Psion Annual Report & Accounts 1999

PSION

building the future...

In the emerging age of mobile internet, more and more people will depend on personal, wireless access to the internet, wherever they are. Mobile internet will empower them in their work and personal lives with information, communications, services and entertainment.

Since its inception Psion has created innovative solutions which address real customer needs. Psion will shape and lead the mobile internet age by delivering distinctive mobile internet solutions and devices to people and organisations.

Since Psion came to the London Stock Exchange in March 1988,

dividends have increased by **675%**
while returns to shareholders have grown **10,396%***

We are

building the future....

in order to succeed in delivering our mission to grow rapidly and profitably through innovation in mobile internet.

* as at 31st December 1999

PSION IS A GROU

FOCUSED ON EMERGING M

→ Psion has a worldwide distribution network including sales companies in the United States, Holland, Germany and Singapore

→ Psion manages its portfolio of businesses on the basis of shareholder value

PSION COMPUTERS

Delivering solutions to mobile users with a growing range of Wireless Information Devices, including the market-leading Series 7, Series 5mx and Revo.

DISTRIBUTION

FINANCIAL

→ Psion aims to attract, retain, motivate and develop its employees

PEOPLE

PSION INTERNET

Consolidating Psion's existing internet activities and developing partnerships to deliver end-to-end solutions for mobile internet users.

GEOGRAPHICAL

PSION INFOMEDIA

Focusing on innovative interactive entertainment and information appliances such as the Wavefinder, a Digital Audio Broadcast receiver and software management system.

→ Psion's primary focus is on the GSM world, leveraging Psion's European brand strength

P OF COMPANIES
OBILE INTERNET MARKETS

→ Psion focuses on specific links in the mobile internet value chain

PSION ENTERPRISE

Working in partnership to provide powerful enterprise solutions based on the netBook, Workabout and HC.

PSION DACOM

World leaders in PC Card technologies designed to provide mobile computer users access to the internet and corporate networks from any location.

SEGMENT

→ Psion offers mobile internet products, services and solutions

OFFERINGS

CUSTOMERS

→ Psion products provide consumer and enterprise users with Personal Information Management and mobile data capabilities

VALUE CHAIN

SYMBIAN

Jointly owned by Psion, Ericsson, Matsushita, Motorola and Nokia, Symbian aims to become the world leader in operating systems for devices which access data on mobile telecommunication networks.

→ Psion works in strategic partnerships to deliver complete solutions, focusing on Psion's core competences

