremental improvements to the existing 32-bit and 16-bit product ranges, and a competitive pricing policy.

CHARLES DAVIES *Managing Director*





THEREFORE DESIGN ©



Interface Design ©

Company Identification

Psion Computers designs, develops and markets handheld computing products for consumer, corporate & professional markets. Ever since launching the first handheld computer in 1984, Psion has been the acknowledged leader in the design and technology of handheld computing products. Psion Computers now has a range of handheld computers – Siena, Series 3 and Series 5 – to suit different markets. Because these products are complemented by a range of software and hardware peripheral products, Psion Computers is able to offer comprehensive computing solutions to consumer, professional and corporate customers.

Psion Dacom

1997 REVIEWED 1997 was both an exciting and a successful year for Psion Dacom. The company introduced new products, entered new markets and saw continued growth in revenues and profitability. This success was achieved during a difficult year for the industry as a whole.

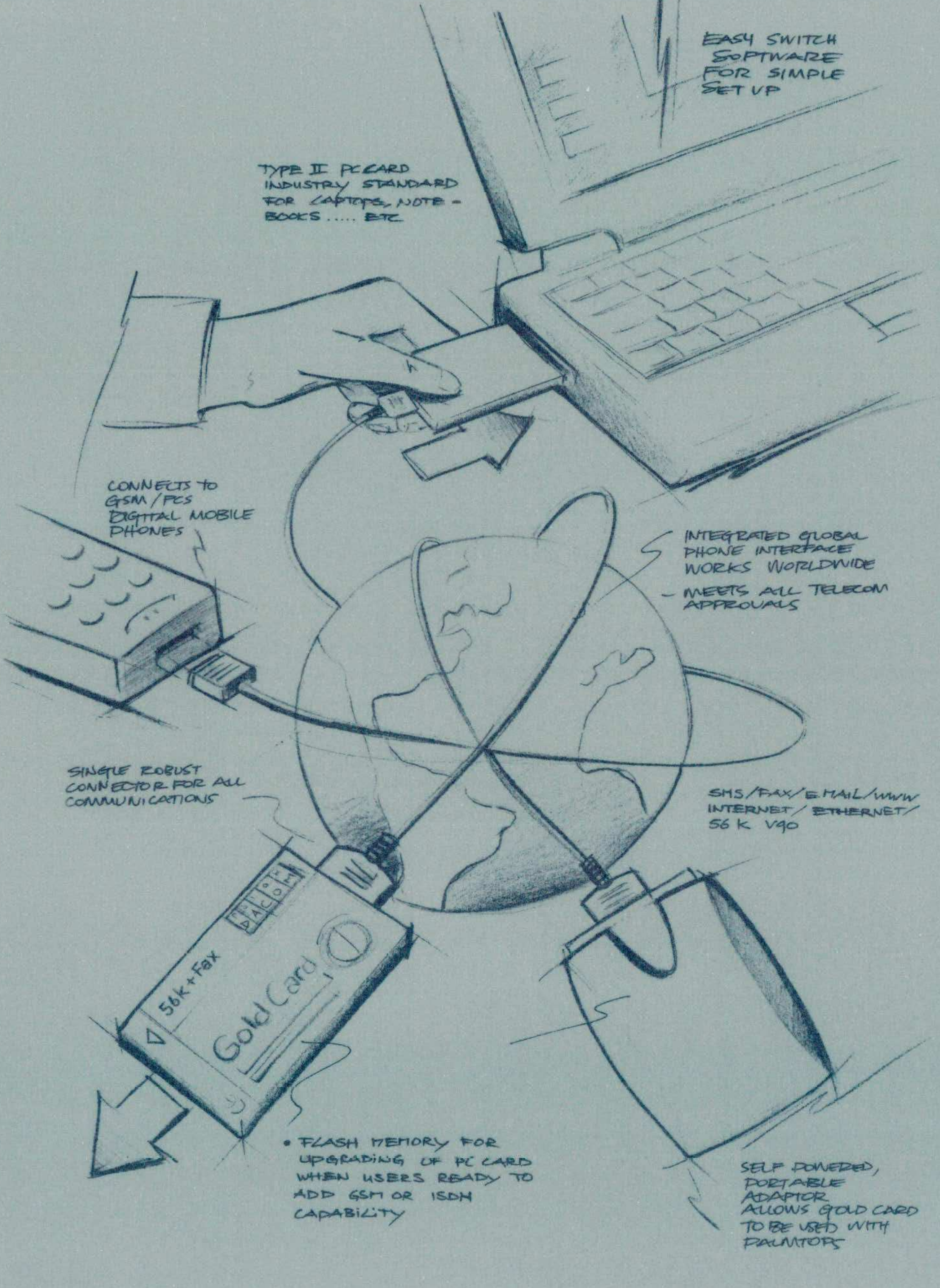
A NEW DIRECTION Having won technological leadership in the high growth GSM wireless sector and extended its leadership of European PC Card markets into a second year, Psion Dacom has redefined its long term objective: "Through world class innovation and quality, our aim is to lead the world market for mobile computer communication peripherals".

PRODUCTS The Gold Card Global product range was launched in February 1997 and rapidly found sales success. The product has proved to be one of the most reliable products in its class with return rates below 0.4%. The Gold Card Global 56k, introduced later in 1997, offers users the latest 56k speed for the fastest modem connections. Gold Card Global PC Cards now feature approvals in more than 24 countries and can be used worldwide.

MARKETS In 1997 Psion Dacom opened its first office in the USA and launched the Gold Card range into US markets in November. With its market-leading expertise in GSM and other types of wireless technology, Psion Dacom is well positioned for US markets where digital wireless technology is entering a high growth stage. The company also strengthened its European distribution channels, achieving significant sales growth in Benelux, Germanic and Nordic territories.

1998 OUTLOOK 1998 offers Psion Dacom good prospects for growth. Psion Dacom's 56K Gold Card products will be marketed with Dell notebook computers worldwide. A new 56k modem standard, V.90, is expected to boost demand for high-speed modems. Psion Dacom's Milton Keynes facility will be enhanced with investment both in new plant and machinery as well as in a new manufacturing facility close to the existing site. The company will also launch further new products, including fast Ethernet and ISDN products for the Gold Card range.

GARETH HUGHES *Managing Director*



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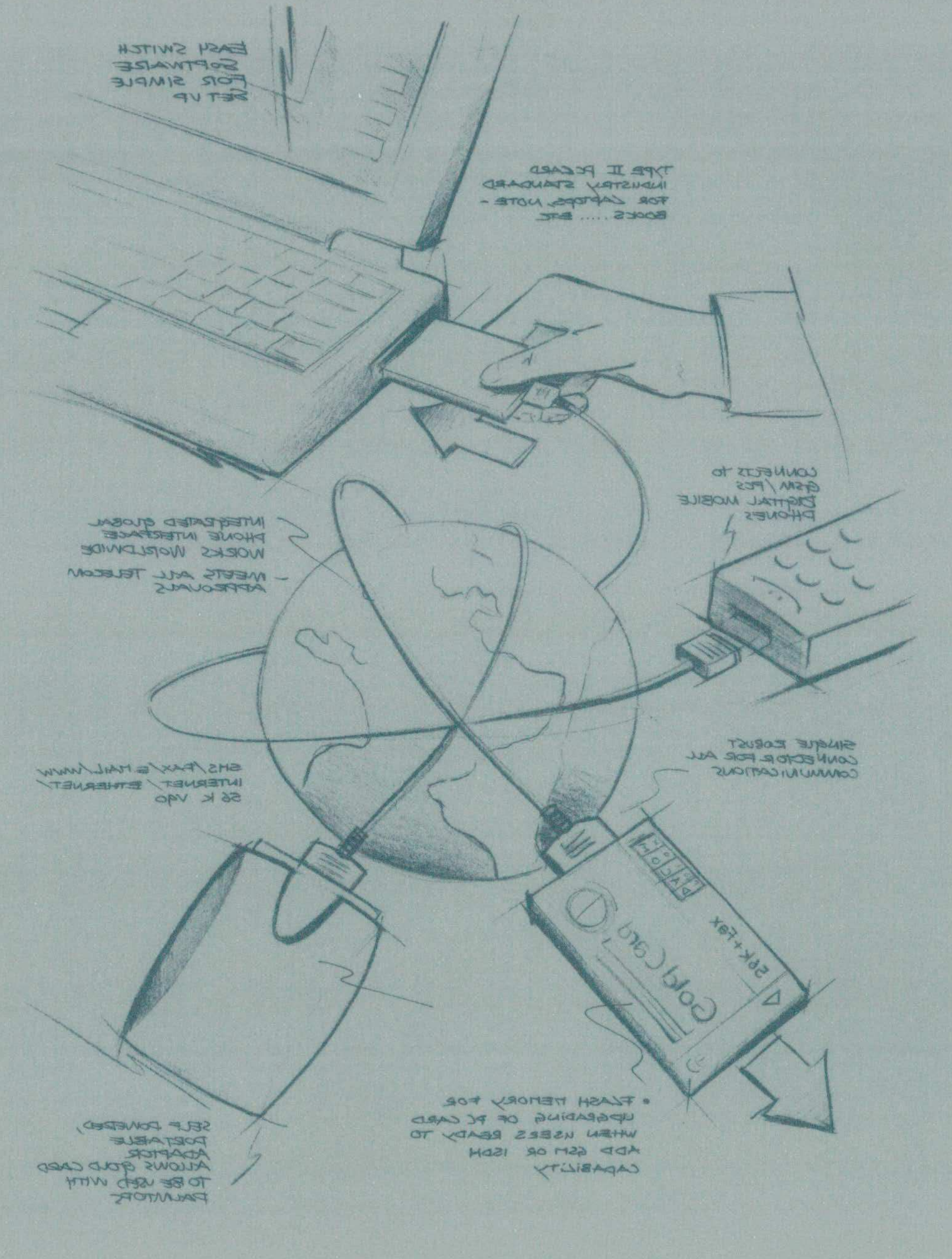


Interface Design ©

DATA ➡ TECHNOLOGY ➡ LEADERSHIP ➡ QUALITY

Company Identification Psion Dacom designs, manufactures and markets PC Card devices worldwide. PC Cards are credit card sized devices which provide portable and handheld computers with communications and networking capabilities. Using Psion Dacom's products portable computers can connect to the Internet, transfer data, email & fax messages over conventional telephone systems as well as via GSM mobile phone systems or high speed digital ISDN networks. Psion Dacom holds the prestigious ISO9002 and Investors In People (IIP) accreditations.

Psion Industrial

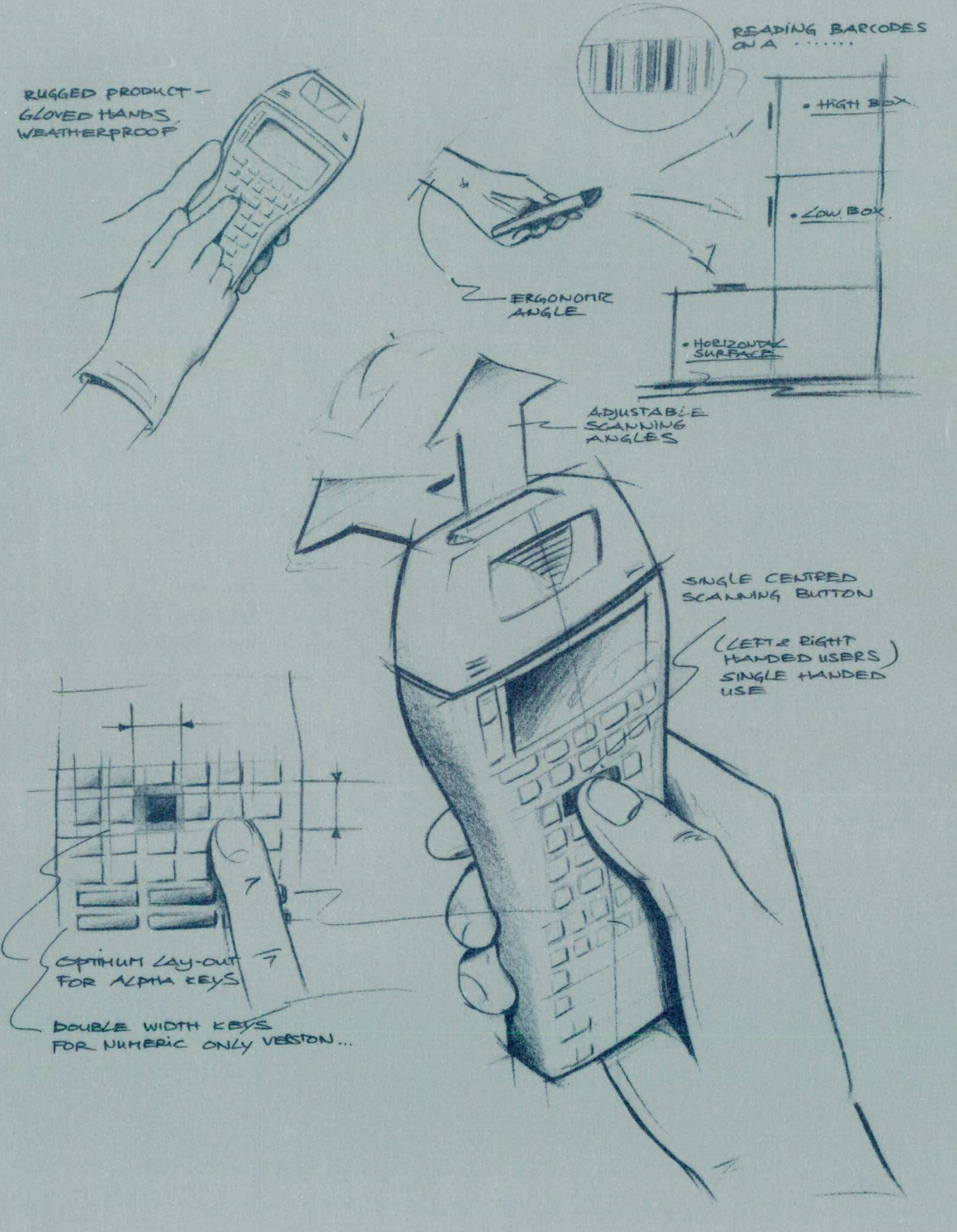
1997 REVIEWED 1997 has been a year of transition and tremendous development for the company as an independent business unit. As part of the Group's strategy to establish each of the product companies as a separate entity, Psion Industrial relocated to new premises in Oxfordshire. The move involved the establishment of a dedicated manufacturing facility, including surface mount and final product assembly; the consolidation of all departments on one site including development, sales, marketing and administration; and the recruitment of a further 90 staff. This was achieved with a minimum of disruption to production and normal business activities. With a floor space of 3,500 sq. m. the new premises provide plenty of space for expansion and will enable the company to increase its production capacity substantially over the next few years.