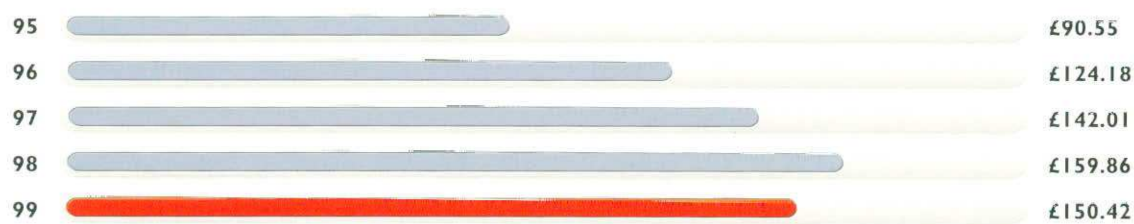
FINANCIAL HIGHLIGHTS

For the Year Ended 31st December 1999
In Thousands Except Per Share Amounts

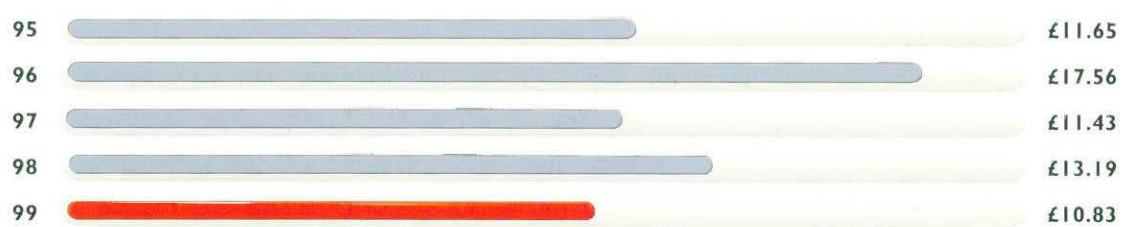
	1999	1998
Turnover	**£150,417**	£159,860
Profit Before Tax, Exceptionals and Symbian [1]	**£10,830**	£13,186
Profit Before Tax	**£4,554**	£23,262
Exceptional Items [2]	**£8,652**	£33,344
Profit After Tax	**£3,312**	£18,679
Earnings Per Share	**4.29p**	24.62p
Adjusted Earnings Per Share [3]	**3.94p**	10.93p
Dividends Per Share	**3.10p**	2.80p
Research and Development Expenditure [4]	**£19,373**	£15,000
Cash Balances	**£80,703**	£54,112
Net Assets	**£105,470**	£93,802

(1) Excludes share of Symbian's losses
(2) 1999 exceptional items include a £8,853,000 (1998 – £21,957,000) balance sheet gain on the investment in the Symbian joint venture
(3) Excludes effect of exceptional items
(4) Includes share of Symbian's operating expenses

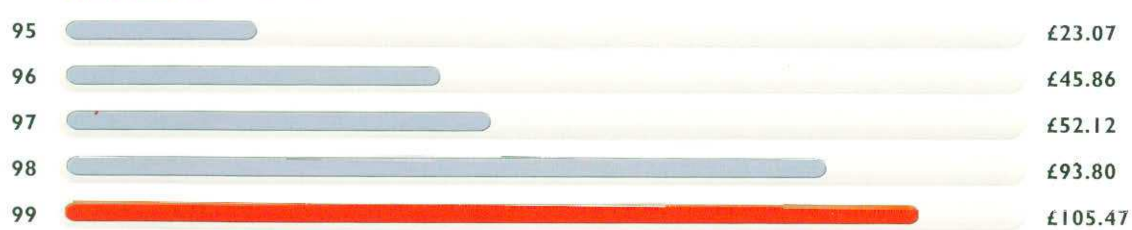
TURNOVER in £millions



PROFIT BEFORE TAX, EXCEPTIONALS AND SYMBIAN [1] in £millions



NET ASSETS in £millions



AT THE HEART OF THE

WIRELESS INTERNET

DAVID POTTER *Chairman*

OVER THE LAST SEVERAL YEARS, PSION HAS FOCUSED ITS STRATEGY ON THE GROWING POTENTIAL OF PERVASIVE COMPUTING MARKETS. DURING 1999, THE INTERNET HAS MOVED TO THE CENTRE STAGE IN INFORMATION TECHNOLOGY'S DIGITAL REVOLUTION WHILST THE FRONTIER IN COMMUNICATIONS TECHNOLOGY HAS MOVED FROM FIXED WIRELINE TO DIGITAL WIRELESS SYSTEMS. PSION IS POSITIONED AT THE HEART OF THESE DEVELOPMENTS IN MOBILE DATA, MOBILE INTERNET AND SOFTWARE SYSTEMS FOR CELLULAR WIRELESS SYSTEMS. PSION'S CORE PURPOSE IN THE COMING YEARS IS TO TAKE ADVANTAGE OF THE INVESTMENT AND MARKET OPPORTUNITIES PRESENTED BY OUR PIVOTAL POSITION IN THESE FAST GROWING MARKETS.

RESULTS OVERVIEW Sales for 1999 were £150.4m (1998 – £159.9m). Pre-tax profits were £4.6m (1998 – £ 23.3m). Excluding exceptional items and the investment during the year in our joint venture company, Symbian, pre-tax profits were £10.8m (1998 – £13.2m). The Directors recommend a final dividend for the year of 2.2p (1998 – 2.0p) making a total of 3.1p (1998 – 2.8p), representing a rise of 11%.

After tax and dividends, shareholder funds increased by £11.7m to £105.5m. In spite of considerable investment made during the year, cash generation was again very strong with cash balances rising to £80.7m.