Unit sales of the Workabout outside the UK increased by more than 50% in 1997 with the addition of new clients such as Finnair, Mercedes, TNT and Siemens. Export sales now contribute more than three quarters of the company's turnover. The Workabout range was extended further in the second half of the year with the successful launch of models with integrated scanning capabilities for the automatic capture of barcode information. These new models, the Workabout Wand and the Workabout Scanner, have had an encouraging response from the market and are expected to contribute significantly to the company's growth in 1998 and beyond.

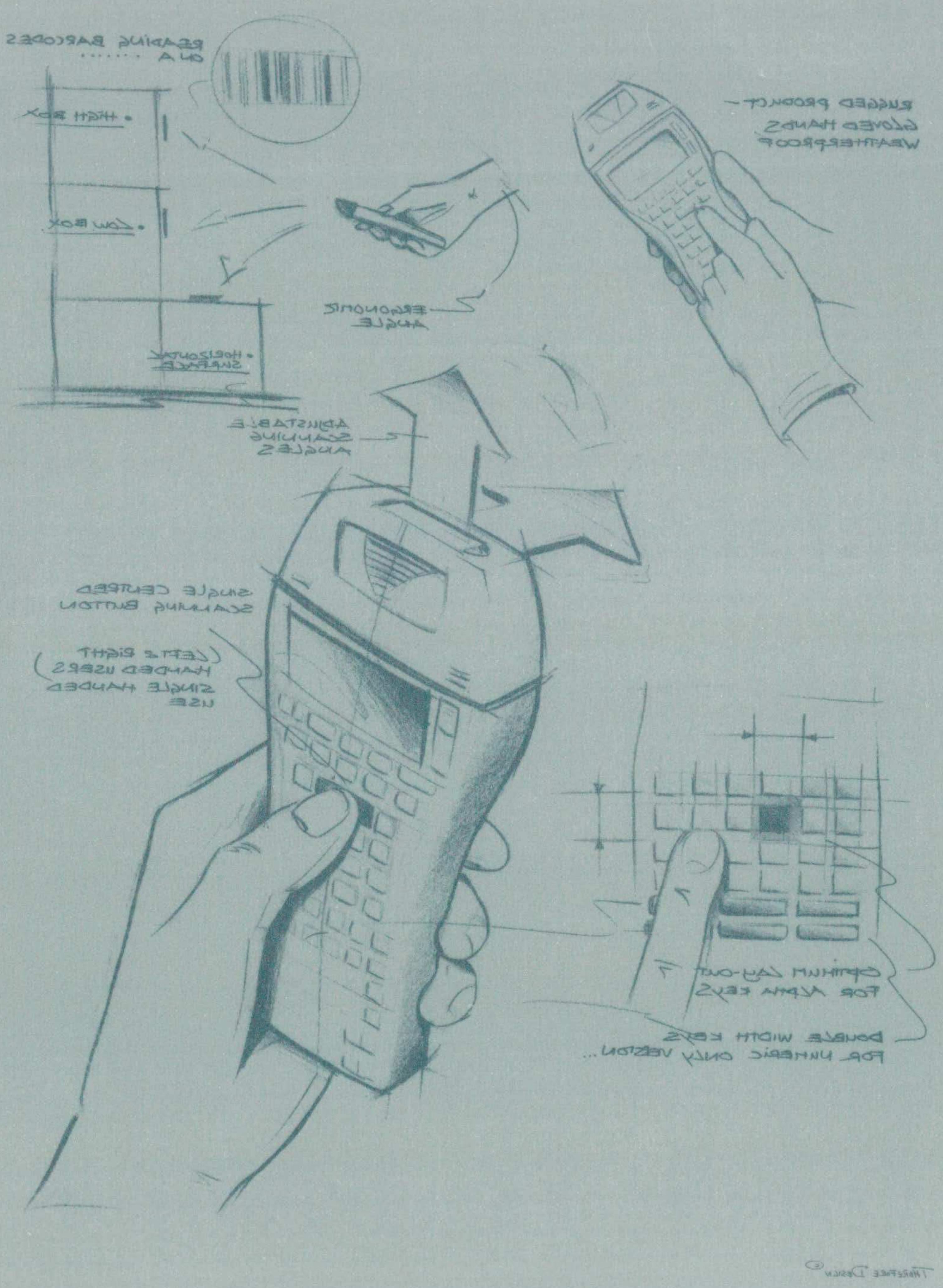
1998 OUTLOOK Product development focus will be based on harnessing the Group's expertise and experience in communications technology and on the further development of the Workabout range. A broadening product range together with a concerted campaign to expand the company's distribution channel will form the basis of the company's next period of growth. Following the relocation of the company to a new site, the company is now able to progress with its programme to obtain ISO 9001 and ISO 9002 quality standard accreditation.

ANDREW CLEGG *Managing Director*

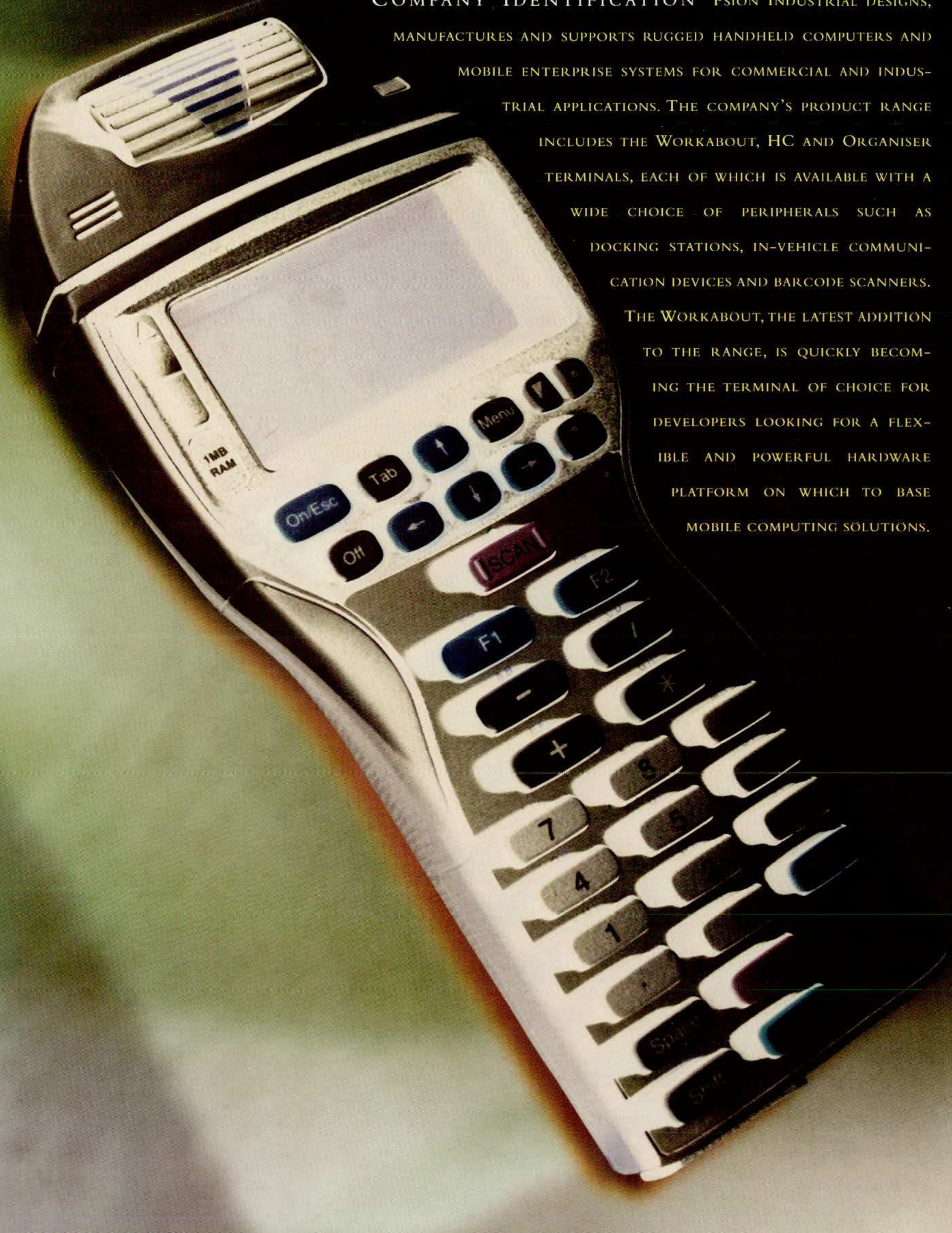
A. Clegg



RUGGED PRODUCT –
GLOVED HANDS,
WEATHERPROOF
READING BARCODES
ON A ....
• HIGH BOX
• LOW BOX
ERGONOMIC
ANGLE
• HORIZONTAL
SURFACE
ADJUSTABLE
SCANNING
ANGLES
SINGLE CENTRED
SCANNING BUTTON
(LEFT & RIGHT
HANDED USERS)
SINGLE HANDED
USE
OPTIMUM LAY-OUT
FOR ALPHA KEYS
DOUBLE WIDTH KEYS
FOR NUMERIC ONLY VERSION...


READING BARCODES ON A ......
HIGH BOX
LOW BOX
HORIZONTAL SURFACE
ERGONOMIC ANGLE
RUGGED PRODUCT - GLOVED HANDS WEATHERPROOF
ADJUSTABLE SCANNING ANGLES
SINGLE CENTRED SCANNING BUTTON
(LEFT & RIGHT HANDED USERS) SINGLE HANDED USE
OPTIMUM LAY-OUT FOR ALPHA KEYS
DOUBLE WIDTH KEYS FOR NUMERIC ONLY VERSION...

Company Identification Psion Industrial designs, manufactures and supports rugged handheld computers and mobile enterprise systems for commercial and industrial applications. The company's product range includes the Workabout, HC and Organiser terminals, each of which is available with a wide choice of peripherals such as docking stations, in-vehicle communication devices and barcode scanners. The Workabout, the latest addition to the range, is quickly becoming the terminal of choice for developers looking for a flexible and powerful hardware platform on which to base mobile computing solutions.



Psion Software

OPERATIONAL REVIEW 1997 saw Psion Software launch its EPOC32 platform. EPOC32 has already been widely acknowledged as the best platform for the next generation of handheld computing and communication products. A number of EPOC32-based devices were released in 1997, including Psion Computers' Series 5.

During 1997 Psion Software secured licensing deals with major international telecommunications and computing companies. Philips Consumer Communications was the first publicly announced EPOC32 licensee; Philips will use EPOC32 in new 'smart-phone' products. Further announcements will be made at the time of licensees' product launches.

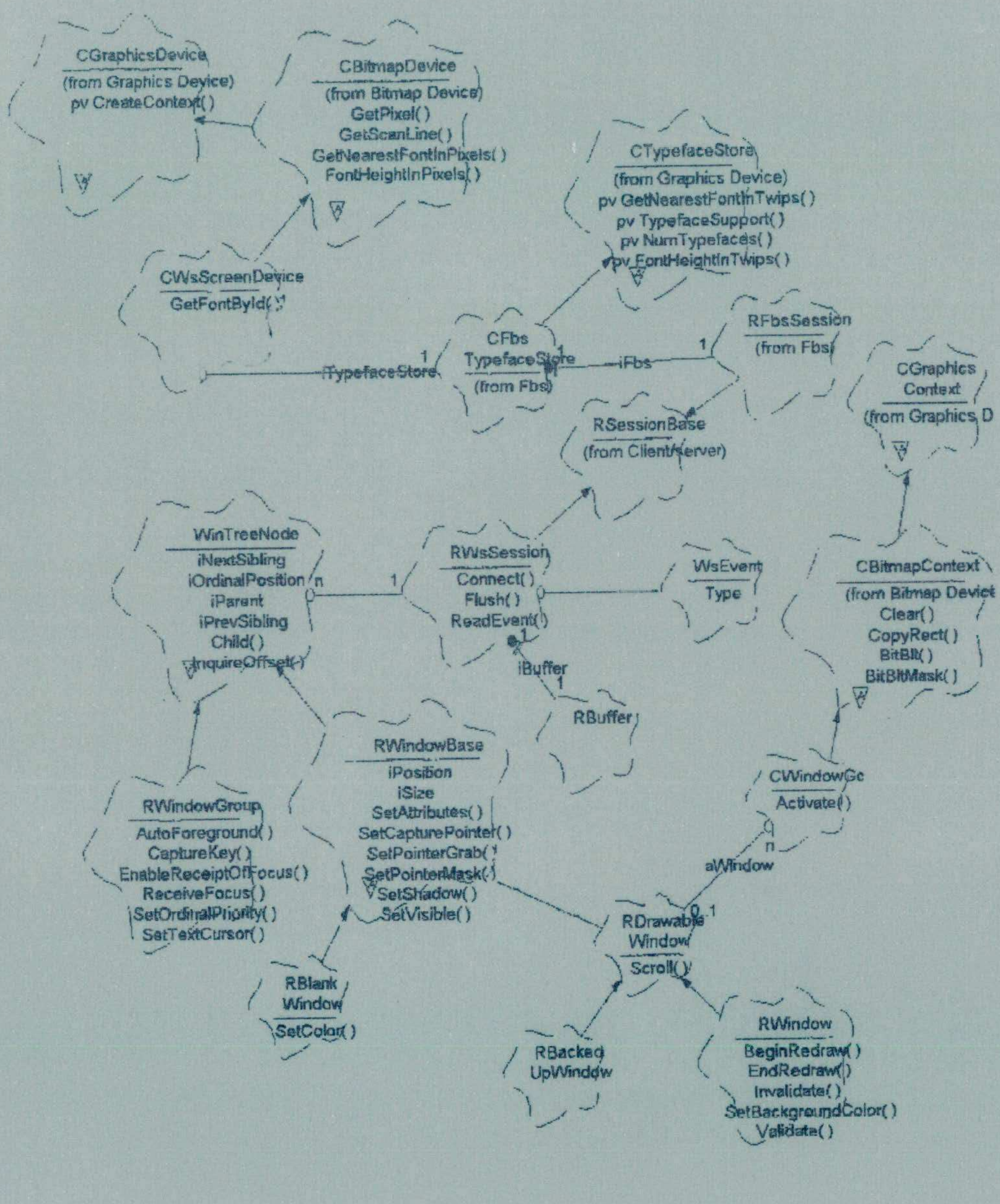
In 1997, Psion Software licensed Java™, the "write-once, run anywhere"™ programming language. Java will broaden the number of applications that can be developed and run on EPOC-based devices and offer greater flexibility for licensees. Psion Software will release its Java implementation for EPOC32 during 1998.

In 1997 Psion Software launched its Internet-based partner support environment, EPOC World. EPOC World offers comprehensive and dynamic support to the growing community of EPOC developers, technology partners and licensees. Also in 1997, as part of its continuing commitment to the Japanese market, Psion Software opened a development centre in Kanazawa. The company also announced new partnerships to develop EPOC32 mobile computing software for Japanese consumer electronics manufacturers.

1998 OUTLOOK In 1998 Psion Software will continue to lead the market for software for mobile communication and computing products. Psion Software will help to expand the market for this type of operating system through taking an active role in defining and establishing new standards and technologies. Building on recent and new commercial partnerships, further EPOC-based products for consumer and corporate markets will be announced by licensees. Offering greater functionality and usability, these devices will be centred around mobile Internet access.

Psion Software will also further enhance its support of EPOC developers and licensees. As a central point for EPOC development across the globe, EPOC World will encourage the development of a wide range of applications to suit the huge range of 'information and communication appliance' products that will reach the marketplace in the coming years.

WILLIAM BATCHELOR *Joint Managing Director*	STEPHEN RANDALL *Joint Managing Director*
W.R.J. Batchelor	


CGraphicsDevice
(from Graphics Device)
pv CreateContext( )
CBitmapDevice
(from Bitmap Device)
GetPixel( )
GetScanLine( )
GetNearestFontInPixels( )
FontHeightInPixels( )
CTypefaceStore
(from Graphics Device)
pv GetNearestFontInTwips( )
pv TypefaceSupport( )
pv NumTypefaces( )
pv FontHeightInTwips( )
CWsScreenDevice
GetFontById( )
CFbs
TypefaceStore
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(from Graphics D
RSessionBase
(from Client/Server)
WinTreeNode
iNextSibling
iOrdinalPosition
iParent
iPrevSibling
Child( )
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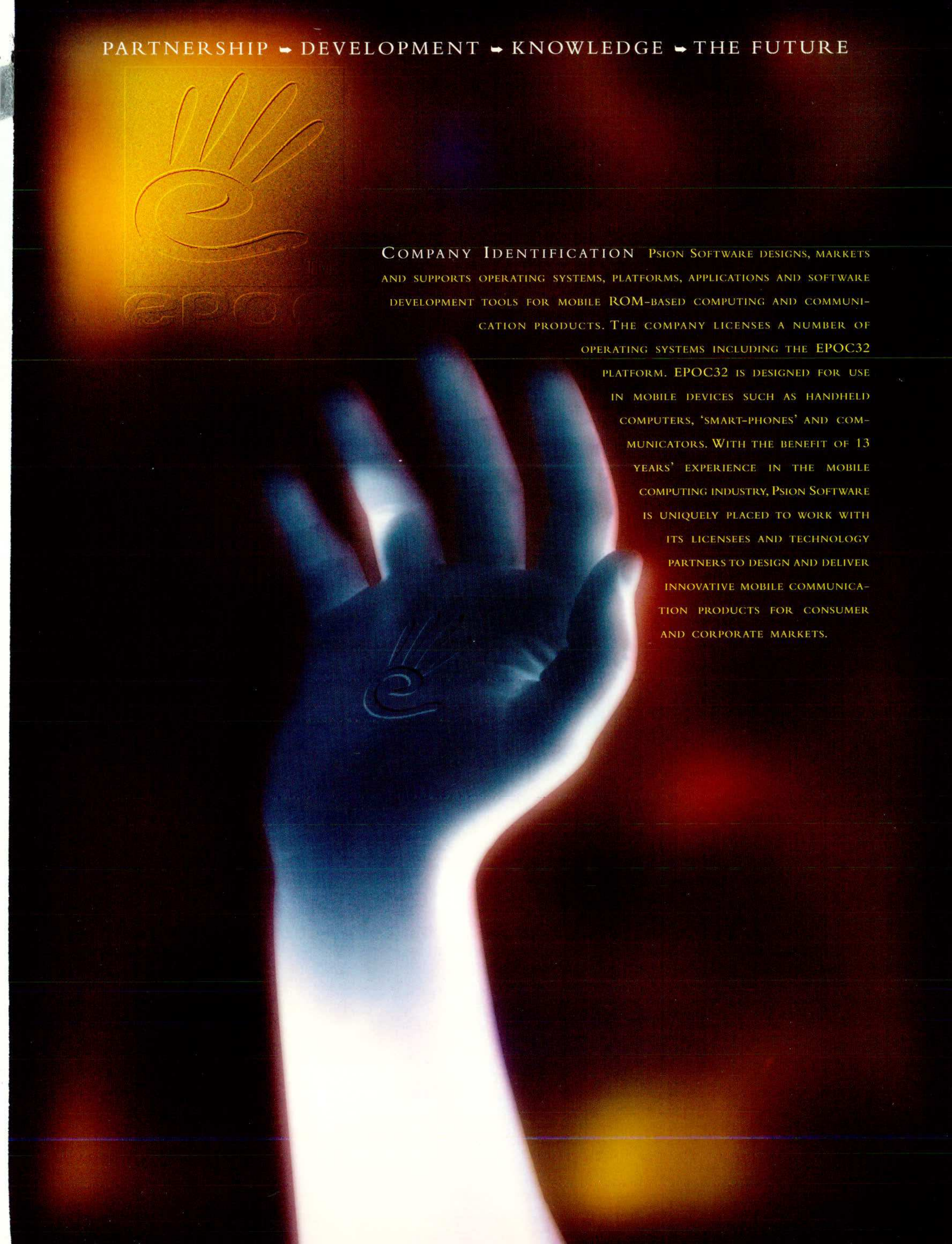
1
RWsSession
Connect( )
Flush( )
ReadEvent( )
WsEvent
Type
CBitmapContext
(from Bitmap Device
Clear( )
CopyRect( )
BitBlt( )
BitBltMask( )
iBuffer
1
RBuffer
RWindowBase
iPosition
iSize
SetAttributes( )
SetCapturePointer( )
SetPointerGrab( )
SetPointerMask( )
SetShadow( )
SetVisible( )
RWindowGroup
AutoForeground( )
CaptureKey( )
EnableReceiptOfFocus( )
ReceiveFocus( )
SetOrdinalPriority( )
SetTextCursor( )
CWindowGc
Activate( )
n
aWindow
0..1
RDrawable
Window
Scroll( )
RBlank
Window
SetColor( )
RBacked
UpWindow
RWindow
BeginRedraw( )
EndRedraw( )
Invalidate( )
SetBackgroundColor( )
Validate( )

PARTNERSHIP ➡ DEVELOPMENT ➡ KNOWLEDGE ➡ THE FUTURE



Company Identification Psion Software designs, markets and supports operating systems, platforms, applications and software development tools for mobile ROM-based computing and communication products. The company licenses a number of operating systems including the EPOC32 platform. EPOC32 is designed for use in mobile devices such as handheld computers, 'smart-phones' and communicators. With the benefit of 13 years' experience in the mobile computing industry, Psion Software is uniquely placed to work with its licensees and technology partners to design and deliver innovative mobile communication products for consumer and corporate markets.

DIRECTORS

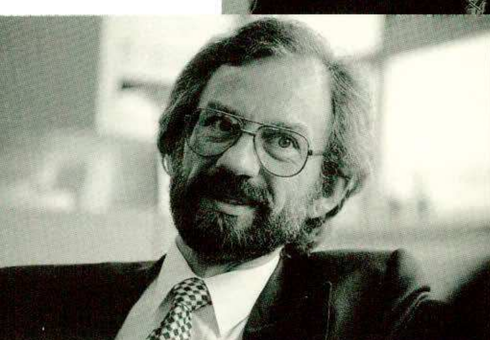
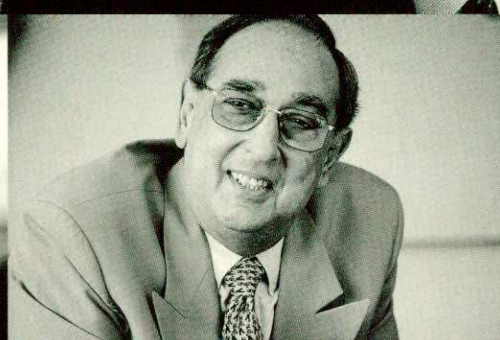
From left to right

DAVID POTTER *Chairman and Chief Executive*

CHARLES DAVIES

NICHOLAS (COLLY) MYERS *Group Managing Director*





ANDREW CLEGG

IRWIN JOFFE *Company Secretary*

MARINA WYATT *Financial Director*

GARETH HUGHES

DANIEL FISZMAN *Non-Executive Director*

SIR IAN MORROW *Non-Executive Director*

SIR JOHN FAIRCLOUGH *Non-Executive Director*

DAVID POTTER, MA (Cantab), PhD, CBE
Chairman and Chief Executive
David Potter, aged 54, took up a Beit Scholarship to read natural Sciences at Trinity College, Cambridge and then studied at Imperial College, London for his doctorate. After a period in academic life in the UK and USA, he founded Psion in 1980. His leadership has guided the Group through 17 years of rapid growth. He has played a leading role in building the core management team and management style and in setting the Group's product and marketing strategies.

CHARLES DAVIES, BSc, PhD
Charles Davies, aged 44, joined Psion in 1981 after 3 years as a research assistant at Imperial College and was appointed to the Board in 1982 as Software Director. He has been the lead architect of a number of software products and operating system components. As Group Development Director Charles has driven the establishment of the Group's processes for new product development. In July 1997, Charles became Managing Director of Psion Computers.