REVIEW OF OPERATIONS Psion Computers made substantial progress during the second half of 1999 with a newly-strengthened management team, outsourced manufacturing and the introduction of major new products in the Psion Revo and the Series 5mx. The company is well positioned for the emerging new markets for wireless mobile internet devices and applications. Psion Computers' first integrated computing and communication products – the products jointly developed with Motorola – are expected to be launched during the first half of 2001.

In 1999 Psion Dacom confronted an increasingly challenging environment as a result of the growing use of embedded modems. Psion Dacom has substantial opportunities in providing notebook computers and other devices with digital wireless data access through a range of emerging wireless technologies such as Bluetooth and evolving cellular standards.

In 1999 Psion Enterprise launched the Psion netBook. The netBook is the world's first mobile Java terminal and is based on Symbian's EPOC technology. It incorporates the Java programming language which is of growing importance in commercial and enterprise markets. With important relationships with Sun, Oracle, Citrix and IBM, the company has the opportunity to provide its solutions to professional mobile workforces in major corporations around the world.

SYMBIAN During 1999 the scale of Psion's investment at Symbian grew substantially as the number of Symbian employees almost doubled to more than 438 by year end. As a result Psion's share of Symbian joint venture losses increased to £6.1m (1998 – £1.3m). Symbian also acquired additional development facilities in Sweden and in England and established sales offices in California and Tokyo. The expansion of Symbian's shareholders to include Motorola and Matsushita contributed strong US and Far East representation to the partnership. Symbian's strategic partnerships with Sun and IBM established during 1999 will help to accelerate the adoption of Symbian's EPOC technology in enterprise markets.

During 1999 Symbian released EPOC Release 5, although EPOC Release 6 remains the focus of Symbian's development efforts. This release will be the first to integrate data and wireless communication functionality fully. This is a demanding objective which has required Symbian to invest in and integrate some 24 core technologies.

EPOC Release 6 is made up of three Device Family Reference Designs or DFRDs. This development approach means that Symbian licensees can develop an extremely wide range of integrated wireless communication and computing products which share a single technology platform, thus ensuring mutual compatibility. Symbian's DFRDs are Crystal, designed for on-line palmtops or Communicators, Quartz for Phone Pads and Pearl for Smartphones.

EPOC Release 6 DFRDs are scheduled for delivery during 2000. Symbian is on target to release Crystal and Quartz during the second quarter of 2000. The Pearl or Smartphone DFRD will include GPRS, WAP 1.2 and enhanced Bluetooth and will ship in the fourth quarter of the year. Symbian anticipates that a range of products from key manufacturers will enter the market during the second half of 2000.

Symbian's third party development community has expanded substantially during 1999, with an estimated 24,000 developers now using Symbian's EPOC software development kit. This community will create a wide range of applications for products based on the Symbian platform.

Symbian's costs – predominately personnel and associated infrastructure costs – are expected to continue to rise in 2000, albeit at a slower rate than in 1999. 2000 will be another year of major investment and Psion's share of Symbian's losses is expected to increase by at least 20%. Symbian will also begin to draw on the £15.6m loaned to Psion following Motorola and Matsushita's admission to the partnership. Volume shipments of products based on the new software releases are expected to generate significant revenues in 2001 although Symbian's first full year of profit is expected only in 2002.

Symbian represents a major investment for Psion, an investment to which considerable risk is attached. While the exciting opportunity Symbian represents is well recognised, the risks should also be noted. The markets which Symbian technology addresses remain nascent and Symbian will continue to face strong competition as these markets develop. However, I believe that Psion and our partners have worked well together and Symbian is well placed to deliver on its exciting potential.

THE BOARD Sir John Fairclough will retire from the Board this year. The Board and I thank him for the contribution and experience he has provided. In December, the Company announced the resignation of Dr. Irwin Joffe from the Board. Irwin Joffe has played a major role in the development of Psion over fifteen years and our best wishes go to him for the future. I am delighted to nominate Peter Ogden as a Non-Executive Director to the Board for appointment at our Annual General Meeting in May. Peter Ogden has a strong track record as an investment banker, an entrepreneur and as founder of Computacenter PLC and other successful companies in the technology sector.