NICHOLAS (COLLY) MYERS
Group Managing Director
Colly Myers, aged 43, joined Psion in 1981 serving initially as General Manager of Psion Computers (Pty) Ltd. in South Africa. He relocated to the UK in 1983 and was appointed to the Board in 1984 as Development Director. Colly led the Organiser II software development team and subsequently took principal responsibility for the electronic engineering and operating system development for the EPOC16 platform and the initial development for the EPOC32 platform. In June 1997, Colly gave up his position as Managing Director of Psion Software to become Group Managing Director.

ANDREW CLEGG, BSc
Andrew Clegg, aged 43, joined Psion in 1982 as Engineering Manager. Appointed to the Board in 1984 as Engineering Director, Andrew led the electronic design, engineering and production of the Organiser, MC and HC product ranges. In 1990 he became Managing Director of Psion Dacom and in 1992 was made Operations Director for the Group. Andrew became Managing Director of Psion Industrial on its formation in July 1996.

IRWIN JOFFE, MSc, PhD
Company Secretary
Irwin Joffe, aged 56, joined Psion in 1984 as Technical Support Manager after 5 years with IBM. He then established and managed the Corporate Sales Group and was appointed to the Board as Corporate Sales Director in 1987, becoming Sales Director in 1991. In 1993 he was made Managing Director of Psion UK and in 1996 became the Group Human Resources Director.

MARINA WYATT, MA (Cantab), ACA
Financial Director
Marina Wyatt, aged 34, joined Psion in 1994 from Arthur Andersen where she qualified as Chartered Accountant in 1988. She joined Psion as Group Financial Controller and was appointed Group Financial Director in 1996.

GARETH HUGHES
Gareth Hughes, aged 34, joined Dacom in 1988 having previously worked for Dun & Bradstreet and GEC. In 1993 Gareth joined Psion Dacom's board as Sales Director before being appointed Managing Director in 1994. He was appointed to the Board of Psion PLC in 1997.

DANIEL FISZMAN
Non-Executive Director
Daniel Fiszman, aged 53, has wide business experience in the diamond industry, property investment and finance. He is also a Director of Arsenal Football Club.

SIR IAN MORROW
Non-Executive Director
Sir Ian Morrow, aged 85, is a Past President of the Institute of Chartered Accountants of Scotland (1981-2) and the Chartered Institute of Management Accountants (1956-57). He is Chairman of Thurne Group Ltd.

SIR JOHN FAIRCLOUGH
Non-Executive Director
Sir John Fairclough, aged 67, joined the Board in May 1995. He was a member of the main board of IBM UK Ltd and Chairman of IBM UK Laboratories Ltd. He served as Chief Scientific Adviser to the Cabinet Office between 1986 and 1990. He is a Director of NM Rothschild and Sons Ltd, Lucas Industries PLC, Oxford Instruments Group PLC and Chairman of Rothschild Ventures Ltd.

ADVISERS

BANKERS
The Royal Bank of Scotland plc
5-10 Great Tower Street
London EC3P 3HX

National Westminster Bank Plc
PO Box 6333
2-3 Upper Street
Islington
London N1 0QE

STOCKBROKERS
CSFB de Zoete & Bevan Ltd
5, The North Colonnade
Canary Wharf
London E14 4BB

AUDITORS
Arthur Andersen
Chartered Accountants
1 Surrey Street
London WC2R 2PS

SOLICITORS
Paisner & Co.
Bouverie House
154 Fleet Street
London EC4A 2DQ

Slaughter & May
35 Basinghall Street
London EC2V 5DB

REGISTRARS AND TRANSFER AGENTS
Lloyds Bank Registrars
The Causeway
Worthing
West Sussex BN99 6DA

CORPORATE CALENDAR 1998

➡ Annual General Meeting	*8th May 1998*
➡ Payment of 1997 Final Dividend	*15th May 1998*
➡ Announcement of 1998 Interim Results	*September 1998*
➡ Payment of 1998 Interim Dividend	*October 1998*
➡ Announcement of 1998 Final Results	*March 1999*

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DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR ANNUAL REPORT ON THE AFFAIRS OF THE GROUP, TOGETHER WITH THE ACCOUNTS AND AUDITORS' REPORTS, FOR THE YEAR ENDED 31ST DECEMBER 1997.

PRINCIPAL ACTIVITIES

The principal activities of the Group continued to be research into and development, engineering, manufacturing, marketing and selling of portable computers, modems and applications software. In addition, the Group is involved in the research into, development and licensing of software platforms.

BUSINESS REVIEW AND DIVIDENDS

Group turnover was £142,012,000 (1996 – £124,178,000). Operating profits were £10,577,000 (1996 – £15,724,000). The profit on ordinary activities before taxation was £11,426,000 (1996 – £16,036,000). The tax charge for the year was £3,712,000 (1996 – £5,683,000) leaving a profit on ordinary activities after taxation of £7,714,000 (1996 – £10,353,000).

0.22 An interim dividend of 0.7p per share (1996 – 0.65p) was paid in respect of the six months ended 30th June 1997
0.23 amounting to £524,000 (1996 – £459,000). The Directors propose a final dividend of 1.8p per share (1996 – 1.6p) on all Ordinary Shares in issue on 16th March 1998 amounting to £1,354,000 (1996 – £1,195,000), bringing total dividends for the year to £1,878,000 (1996 – £1,654,000).

It is proposed that the retained profit of £5,836,000 (1996 – £8,699,000) be transferred to reserves.

RESEARCH AND DEVELOPMENT

The Directors consider that research and development is vital to the Group's success in the future. Research and development expenditure amounted to £10,934,000 (1996 – £7,731,000), which, in line with established accounting policies, was written off to the Profit and Loss Account as incurred.

OUTLOOK

The outlook for the current year is for continued growth with increased sales and production levels.

CORPORATE GOVERNANCE

The Directors continue to support the recommendations of the Committee on the Financial Aspects of Corporate Governance embodied in the Code of Best Practice. The Directors believe that they have complied throughout the year with the provisions of the Code of Best Practice.

SUB-COMMITTEES OF THE BOARD

1) Audit Committee
   The Audit Committee is a formally constituted sub-committee of the Board. Its members comprise the Group's Non-Executive Directors, Sir Ian Morrow (Chairman), Sir John Fairclough and D.D. Fiszman. The Audit Committee deals directly with the Group's internal and external auditors and oversees the discharge of the Directors' responsibilities as set out on page 25.
2) Remuneration Committee
   The Remuneration Committee is a formally constituted sub-committee of the Board. Its members comprise the Group's Non-Executive Directors, Sir Ian Morrow (Chairman), Sir John Fairclough and D.D. Fiszman. The Remuneration Committee recommends to the Board the remuneration of Executive Directors. Executive Directors play no part in decisions concerning their own remuneration.
3) Nomination Committee
   The Nomination Committee is a formally constituted sub-committee of the Board. Its members comprise D.E. Potter (Chairman) and the Group's Non-Executive Directors, Sir Ian Morrow, Sir John Fairclough and D.D. Fiszman. The Nomination Committee recommends to the Board, in the first instance, any new appointments, whether of Executive or Non-Executive Directors.

Internal Financial Control

The Board of Directors has overall responsibility for the Group's system of internal financial control. Such a system can provide only reasonable and not absolute assurance of the reliability of financial information and the safeguarding of assets.

On behalf of the Board, the Audit Committee has reviewed the effectiveness of the system of internal financial control. This was achieved through reviews of the Group's Financial Statements, the scope and results of the external audit, internal audit reports, head office reports on the financial management and control of Group companies, and internal control self-assessment questionnaires prepared by all Group companies.

The main Board retains the ultimate decision-making power for the Group. The main Board and all subsidiary Boards meet every month. Regular agenda items for all Boards include a review of the monthly Management Accounts which are prepared by all Group companies. These Accounts compare actual results with budget and form the principal measure of business performance.

Detailed budgets are prepared by all Group companies every six months for the following twelve months. During the budgeting process, the major business and financial risks facing each Group company are reviewed in detail. Each company's budget is subject to a detailed review by its own Board prior to submission to the main Board for final approval. Main Board members therefore have detailed knowledge of the budgets of all Group companies.

Directors

The Directors who served during the year were as follows:

D.E. Potter
C.W. Davies
N.S. Myers
P.J. Norman (resigned 31st October 1997)
A. Clegg
M.G. Langley (resigned 31st January 1997)
I. Joffe
M.M. Wyatt
G.J. Hughes (appointed 21st November 1997)
D.D. Fiszman
Sir I. Morrow
Sir J. Fairclough

D.E. Potter, N.S. Myers, A. Clegg and G.J. Hughes, who are eligible for re-election at this year's Annual General Meeting, have a twelve month unexpired period on their service contracts. Sir I. Morrow will retire as a director at this year's Annual General Meeting.

Directors' Transactions

No Director had a material interest in any contract of significance with the Company during the year.

Substantial Shareholdings

On 23rd February 1998, the following, excluding shareholdings registered in Directors' names, were interested in 3% or more of the Company's Ordinary Share Capital:–

	Number of Ordinary Shares of 5p each in issue	*Percentage of Ordinary Shares of 5p each in issue*
Mercury Asset Management	5,611,124	7.46
Gartmore Investment Management	5,217,414	6.94
Shell Pension Trust	4,729,000	6.29
Dr. E. Potter	4,500,000	5.98
Star Diamond Company Ltd	4,326,288	5.75
Pailex Securities International Inc	2,406,000	3.20

DIRECTORS' REPORT

Fixed Assets
Information relating to changes in fixed assets is given in notes 13 and 14 to the accounts.

Supplier Payment Policy
The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction and to abide by those terms. As at 31st December 1997 the number of days of annual purchases represented by the year end creditors for the Group amounted to 53 days and for Psion PLC, the holding company, amounted to 69 days.

Disabled Employees
Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort would be made to ensure that their employment with the Group continued and that appropriate training was arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

0.24
0.25

Employee Participation
The Group places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, written communications and notices. Employees are encouraged to participate in the progress and profitability of the Group through the Psion PLC Profit Sharing Scheme, share option schemes and performance related bonuses.

Charitable Donations
The Group contributed £59,000 to charities during the year (1996 – £122,000). No contributions have been made to political parties.

Going Concern
The Directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to operate the going concern basis in preparing the accounts.

Special Business
The following Resolutions will be proposed at the Annual General Meeting:-

Resolution 10 authorises the Directors generally and unconditionally, in accordance with Section 80 of the Companies Act 1985, to allot relevant securities up to a maximum nominal amount of £1,154,584 representing 31 per cent of the issued ordinary share capital of the Company as at 4th March 1998.

Resolution 11 grants the Directors power to allot shares for cash without first offering those shares pro rata to existing shareholders up to an aggregate nominal amount of £187,999 representing 5 per cent of the Company's issued ordinary share capital as at 4th March 1998.

The Directors consider it is in the best interests of the Company and its shareholders that they should have the flexibility conferred by the above authorities to make small issues of shares for cash as suitable opportunities arise although they have no present intention of exercising either of these authorities. Both these authorities will expire at the next Annual General Meeting or, if earlier, fifteen months after the resolution is passed.

Resolutions 12 and 13 propose the adoption by the Company of an all-employee sharesave scheme and authorise the Directors to make minor alterations to such scheme to accommodate changes in legislation as they consider appropriate. Details of the principal features of the Psion Plc 1998 Sharesave Scheme are given in an enclosed Appendix.

Auditors
The Directors will place a resolution before the Annual General Meeting to re-appoint Arthur Andersen as auditors for the ensuing year.

Alexander House
85 Frampton Street
London NW8 8NQ
4th March 1998

By Order Of The Board
I. Joffe
Director and Secretary

DIRECTORS' & AUDITORS' RESPONSIBILITIES

Directors' Responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgments 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 the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group 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 Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' Responsibilities

Company law requires auditors to form an independent opinion on the financial statements presented by the Directors based on their audit and to report their opinion to the shareholders. The Companies Act 1985 also requires auditors to report to the shareholders if the following requirements are not met:

- that the companies in the Group have maintained proper accounting records;
- that the financial statements are in agreement with the accounting records;
- that Directors' emoluments and other transactions with Directors are properly disclosed in the accounts; and
- that the auditors have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of their audit.

The auditors' opinion does not encompass the Directors' Report on pages 22 to 24. However, the Companies Act 1985 requires auditors to report to the shareholders if the matters contained in the Directors' Report are inconsistent with the financial statements.

REMUNERATION COMMITTEE REPORT

The Remuneration Committee referred to on page 22 determines the remuneration of Executive Directors. In determining their remuneration the Committee seeks to enable the Company to attract and retain executives of the highest calibre. In order to align compensation with increasing the value of the Group to its shareholders, a significant portion of the total remuneration available to the Executive Directors is performance related and is partly dependent on achieving specific objectives and partly profit related. The performance related element of the Directors' remuneration may be paid as a pension contribution. The Company operates an Executive Share Option Scheme for senior executives. The Remuneration Committee determines the levels of awards for the Executive Directors having regard to performance and achievement of objectives. Share options are granted at the prevailing market price.

The report of the Study Group on Directors' Remuneration chaired by Sir Richard Greenbury was published in July 1995. Central to its recommendations was a Code of Best Practice whose main provisions have been incorporated in the London Stock Exchange Listing Rules. The Company has complied with Section A of the best practice provisions annexed to the Listing Rules. In framing their remuneration policy, the Remuneration Committee has given full consideration to section B of the best practice provisions annexed to the Listing Rules.

Full details of the remuneration packages of individual Directors and information on share options are set out in note 9 to the financial statements.

Sir Ian Morrow
Chairman of the Remuneration Committee
4th March 1998

AUDITORS' REPORTS

Financial Statements

TO THE SHAREHOLDERS OF PSION PLC

We have audited the financial statements on pages 27 to 48 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 31 and 32.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 25 the Company's Directors are responsible for the preparation of the financial statements and it is our responsibility to form an independent opinion, based on our audit, on those financial 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 judgments made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, 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 31st December 1997 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
1 Surrey Street
London WC2R 2PS
4th March 1998

Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the Directors' statements on pages 22, 23 and 24 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company and Group to continue in operational existence.

OPINION

With respect to the Directors' statements on internal financial control on page 23, and going concern on page 24, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statements on pages 22 and 23 appropriately reflect the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).

Arthur Andersen
Chartered Accountants
1 Surrey Street
London WC2R 2PS
4th March 1998

CONSOLIDATED PROFIT & LOSS ACCOUNT

For the Year Ended 31st December 1997

	Notes	1997 £000s	1996 £000s
TURNOVER	1h & 2	142,012	124,178
Cost of sales		(91,208)	(73,789)
GROSS PROFIT		50,804	50,389
Other operating expenses (net)	3	(40,785)	(33,576)
Share of profits of associated undertakings	4	558	430
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS		10,577	17,243
Exceptional operating expenses	5	–	(1,519)
OPERATING PROFIT		10,577	15,724
Interest receivable		1,046	623
Interest payable and similar charges	6	(197)	(311)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	7	11,426	16,036
Tax on profit on ordinary activities	1f & 10	(3,712)	(5,683)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		7,714	10,353
Dividends paid and proposed	11	(1,878)	(1,654)
RETAINED PROFIT FOR THE YEAR		5,836	8,699
RETAINED PROFIT AT THE BEGINNING OF THE YEAR		22,496	13,797
RETAINED PROFIT AT THE END OF THE YEAR		28,332	22,496
EARNINGS PER ORDINARY SHARE	12	10.30p	14.57p
ADJUSTED EARNINGS PER ORDINARY SHARE	12	10.30p	16.00p
RETAINED PROFIT FOR THE YEAR			
THE COMPANY		1,590	8,210
THE SUBSIDIARIES		3,934	301
THE ASSOCIATED COMPANIES		312	188
		5,836	8,699

All of the profit for the year was derived from continuing operations.

The accompanying notes are an integral part of this consolidated profit and loss account.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

For the Year Ended 31st December 1997

	1997 £000s	1996 £000s
RETAINED PROFIT FOR THE YEAR	5,836	8,699
CURRENCY TRANSLATION DIFFERENCES ON FOREIGN CURRENCY INVESTMENTS	(141)	(317)
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR	5,695	8,382

There is no material difference between the profit disclosed above and that which would have arisen from the application of an historical cost basis.

The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.

CONSOLIDATED BALANCE SHEET

As at 31st December 1997

	Notes	1997 £000s	1996 £000s
FIXED ASSETS			
Tangible assets	*1d & 13*	**21,907**	18,408
Investments	*1b & 14*	**796**	534
		22,703	18,942
CURRENT ASSETS			
Stocks	*1e & 15*	**19,306**	13,267
Debtors	*16*	**22,637**	21,731
Cash at bank and in hand		**22,402**	26,563
0.28		**64,345**	61,561
0.29 CREDITORS: Amounts falling due within one year	*17*	**(34,217)**	(33,173)
NET CURRENT ASSETS		**30,128**	28,388
TOTAL ASSETS LESS CURRENT LIABILITIES		**52,831**	47,330
CREDITORS: Amounts falling due after more than one year	*18*	**(138)**	(817)
PROVISIONS FOR LIABILITIES AND CHARGES	*19*	**(577)**	(656)
NET ASSETS		**52,116**	45,857
CAPITAL AND RESERVES			
Called-up share capital	*20*	**3,760**	3,735
Share premium account	*21*	**22,664**	22,431
Revaluation reserve	*1k & 21*	**612**	612
Goodwill	*1b & 21*	**(3,091)**	(3,091)
Other reserves	*1g & 21*	**(467)**	(326)
Profit and loss account	*21*	**28,638**	22,496
TOTAL EQUITY SHAREHOLDERS' FUNDS	*22*	**52,116**	45,857

SIGNED ON BEHALF OF THE BOARD ON 4TH MARCH 1998

M.M. Wyatt Director

The accompanying notes are an integral part of this consolidated balance sheet.

COMPANY BALANCE SHEET

As at 31st December 1997

	Notes	1997 £000s	1996 £000s
FIXED ASSETS			
Tangible assets	1d & 13	2,549	12,281
Investments	1b & 14	31,875	11,053
		34,424	23,334
CURRENT ASSETS			
Stocks	1e & 15	–	6,243
Debtors	16	3,894	18,740
Cash at bank and in hand		19,093	19,604
		22,987	44,587
CREDITORS: Amounts falling due within one year	17	(8,419)	(20,442)
NET CURRENT ASSETS		14,568	24,145
TOTAL ASSETS LESS CURRENT LIABILITIES		48,992	47,479
CREDITORS: Amounts falling due after more than one year	18	(2)	(431)
PROVISIONS FOR LIABILITIES AND CHARGES	19	–	(212)
NET ASSETS		48,990	46,836
CAPITAL AND RESERVES			
Called-up share capital	20	3,760	3,735
Share premium account	21	22,664	22,431
Revaluation reserve	1k & 21	612	612
Profit and loss account	21	21,954	20,058
TOTAL EQUITY SHAREHOLDERS' FUNDS	22	48,990	46,836

SIGNED ON BEHALF OF THE BOARD ON 4TH MARCH 1998

M.M. Wyatt Director

The accompanying notes are an integral part of this balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31st December 1997

	Notes	**1997 £000s**	1996 £000s
Operating profit		**10,577**	15,724
Depreciation charges		**6,662**	4,088
Share of associates' profits less dividends		**(496)**	(330)
Profit on sale of tangible fixed assets		**(38)**	(55)
Increase in stocks		**(6,039)**	(2,997)
Increase in debtors		**(770)**	(8,813)
Increase in creditors		**2,413**	7,356
NET CASH INFLOW FROM OPERATING ACTIVITIES		**12,309**	14,973
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**999**	547
Interest paid		**(38)**	(67)
Interest element of finance lease rental payments		**(155)**	(227)
Employee share ownership plan		**–**	55
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**806**	308
TAXATION			
Corporation tax paid		**(4,868)**	(3,826)
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		**(9,809)**	(7,930)
Sale of tangible fixed assets		**148**	282
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE		**(9,661)**	(7,648)
EQUITY DIVIDENDS PAID		**(1,719)**	(1,275)
MANAGEMENT OF LIQUID RESOURCES			
Short term deposits		**2,860**	1,021
FINANCING			
Issue of ordinary share capital		**258**	14,415
Capital element of finance lease rental payments		**(1,191)**	(1,668)
TOTAL FINANCING		**(933)**	12,747
(DECREASE) INCREASE IN CASH	*23*	**(1,206)**	16,300

NOTES TO THE ACCOUNTS

1. *Accounting Policies*

The principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, are as follows:–

a) *Basis of accounting*
The accounts are prepared under the historical cost convention modified to include the revaluation of land and buildings. The Group accounts have been prepared in accordance with applicable accounting standards.

b) *Basis of consolidation*
The Group accounts consolidate the accounts of Psion PLC and all its subsidiary undertakings made up to 31st December 1997. The results of subsidiary undertakings acquired in the year are included in the Consolidated Profit and Loss Account from the date of acquisition. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired) is set off against reserves on acquisition.

Companies in which the Group has a participating interest comprising not less than 20% and not more than 50% of the voting capital and over which it is in a position to exert significant influence are treated as associated undertakings. The Consolidated Profit and Loss Account includes the appropriate share of these companies' profits less losses and the Group's share of post-acquisition retained profits and reserves is added to or subtracted from the cost of investment in the Consolidated Balance Sheet.

In the Company's accounts, investments in subsidiary undertakings and associated undertakings are stated at cost less amounts provided.

No profit and loss account is presented for Psion PLC as provided by Section 230 of the Companies Act 1985.

c) *Research and development*
Research and development expenditure is written off in the year of expenditure.

d) *Tangible fixed assets*
Land and buildings are shown at original historical cost or subsequent valuation as set out in note 13. Other fixed assets are shown at cost. Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset on a straight-line basis over its estimated useful life as follows:–

Freehold buildings	: 2% per annum
Leasehold improvements	: over the term of the lease
Computers and equipment	: 20%-33% per annum
Office furniture and equipment	: 20% per annum
Motor vehicles	: 25% per annum
Production equipment	: 25% per annum
Production line machinery	: 16.67% per annum

Production and test equipment developed and constructed by the Group's own personnel is capitalised on the basis of the cost of direct material, labour and an appropriate allocation of overheads.

e) *Stocks*
Stocks are stated at the lower of first-in, first-out cost and net realisable value. Cost comprises the cost of materials, direct labour and overheads.

Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

1. *Accounting Policies* (continued)

f) *Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) has been calculated using the liability method. Deferred taxation is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of the reversal. Deferred tax is not provided on timing differences which, in the opinion of the Directors, will probably not reverse.

g) *Foreign currency*

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates at the date of the transaction (or, where appropriate, at the rate of exchange of a related forward exchange contract). Monetary
0.32 assets and liabilities denominated in foreign currencies at the year-end are reported at the rates of exchange prevailing
0.33 at the year-end (or, where appropriate, at the rate of exchange of a related forward exchange contract). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

For the purposes of consolidation the closing rate method is used under which translation gains or losses are shown as a movement in other reserves in the Consolidated Balance Sheet. Profit and loss accounts and cash flows of overseas subsidiary undertakings are translated at the average exchange rate for the year. The balance on "other reserves" represents cumulative translation differences arising from the translation of the net assets of foreign subsidiaries into sterling at differing exchange rates.

h) *Turnover*

Group turnover represents amounts invoiced for sales of goods and services in the normal course of business and turnover recognised on long term contracts. Turnover excludes VAT.

i) *Long term contracts*

Turnover on long term contracts is recognised by reference to the stage of completion of the contract and the value of work performed. A prudent estimate of profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty. The amount by which turnover recognised exceeds payments on account is shown under debtors as amounts recoverable on contracts.

j) *Leases*

Assets held under finance leases are initially reported at the fair value of the asset, with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals under operating leases are charged, on a straight line basis, to the profit and loss account over the lease term.

k) *Revaluation reserve*

The surplus arising on the revaluation of individual tangible fixed assets is credited to a non-distributable reserve known as the revaluation reserve (see also note 21).

l) *Pension costs*

Psion PLC maintains a defined contribution pension scheme for the benefit of employees of all UK subsidiaries except for Psion Dacom PLC which maintains its own defined contribution pension scheme. The amount charged to the profit and loss account is the amount payable in respect of the year.

2. *Segment Information*

	1997 £000s	1996 £000s
GEOGRAPHICAL SEGMENTS:–		
TURNOVER BY ORIGIN		
United Kingdom		
– Total sales	133,042	116,328
– Inter-segment sales	(19,938)	(16,248)
– Third party sales	113,104	100,080
North America	15,996	12,848
Germany	12,912	11,250
	142,012	124,178

	1997 £000s	1996 £000s
PROFIT (LOSS) BEFORE TAXATION BY ORIGIN		
United Kingdom	11,308	15,608
North America	(944)	(580)
Germany	574	582
Holland	488	426
	11,426	16,036
NET ASSETS		
United Kingdom	48,142	43,591
North America	2,762	1,325
Germany	1,212	941
	52,116	45,857
TURNOVER BY DESTINATION		
United Kingdom	64,152	63,739
North America	16,015	12,848
Germany	12,891	11,200
Rest of Europe	41,685	31,100
Other	7,269	5,291
	142,012	124,178

The Group's business comprises one business segment.