On behalf of the Board, I would like particularly to thank all members of staff at Psion for their commitment, for their willingness to learn and develop and for their determination.

INVESTMENT STRATEGY Psion is positioned at the centre of an industry which is itself at an historic watershed. This position presents Psion with an abundance of potential investments. It is critical that Psion both deploys its investment resources with care but equally that we grasp these opportunities aggressively. Working in partnership is one means of leveraging our investment resources.

Psion's commitment to investing in partnerships extends well beyond Symbian, as is illustrated by our recent slew of announcements of collaborations, product and technology developments. These include a major development programme with Motorola to bring a range of products to market by combining Psion's skills in computer technology with Motorola's skills in wireless cellular radio. We continue to explore opportunities in mobile internet services and in wireless internet for mobile enterprise applications. All these opportunities have considerable potential but the cost of investment is high. During the current year charges for development programmes in Psion, including Psion's share of Symbian's operating costs, will amount to some £25m (1999 – £19.4m). This figure is in addition to the parallel capital expenditure cost. Consequently profits will be held back while the aggressive exploitation of these investments is pursued. I believe this is demanding but the right policy for the Group as a whole.

PLACING On 2nd March 2000 we announced a cash placing to raise £100m. These additional resources will provide the company with greater flexibility to take up acquisitions and other investment opportunities. The new shares issued will rank pari passu with the existing ordinary shares save that they will not rank for the final dividend of the year ended 31st December 1999. In addition we will be asking shareholders to approve a 4 for 1 bonus issue of shares at our AGM in May. The purpose of this is to improve our liquidity in the market.

OUTLOOK During the first two months of 2000 sales are substantially ahead of the equivalent period last year. Your Board expects to see a resumption of sales growth in the year ahead. However the very substantial scale of current investment will continue to hold back profits. Your Board believes this investment is being carefully controlled and well directed and will provide the basis for the long term growth of Psion.

David Potter

DAVID POTTER
Chairman

DEVELOPING THE

MOBILE INTERNET

DAVID LEVIN *Chief Executive*

1999 WAS AN EXCITING BUT CHALLENGING YEAR BOTH FOR PSION AND FOR ME IN MY FIRST YEAR AS CHIEF EXECUTIVE. DURING THE YEAR WE HAVE DEFINED A VISION OF HOW PSION'S MARKETS WILL DEVELOP INTO THE FUTURE, BASED ON OUR UNDERSTANDING OF HOW CORE TECHNOLOGIES WILL EVOLVE. WE HAVE DEVELOPED A STRATEGY TO TAKE PSION FORWARD IN THIS COMPLEX, RAPIDLY CHANGING MARKET AND TECHNOLOGICAL ENVIRONMENT AND HAVE BEGUN TO IMPLEMENT THAT STRATEGY. IN ADDITION WE HAVE TACKLED MANY OF THE OPERATIONAL ISSUES FACING PSION COMPUTERS, PSION DACOM AND PSION ENTERPRISE. I AM PLEASED TO REPORT GOOD PROGRESS IN ALL THREE OF THESE DIVISIONS.

MANAGEMENT A vital component in assuring Psion's future success is to develop and strengthen the senior management team. Psion's executive team now comprises Psion's operating divisions' Managing Directors, Finance Director Marina Wyatt, Chief Technology Officer Charles Davies and Nigel Derrett who has recently joined Psion as Director of Strategy.

There have also been important managerial changes within Psion's operational divisions. Margaret Rice-Jones has been appointed Managing Director of Psion Computers after almost ten years in the cellular communications industry with Motorola. Her experience will be invaluable as the convergence of wireless and computing technologies revolutionises Psion Computers' markets. Margaret inherits a management team which has been restructured during 1999, including the appointment of new Commercial and Engineering Directors.

Gareth Hughes relinquished his post as Managing Director of Psion Dacom to assume responsibility for new operating divisions as they are formed from our business development unit or Nursery. Clive Hudson has taken on Gareth's role at Psion Dacom and brings a great wealth of experience, including eight years with 3Com and U.S. Robotics.