3. *Other Operating Expenses (Net)*

	1997 £000s	1996 £000s
Selling costs	10,981	8,654
Research and development costs	10,934	7,731
Procurement, distribution and service costs	4,172	3,534
Administrative expenses	6,096	4,525
	32,183	24,444
Marketing costs	8,602	9,132
	40,785	33,576

4. *Share of Profits of Associated Undertakings*

	1997 £000s	1996 £000s
Group share of operating profits of associated undertakings	558	430

5. *Exceptional Operating Expenses*

	1997 £000s	1996 £000s
Exceptional administrative expenses	–	1,519

Exceptional operating expenses in 1996 comprised professional fees incurred investigating potential acquisition targets.

6. *Interest Payable and Similar Charges*

	1997 £000s	1996 £000s
On bank loans, overdrafts and other loans:		
– repayable within five years, by instalments	159	242
– repayable within five years, not by instalments	38	69
	197	311

Interest on loans repayable within five years by instalments includes interest payable under finance leases and hire purchase contracts of £159,000 (1996 – £242,000).

7. *Profit on Ordinary Activities Before Taxation*

Profit on ordinary activities before taxation is stated after charging (crediting):–

	1997 £000s	1996 £000s
a) Depreciation – assets owned	5,542	2,970
– assets held under finance leases and hire purchase contracts	1,120	1,118
b) Hire of plant and machinery	356	85
c) Auditors' remuneration – audit services	139	114
– reporting accountants	–	435
– other non-audit services	110	99
d) Staff costs (see note 8)	27,373	21,124
e) Own work capitalised on fixed asset tooling	(1,070)	(1,179)

8. *Staff Costs*

Particulars of employees (including Executive Directors) are as shown below:–

	1997 £000s	1996 £000s
Employee costs during the year amounted to:–		
Wages and salaries	**24,507**	18,827
Social security costs	**2,323**	1,839
Other pension costs	**543**	458
	27,373	21,124

The average weekly number of persons employed by the Group during the year by function was:–

	1997 Number	1996 Number
Sales and marketing	**177**	179
Research and development	**194**	162
Procurement, manufacturing, distribution and service	**594**	420
Finance and administration	**107**	72
	1,072	833

9. *Directors' Remuneration and Interests*

Directors' Remuneration:

	Fees	Basic salary	Taxable benefits	Profit related bonus	Compensation for loss of office	Pension contributions	1997 total	1996 total
EXECUTIVE								
D.E. Potter	–	100	8	29	–	109	**246**	258
C.W. Davies	–	120	6	29	–	5	**160**	160
N.S. Myers	–	140	8	30	–	–	**178**	158
P.J. Norman *(resigned 31/10/97)*	–	75	3	–	64	3	**145**	140
A. Clegg	–	105	7	27	–	5	**144**	152
M.G. Langley *(resigned 31/1/97)*	–	8	–	–	69	–	**77**	142
I. Joffe	–	90	6	27	–	4	**127**	135
M.M. Wyatt	–	80	9	31	–	4	**124**	18
G.J. Hughes *(appointed 21/11/97)*	–	6	1	11	–	–	**18**	–
NON-EXECUTIVE								
Sir J. Fairclough	15	–	–	–	–	–	**15**	15
Sir I. Morrow	10	–	–	–	–	–	**10**	10
D.D. Fiszman	10	–	–	–	–	–	**10**	10
Aggregate Emoluments	35	724	48	184	133	130	**1,254**	1,198

Each Executive Director's emoluments included a non-pensionable bonus which is partly profit related and partly based on achieving specific objectives.

M.G. Langley resigned on 31st January 1997 and received £69,000 inclusive of pension contributions as compensation for loss of office. In addition he received £54,500 under the terms of a non-compete agreement and was retained as a consultant for the remainder of 1997 for a fee of £20,000.

P.J. Norman resigned on 31st October 1997 and received £64,000 inclusive of pension contributions as compensation for loss of office. In addition he received £60,000 under the terms of a non-compete agreement and was retained as a consultant for a 12 month period for a fee of £15,000.

9. *Directors' Remuneration and Interests* (continued)

DIRECTORS' INTERESTS:

The Directors in office at the end of the year, together with their interests in the Ordinary Shares of the Company, were:–

		Number of Ordinary Shares of 5p each in issue	
	Notes	31/12/97	31/12/96 or date of appointment
D.E. Potter	*1*	18,824,583	18,824,583
C.W. Davies	*2*	2,064,000	2,064,000
N.S. Myers	*3*	1,203,000	1,203,000
0.36 A. Clegg	*4*	105,372	105,372
0.37 I. Joffe		–	–
M.M. Wyatt		–	–
G.J. Hughes		2,400	2,400
D.D. Fiszman	*5*	4,329,888	4,329,888
Sir I. Morrow	*6*	207,297	212,172
Sir J. Fairclough	*7*	9,057	9,057

1. These include 2,406,000 Ordinary Shares (1996 – 2,406,000) in which D.E. Potter has a non-beneficial interest through Pailex Securities International Inc and 4,500,000 Ordinary Shares (1996 – 4,500,000) owned by his wife, Dr. E. Potter.

2. These include 106,500 Ordinary Shares (1996 – 106,500) owned by his wife, Mrs H.M. Davies.

3. These include 3,000 Ordinary Shares (1996 – 3,000) owned by his wife, Mrs M. Myers.

4. These include 24,000 Ordinary Shares (1996 – 24,000) owned by his wife, Mrs J.L. Clegg.

5. D.D. Fiszman is interested in 4,326,288 Ordinary Shares (1996 – 4,326,288) through Star Diamond Company Limited, and the Trustees of the Star Diamond Pension Scheme. 3,600 Ordinary Shares (1996 – 3,600) are owned by his wife, Mrs. E.S. Fiszman.

6. These include 104,022 Ordinary Shares (1996 – 104,022) in which Sir Ian Morrow has a non-beneficial interest.

7. Sir J. Fairclough is interested in 1,557 shares (1996 – 1,557) through Coutts Nominees Ltd.

There were no changes in the Directors' interests in the Ordinary Shares of the Company between the Balance Sheet date and one month prior to the Notice of the Annual General Meeting.

GAINS MADE ON DIRECTORS' SHARE OPTIONS:

	1997 £000s	1996 £000s
P.J. Norman	**823**	232
M.G. Langley	**–**	1,833
I. Joffe	**–**	681
N.S. Myers	**–**	315
	823	3,061

9. Directors' Remuneration and Interests (continued)

Options over Ordinary Shares of 5p each issued to directors were as follows:–

Name	*As at 01/01/97 or date of appointment*	*Number of options granted during the year*	*As at 31/12/97*	*Option Price*	*Exercise Period From*	*To*
A. Clegg	54,669	–	54,669	£0.5896	04/05/92	03/05/99
	105,000	–	105,000	£0.4433	20/04/93	19/04/00
	102,000	–	102,000	£0.2467	07/05/94	06/05/01
	69,000	–	69,000	£0.5400	14/05/95	13/05/02
	30,000	–	30,000	£0.8167	12/10/97	11/10/04
	18,000	–	18,000	£3.6433	30/04/99	29/04/06
	378,669		378,669			
C.W. Davies	15,186	–	15,186	£0.5896	04/05/92	03/05/99
	42,000	–	42,000	£0.4433	20/04/93	19/04/00
	30,000	–	30,000	£0.2467	07/05/94	06/05/01
	30,000	–	30,000	£0.4567	27/10/96	26/10/03
	30,000	–	30,000	£0.8167	12/10/97	11/10/04
	18,000	–	18,000	£3.6433	30/04/99	29/04/06
	165,186		165,186			
I. Joffe	69,000	–	69,000	£0.5400	14/05/95	13/05/02
	30,000	–	30,000	£0.4567	27/10/96	26/10/03
	30,000	–	30,000	£0.8167	12/10/97	11/10/04
	18,000	–	18,000	£3.6433	30/04/99	29/04/06
	147,000		147,000			
N.S. Myers	60,000	–	60,000	£0.4567	27/10/96	26/10/03
	30,000	–	30,000	£0.8167	12/10/97	11/10/04
	18,000	–	18,000	£3.6433	30/04/99	29/04/06
	108,000		108,000			
M.M. Wyatt	30,000	–	30,000	£0.9567	01/05/98	30/04/05
	30,000	–	30,000	£3.6433	30/04/99	29/04/06
	–	7,300	7,300	£4.1000	18/04/00	17/04/07
	–	12,700	12,700	£4.1000	18/04/00	17/04/04
	60,000		80,000			
G.J. Hughes	105,000	–	105,000	£3.6433	30/04/99	29/04/06
	350	–	350	£4.1000	18/04/00	17/04/07
	20,724	–	20,724	£4.1000	18/04/00	17/04/04
	126,074		126,074			

The market price of Ordinary Shares at 31st December 1997 was 452.5p (1996 – 439.5p) and the range of share prices for the year was 282.5p to 509p (1996 – 260p to 470p).

10. Tax on Profit on Ordinary Activities

The tax charge is based on the profit for the year and comprises:–

	1997 £000s	1996 £000s
Corporation tax at 31.5% (1996 – 33%)	3,513	5,076
Deferred taxation arising from		
– capital allowances	(58)	107
– other timing differences	(123)	142
Adjustment of taxation for prior years		
– current	(12)	(19)
– deferred	(42)	42
Overseas taxation	250	193
Associated undertakings	184	142
	3,712	5,683

11. Dividends Paid and Proposed

	1997 £000s	1996 £000s
Interim dividend paid of 0.7p per Ordinary Share (1996 – 0.65p)	524	459
Final dividend proposed of 1.8p per Ordinary Share (1996 – 1.6p)	1,354	1,195
	1,878	1,654

The interim dividend paid of 0.7p per Ordinary Share was based on the 74,835,109 Ordinary Shares in issue on 19th September 1997. The final dividend proposed of 1.8p per Ordinary Share will be based on the Ordinary Shares in issue on 16th March 1998.

12. Earnings Per Share

	1997	1996
Weighted average number of Ordinary Shares	74,867,633	71,047,459

	£000s	£000s
Earnings attributable to Ordinary Shareholders	7,714	10,353
Exceptional operating expenses net of tax	–	1,018
Adjusted earnings	7,714	11,371
Earnings per Ordinary Share	10.30p	14.57p
Adjusted earnings per Ordinary Share	10.30p	16.00p

The Directors consider that adjusted earnings per Ordinary Share reflects the underlying performance of the business.

13. *Tangible Fixed Assets*

The following are included in the net book value of tangible fixed assets:–

	Group 1997 £000s	Group 1996 £000s	Company 1997 £000s	Company 1996 £000s
Land and buildings				
– freehold	**1,709**	1,742	**1,709**	1,742
– short leasehold	**1,866**	1,371	**–**	820
Plant and machinery	**18,332**	15,295	**840**	9,719
Net tangible fixed assets	**21,907**	18,408	**2,549**	12,281

Plant and machinery includes computer equipment and software, office furniture and fittings, production tools and equipment, test and development equipment and motor vehicles.

a) *The movement in the year was as follows:–*

GROUP COST OR VALUATION	Freehold £000s	Short leasehold £000s	Plant & machinery £000s	**Total £000s**
Beginning of year	1,928	1,905	27,089	**30,922**
Additions	–	814	9,551	**10,365**
Disposals	–	(10)	(671)	**(681)**
Exchange adjustment		2	(32)	**(30)**
End of year	1,928	2,711	35,937	**40,576**
DEPRECIATION				
Beginning of year	186	534	11,794	**12,514**
Charge	33	312	6,317	**6,662**
Disposals	–	(1)	(481)	**(482)**
Exchange adjustment	–	–	(25)	**(25)**
End of year	219	845	17,605	**18,669**
NET BOOK VALUE Beginning of year	1,742	1,371	15,295	**18,408**
NET BOOK VALUE End of year	1,709	1,866	18,332	**21,907**
Leased assets included in the above:– NET BOOK VALUE, Beginning of year			3,482	**3,482**
NET BOOK VALUE, End of year			2,512	**2,512**

13. *Tangible Fixed Assets* (continued)

	COMPANY COST OR VALUATION	Freehold £000s	Short leasehold £000s	Plant & machinery £000s	**Total £000s**
	Beginning of year	1,928	1,263	17,432	**20,623**
	Additions	–	–	186	**186**
	Disposals	–	–	(55)	**(55)**
	Transfers to subsidiary undertakings	–	(1,263)	(16,179)	**(17,442)**
	End of year	1,928	–	1,384	**3,312**
	DEPRECIATION				
	Beginning of year	186	443	7,713	**8,342**
0.40	Charge	33	–	166	**199**
0.41	Disposals	–	–	(53)	**(53)**
	Transfers to subsidiary undertakings	–	(443)	(7,282)	**(7,725)**
	End of year	219	–	544	**763**
	NET BOOK VALUE Beginning of year	1,742	820	9,719	**12,281**
	NET BOOK VALUE End of year	1,709	–	840	**2,549**
	Leased assets included in the above:– NET BOOK VALUE, Beginning of year			2,225	**2,225**
	NET BOOK VALUE, End of year			31	**31**

b) *Basis of valuation:–*
Freehold land and buildings were valued at £1,850,000 as at 31st December 1990 by independent commercial property consultants, on an open market existing use basis, assuming full vacant possession.
The original cost of land and buildings included at valuation was £1,246,000 and the accumulated depreciation based on original cost was £235,000 (1996 – £216,000) as at 31st December 1997.

c) *Assets not depreciated:–*
Freehold land at a cost of £292,000 has not been depreciated.

14. *Fixed Asset Investments*

The following are included in the net book value of fixed asset investments:–

	Group 1997 £000s	Group 1996 £000s	Company 1997 £000s	Company 1996 £000s
Subsidiary undertaking	–	–	6,993	6,956
Associated undertakings	679	417	90	90
Investments	3	3	3	3
Long term loans to subsidiary undertakings	–	–	24,675	3,890
Own shares	114	114	114	114
	796	534	31,875	11,053

The movement in the year was as follows:–

	Group 1997 £000s	Company 1997 £000s
Beginning of year	534	11,053
New long term loans	–	29,518
Repayment of loans	–	(8,733)
Investment in subsidiary undertakings	–	37
Share of movement in net assets of associated undertakings	262	–
End of year	796	31,875

Subsidiary undertakings:–

	Proportion of equity owned and voting rights	Investments at cost 1997 £000s	Investments at cost 1996 £000s
Psion UK PLC (a)*	100%	1,500	1,500
Psion Industrial PLC (b)*	100%	50	50
Psion Software PLC (c)*	100%	50	50
Psion Investments Limited (d)*	100%	–	–
Psion Computers PLC (e)*	100%	50	13
Psion Overseas Investments Limited* (f)	100%	671	–
Psion Incorporated (g)*	100%	3,543	3,543
Psion GmbH (h)	100%	–	671
Psion Dacom PLC (i)*	100%	4,220	4,220
Psion Dacom GmbH (j)	100%	–	–
Psion DataCard Nordic AB (k)	100%	–	–
Total cost		10,084	10,047
Less provision		(3,091)	(3,091)
		6,993	6,956

*held directly by Psion PLC.

14. *Fixed Asset Investments* (continued)

a) Psion UK PLC is registered in England and Wales to market the Group's products in the United Kingdom.

b) Psion Industrial PLC is registered in England and Wales to research into and develop, manufacture and sell portable computers for the industrial market.

c) Psion Software PLC is registered in England and Wales to research into and develop and license operating systems and application software.

d) Psion Investments Limited is registered in England and Wales to hold investments.

e) Psion Computers PLC is registered in England and Wales to research into and develop, manufacture and sell portable computers for the retail and corporate markets.

f) Psion Overseas Investments Limited is registered in England and Wales to hold overseas investments.

g) Psion Inc. is incorporated in the USA to market the Group's products in North America.

h) Psion GmbH is incorporated in Germany to market the Group's products there.

i) Psion Dacom PLC is registered in England and Wales to research into and develop, manufacture and market the Group's datacommunication products worldwide.

j) Psion Dacom GmbH is incorporated in Germany to market the Group's modem products there.

k) Psion DataCard Nordic AB is incorporated in Sweden to market the Group's modem products in Scandinavia.

Associated undertakings:–
The Group's associated undertakings comprise:

	Proportion of equity owned	*Share Capital*
Psion Nederland BV (a)	50%	DFL 500,000
Therefore Limited (b)	40%	£40,000

a) Psion Nederland BV is incorporated in the Netherlands and markets the Group's products there. Sales to Psion Nederland BV amounted to £8,179,000 (1996 – £6,332,000). The Group's share of Psion Nederland BV's profit before tax was £492,000 (1996 – £426,000). At 31st December 1997 Psion BV owed Psion PLC and its subsidiaries £1,241,000 (1996 – £1,153,000).

b) Therefore Limited is a company registered in England and Wales to carry on the business of industrial design consultancy. Therefore Limited has an accounting reference date of 31st March. The Group recognises its share of the results of Therefore Limited for the remainder of the year by reference to unaudited management accounts prepared to 31st December.

14. *Fixed Asset Investments* (continued)

Investments:–
The Group owns 15% of the share capital of Psion Magyarorszag KFT, a company founded in Hungary to market the Group's products there.

Own Shares:–
The Company operates a profit sharing scheme for long serving employees. Awards under the scheme are made in the form of Psion PLC shares following confirmation of the year's profit performance. These shares are usually transferred out of the Employee Share Ownership Plan ("ESOP"), a discretionary trust established to facilitate the operation of the profit sharing scheme. The trustees of the ESOP purchase the Company's ordinary shares in the open market using funds loaned by the Company. Rights to dividends on shares held by the ESOP have been waived by the trustees, other than in respect of a nominal amount.

The number and market value of the 5p Ordinary Shares held by the ESOP at 31st December 1997 was 148,615 (1996 – 148,615) and £672,000 (1996 – £653,000) respectively. Of these shares, 135,000 (1996 – 135,000) shares are allocated to satisfy commitments in respect of the Psion Executive Share Option Scheme.

15. *Stocks*

The following are included in the net book value of stocks:–

	Group		*Company*	
	1997 £000s	1996 £000s	**1997 £000s**	1996 £000s
Raw materials	**10,489**	7,160	**–**	5,033
Work-in-progress	**3,525**	1,852	**–**	911
Finished goods	**5,292**	4,255	**–**	299
	19,306	13,267	**–**	6,243

The Directors believe that there is no significant difference between the net book value and replacement cost of stocks held.

16. *Debtors*

The following are included in the net book value of debtors:–
Amounts falling due within one year:–

		Group		*Company*	
		1997 £000s	1996 £000s	**1997 £000s**	1996 £000s
	Trade debtors	**18,850**	18,773	**–**	3,720
	Amounts recoverable on contracts	**299**	–	**–**	–
	Amounts owed by subsidiary undertakings	**–**	–	**3,591**	13,284
	Amounts owed by associated undertakings	**1,241**	1,153	**–**	836
	Other debtors	**238**	310	**10**	66
	VAT recoverable	**250**	447	**–**	447
0.44	ACT recoverable	**–**	–	**209**	–
0.45	Prepayments and accrued income	**1,377**	1,048	**84**	387
		22,255	21,731	**3,894**	18,740
	Amounts falling due after one year:–				
	Amounts recoverable on contracts	**382**	–	**–**	–
		22,637	21,731	**3,894**	18,740

17. *Creditors: Amounts Falling Due Within One Year*

The following amounts are included in creditors falling due within one year:–

	Group		*Company*	
	1997 £000s	1996 £000s	**1997 £000s**	1996 £000s
Obligations under finance leases and hire purchase contracts	**770**	1,282	**11**	794
Bank loans and overdrafts	**–**	95	**–**	–
Trade creditors	**18,175**	17,731	**339**	13,676
Amounts owed to subsidiary undertakings	**–**	–	**4,784**	13
Proposed dividends	**1,354**	1,195	**1,354**	1,195
Other creditors				
– UK corporation tax payable	**3,992**	5,201	**672**	1,298
– ACT on paid and proposed dividends	**469**	299	**469**	299
– VAT	**226**	246	**–**	–
– Social security and PAYE	**572**	519	**51**	237
Accruals and deferred income	**8,659**	6,605	**739**	2,930
	34,217	33,173	**8,419**	20,442

18. *Creditors: Amounts Falling Due After More Than One Year*

The following amounts are included in creditors falling due after more than one year:–

	Group 1997 £000s	Group 1996 £000s	Company 1997 £000s	Company 1996 £000s
Borrowings due wholly or in part by instalments within 5 years:–				
Obligations under finance leases and hire purchase contracts	138	817	2	431

Borrowings on finance leases and hire purchase contracts are repayable as follows:–

	Group 1997 £000s	Group 1996 £000s	Company 1997 £000s	Company 1996 £000s
Within 1-2 years	138	769	2	431
Within 2-5 years	–	48	–	–
	138	817	2	431

19. *Provisions for Liabilities and Charges*

Provisions for liabilities and charges comprise deferred taxation arising on the excess of capital allowances over depreciation less ACT not recoverable within twelve months of the Balance Sheet date:–

	Group 1997 £000s	Group 1996 £000s	Company 1997 £000s	Company 1996 £000s
The movement on deferred taxation comprises:–				
Beginning of year	656	132	212	346
(Credited) charged to profit and loss account	(223)	292	(11)	182
Transferred to subsidiary undertakings	–	–	(504)	(548)
Transferred from current tax	314	327	264	327
ACT on paid and proposed dividends	(170)	(95)	39	(95)
End of year	577	656	–	212

The potential amount of deferred taxation not provided at 31st December 1997 was approximately £190,000 (1996 – £202,000) and relates solely to the revaluation gain on the freehold property.

20. Called-Up Share Capital

	1997 £000s	1996 £000s
a) Authorised:–		
98,291,456 Ordinary Shares of 5p each	**4,915**	4,915

	1997 £000s	1996 £000s
b) Allotted, called-up and fully paid:–		
1997 – 75,199,778 Ordinary Shares of 5p each	**3,760**	–
1996 – 74,713,737 Ordinary Shares of 5p each	–	3,735

During the year 416,041 shares were issued for cash in respect of the exercise of share options. In addition 70,000 shares were issued for nominal consideration to the Trustees of the Psion Profit Sharing Scheme for appropriation to employees in respect of the award for 1996.

0.46
0.47

c) The Company has granted options (including Directors' options) in respect of the following Ordinary Shares of 5p each:–

Number of Ordinary Shares Subject to Option	*Period of Option*	*Price per Share £s*
84,849	4th May 1992 to 3rd May 1999	0.5896
15,186	11th October 1992 to 10th October 1999	1.1700
171,000	20th April 1993 to 19th April 2000	0.4433
147,000	7th May 1994 to 6th May 2001	0.2467
138,000	14th May 1995 to 13th May 2002	0.5400
54,000	25th October 1996 to 24th October 2003	0.4267
90,000	27th October 1996 to 26th October 2003	0.4567
175,000	19th September 1997 to 18th September 2004	0.9500
120,000	12th October 1997 to 11th October 2004	0.8167
120,000	1st May 1998 to 30th April 2005	0.9567
546,000	30th April 1999 to 29th April 2006	3.6433
83,000	9th September 1999 to 8th September 2006	4.3650
219,648	18th April 2000 to 17th April 2007	4.1000
141,000	16th October 2000 to 15th October 2007	4.6850
2,104,683		

21. Reserves

Of total reserves shown in the Balance Sheet, the following amounts are regarded as distributable or otherwise:–

	Group		*Company*	
	1997 £000s	1996 £000s	1997 £000s	1996 £000s
Distributable				
– profit and loss account	**21,954**	20,058	**21,954**	20,058
Non-distributable				
– profit and loss account	**6,684**	2,438	–	–
– share premium	**22,664**	22,431	**22,664**	22,431
– revaluation reserve	**612**	612	**612**	612
– goodwill	**(3,091)**	(3,091)	–	–
– other reserves	**(467)**	(326)	–	–
	48,356	42,122	**45,230**	43,101

21. *Reserves* (continued)

The movement on reserves during the year was as follows:–

	Group			Company & Group		Company
	Other reserves £000s	Goodwill £000s	Profit and loss account £000s	Revaluation reserve £000s	Share premium account £000s	Profit and loss account £000s
Beginning of year	(326)	(3,091)	22,496	612	22,431	20,058
Premium on shares issued	–	–	–	–	233	–
Employee profit share distribution	–	–	306	–	–	306
Foreign currency translation	(141)	–	–			–
Profit for the year	–	–	7,714	–	–	3,468
Dividends paid and proposed	–	–	(1,878)	–	–	(1,878)
End of year	(467)	(3,091)	28,638	612	22,664	21,954

22. *Movements in Shareholders' Funds*

	Group		Company	
	1997 £000s	1996 £000s	**1997 £000s**	1996 £000s
Profit on ordinary activities after taxation	**7,714**	10,353	**3,468**	9,864
Dividends paid and proposed	**(1,878)**	(1,654)	**(1,878)**	(1,654)
Retained profit for the year	**5,836**	8,699	**1,590**	8,210
New share capital subscribed	**258**	14,405	**258**	14,405
Movement on other reserves	**(141)**	(317)	**–**	–
Employee profit share distribution	**306**	–	**306**	–
Net addition to shareholders' funds	**6,259**	22,787	**2,154**	22,615
Opening shareholders' funds	**45,857**	23,070	**46,836**	24,221
Closing shareholders' funds	**52,116**	45,857	**48,990**	46,836

23. *Cash Flow Information*

a) *Reconciliation of movement in net funds*

	1997 £000s	1996 £000s
(Decrease) increase in cash	**(1,206)**	16,300
Finance lease repayments	**1,191**	1,668
Decrease in short term deposits	**(2,860)**	(1,021)
	(2,875)	16,947

23. *Cash Flow Information* (continued)

b) *Analysis of net funds*

	Cash £000s	Overdrafts £000s	Finance leases £000s	Total £000s
As at 1st January 1997	26,563	(95)	(2,099)	24,369
Cash flow	(4,161)	95	1,191	(2,875)
As at 31st December 1997	22,402	–	(908)	21,494

24. *Guarantees and Other Financial Commitments*

a) *Capital Commitments*

At the end of the year, capital commitments were:–

	Group		Company	
	1997 £000s	1996 £000s	**1997 £000s**	1996 £000s
Contracted, but not provided for	**690**	1,376	**–**	1,025

b) *Lease commitments*

The Group has operating leases on certain premises. The annual rentals on these leases total £2,244,000 (1996 – £2,319,000). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases.

	Group		Company	
	1997 £000s	1996 £000s	**1997 £000s**	1996 £000s
Leases which expire:				
within 1 year	**20**	–	**20**	–
within 2-5 years	**569**	1,235	**–**	20
over 5 years	**1,655**	1,084	**753**	753
	2,244	2,319	**773**	773

c) *Pension arrangements*

Psion PLC maintains a defined contribution pension scheme for the benefit of the employees of all UK subsidiaries except for Psion Dacom PLC which maintains its own defined contribution pension scheme. At 31st December 1997, outstanding contributions to these pension schemes amounted to £nil (1996 – £119,000). The pension costs charged for the period are disclosed in note 8.

d) *Forward foreign exchange contracts*

The Group had forward foreign exchange contracts at 31st December 1997 amounting to £7,432,000 (1996 – £7,844,000). At 31st December 1997, £5,398,000 (1996 – £7,431,000) in respect of these contracts was matched to existing net foreign currency assets with the balance of £2,034,000 (1996 – £413,000) relating to forecast foreign currency cashflows arising from overseas trading activities.

e) *Guarantees*

The Company has guaranteed the obligations of certain subsidiary undertakings arising from bank loan agreements up to a maximum of £775,000 (1996 – £782,000). Guarantees of £370,000 (1996 – £250,000) have been given by the Group in respect of credit facilities with HM Customs & Excise. Psion PLC and its UK subsidiaries have unlimited composite guarantees with their lending banks to secure banking facilities for the Group.

FIVE YEAR RECORD

	1993 £000s	1994 £000s	1995 £000s	1996 £000s	**1997 £000s**
Consolidated Profit and Loss Accounts					
Turnover	41,159	61,291	90,546	124,178	**142,012**
Operating profit	3,332	6,106	11,590	17,243	**10,577**
Exceptional items	–	–	–	(1,519)	**–**
Profit on sale of fixed asset investment	–	685	–	–	**–**
Profit before taxation	3,030	6,545	11,654	16,036	**11,426**
Tax on profit on ordinary activities	(1,000)	(2,329)	(4,202)	(5,683)	**(3,712)**
Profit after taxation	2,030	4,216	7,452	10,353	**7,714**
Research and development expenditure	1,484	2,710	5,579	7,731	**10,934**
Earnings per share	3.05p	6.16p	10.75p	14.57p	**10.30p**
Adjusted earnings per share	3.05p	5.45p	10.75p	16.00p	**10.30p**

	1993 £000s	1994 £000s	1995 £000s	1996 £000s	**1997 £000s**
Consolidated Balance Sheets					
Fixed assets	7,120	9,461	14,271	18,942	**22,703**
Stocks	6,789	7,750	10,491	13,267	**19,306**
Debtors	8,968	11,358	13,397	21,731	**22,637**
Cash and short term investments	1,281	3,774	11,850	26,563	**22,402**
Current assets	17,038	22,882	35,738	61,561	**64,345**
Creditors due within one year	(10,717)	(14,678)	(25,167)	(33,173)	**(34,217)**
Creditors due after one year	(596)	(1,132)	(1,640)	(817)	**(138)**
Provisions for liabilities and charges	(189)	(150)	(132)	(656)	**(577)**
Net assets	12,656	16,383	23,070	45,857	**52,116**

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of PSION PLC ("the Company") will be held at The Royal Society of Arts, 8 John Adam Street, London WC2N 6EZ on Friday 8th May 1998 at 11am for the following purposes:–

Ordinary Business

1. To consider and adopt the Company's accounts and the reports of the Directors and Auditors for the year ended 31st December 1997.

2. To declare a dividend.

3. To re-elect as a Director Dr. D.E. Potter who retires from office under Article 107 of the Company's Articles of Association and, being eligible, offers himself for re-election.

0.50 4. To re-elect as a Director Mr. N.S. Myers who retires from office under Article 107 of the Company's Articles
0.51 of Association and, being eligible, offers himself for re-election.

5. To re-elect as a Director Mr. A. Clegg who retires from office under Article 107 of the Company's Articles of Association and, being eligible, offers himself for re-election.

6. To re-elect Mr. G.J. Hughes as a Director who retires from office under Article 113 of the Company's Articles of Association, and being eligible, offers himself for re-election.

7. To elect Mr. J.B. Morgans as a Director under Article 113 of the Company's Articles of Association, who being eligible offers himself for election.

8. To re-appoint Messrs. Arthur Andersen as Auditors of the Company to hold office until the conclusion of the next general meeting at which accounts and reports are laid before the Company.

9. To authorise the Directors to fix the remuneration of the Auditors.

Special Business

10. To consider and, if thought fit, pass the following resolution which will be proposed as an Ordinary Resolution:–
That the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80 (2) of the Act) up to an aggregate nominal value of £1,154,584 being 31 per cent of the Company's issued ordinary share capital on 4 March 1998 provided that such authority shall expire on the earlier of the date fifteen months after the passing of this Resolution and the conclusion of the Annual General Meeting to be held in 1999 unless previously renewed, varied or revoked by the Company in General Meeting save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted 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.

11. 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 10 above, the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to any general authority conferred on them in accordance with Section 80 of the Act as if Section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited:–
    i) to the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all such shareholders are proportionate (as nearly as may be) to the respective number of Ordinary Shares held by them provided that the Directors may make such arrangements in respect of fractional entitlements or any legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or stock exchange as they consider necessary or expedient; and
    ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities having in the case of relevant shares (as defined in Section 94 of the Act) a nominal amount or, in the case of other equity securities, giving the right to subscribe for or convert into relevant shares having a nominal amount not exceeding in aggregate £187,999 (corresponding to 5 per cent of the issued ordinary share capital of the Company on 4th March 1998),

Special Business (continued)

and this power shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the date fifteen months after the passing of this Resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

12. To consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution:- That the Psion PLC 1998 Sharesave Scheme, the main provisions of which are summarised in the enclosed Appendix, and a copy of the rules of which is produced at the Meeting and initialled by the Chairman for the purposes of identification, be and are hereby adopted and the Directors be and they are hereby authorised to make such modifications to the rules as they may consider necessary or desirable in order to obtain the approval of the Inland Revenue and do all acts and things as may be necessary or desirable to carry the same into effect.

13. To consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution:- That the Directors be and they are hereby authorised (to the extent that Resolution 12 above is passed) to establish such numbers of appendices to the Psion PLC 1998 Sharesave Scheme or establish such other employee share schemes for the benefit of employees of the Company or its subsidiaries in order to take account of local tax, exchange control or securities laws as they consider appropriate subject, however, to the conditions that:
    i) any shares made available under such appendices or other schemes shall be treated as counting against any individual or overall limits contained in the Psion PLC 1998 Sharesave Scheme;
    ii) such appendices or other schemes shall confer benefits and contain limitations to ensure, so far as the Directors consider practical, that the participants obtain substantially no greater benefit (before tax) than participants may obtain from participating in the Psion PLC 1998 Sharesave Scheme; and
    iii) once established, the provisions of such appendices or other schemes may not be amended without the prior sanction of the Company in General Meeting if such sanction would be required to amend the comparable provisions of the Psion PLC 1998 Sharesave Scheme.

Registered Office
Alexander House
85 Frampton Street
London NW8 8NQ
4th March 1998

BY ORDER OF THE BOARD
I. Joffe
Director and Secretary

Notes

1. A member entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person.

2. The Company, pursuant to Regulation 34 of the Uncertified Securities Regulations 1995, specifies that only those members entered on the Register of the Company as at 11am on 6 May 1998 shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to the entries on the Register after 11am on 6 May 1998 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

3. Special Business Resolutions.

   Resolution 10 authorises the Directors generally and unconditionally, in accordance with Section 80 of the Companies Act 1985, to allot relevant securities up to a maximum nominal amount of £1,154,584 representing 31 per cent of the issued ordinary share capital of the Company as at 4 March 1998.

   Resolution 11 grants the Directors power to allot shares for cash without first offering those shares pro rata to existing shareholders up to an aggregate nominal amount of £187,999 representing 5 per cent of the Company's issued ordinary share capital as at 4 March 1998.

   The Directors consider it is in the best interests of the Company and its shareholders that they should have the flexibility conferred by the above authorities to make small issues of shares for cash as suitable opportunities arise although they have no present intention of exercising either of these authorities. Both these authorities will expire at the conclusion of the next Annual General Meeting or, if earlier, fifteen months after the resolution is passed.

   Resolutions 12 and 13 propose the adoption by the Company of an all-employee Sharesave Scheme and authorise the Directors to make minor adjustments to the rules of such scheme to accommodate changes in legislation, as they see appropriate.

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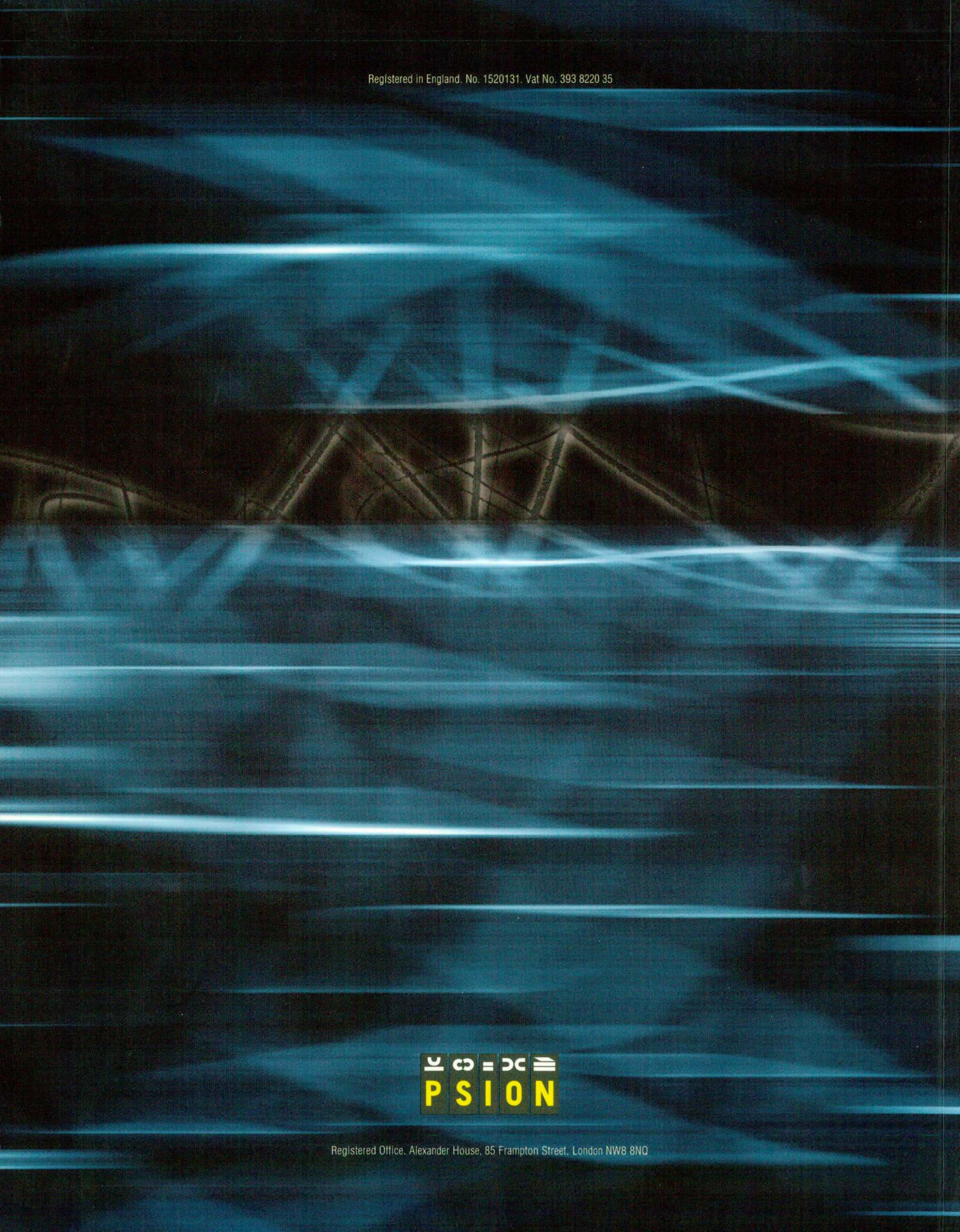

PSION

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