We have also employed two acquisitions managers to co-ordinate the Group's acquisition programme. We are committed to investing in Psion's existing staff and to recruiting and developing the next generation of senior managers. 1999's successful in-house Management Development Programme will be expanded in 2000. 2000 will also see Psion's first structured graduate recruitment programme.

STRATEGY Psion's strategy is now defined around the mobile internet created as mobile communication and computing technologies converge. Psion is ideally placed to develop and market digital products and services to people on the move – whether they are consumers or among the 40% of the workforce which is mobile.

We will focus our efforts on our core areas of competence:

- understanding future technologies
- interpreting and having a market centred vision for their application
- specification and design of products (including hardware, software and services)
- delivery of the above through partnerships

Psion will offer elements of hardware, software and services to develop solutions which meet our customers' needs. Understanding both future technologies and users' needs has been, and continues to be, key to Psion's success. Likewise Psion's design and specification skills are widely recognised, for example the Revo won Best Hardware prize at Comdex in 1999.

Partnership is a key strategic theme. Psion's future success depends on creating, developing and working in partnerships. Psion's commitment to strong partnerships is shown by our joint development and technology cross-licensing agreements with Motorola; our strategic partnership with Vodafone to develop a wireless Personal Information Manager; and, our long-term relationship with Dell. We also have close technical partnerships, for example with IBM, Sun, Citrix and Oracle to support the Psion netBook; we have manufacturing partnerships with Flextronics and Inventec; finally, Psion is also a founder partner in a new industry initiative, SyncML, to establish standards for wireless synchronisation products.

Psion's privileged position at the heart of the emerging mobile internet industry allows us to understand and support the development of the sector's new businesses and technologies. We aim to consolidate our position by making strategic acquisitions and investments. These investments should yield Psion deeper understanding and involvement in the development of emerging mobile internet technologies, as well as an attractive return on our investment.

REVIEW OF OPERATIONS As anticipated in our Interim Report, the second half of the year saw a significant improvement in performance, particularly from Psion Computers and also Psion Enterprise. Psion Dacom revenues from traditional modem sales began to decline in the second half as the anticipated switch to embedded modems accelerated. The Group's improved performance was achieved in spite of adverse component supply issues and foreign exchange challenges during the last quarter. Adverse foreign exchange rates reduced margins by £2.2m compared with 1998 exchange rates. In the second half we introduced a number of major new products : Psion Enterprise launched the netBook; Psion Computers launched the Series 5mx, the Ericsson MC218, the Revo and the Series 7; and, Psion Dacom unveiled the Infra-red travel modem as well as new Ethernet and USB products.

To improve the number and speed with which we deliver new products to market, we have increased investment in new product development across the Group. Research and Development expenditure (7% of revenues – 1999), with associated capital expenditure will increase in 2000.

Psion Computers : During the year Psion Computers' operations were substantially overhauled with tighter commercial and product development processes and management. In October we concluded the sale of our Greenford manufacturing operation to Flextronics Corporation. Partnerships with manufacturing specialists Flextronics and Inventec have allowed us to outsource volume production of all Psion Computers' products.

Psion Dacom: We indicated in February 1999 that there would be a shift from PC Card to embedded modems. Following this we reduced Psion Dacom's headcount and began a process of reshaping and rebuilding the company around a well-defined connectivity strategy. Psion Dacom has a successful long term relationship with Dell which drove the Group's improved sales to the USA in 1999. The company also leads the Group's development of Bluetooth and other connectivity technologies such as Voice over Internet Protocol (VoIP).

Psion Enterprise: After a flat first half, growth at Psion Enterprise resumed in the second half. We anticipate continued growth in 2000 around both traditional industrial markets where we will be launching new wireless versions of our established Workabout product, as well as in white collar enterprise environment with the netBook. Psion Enterprise has been at the centre of developments to support IBM, Citrix and Oracle software implementations for the netBook.

Psion InfoMedia, Psion Internet: During 1999 and early 2000 we established two new divisions, Psion InfoMedia and Psion Internet. These new business units are the first tangible results of the business development unit or Nursery group and will be overseen by Gareth Hughes.

Psion InfoMedia aims to exploit opportunities emerging in the entertainment / infotainment sector. Its first product, a Digital Audio Broadcast receiver and software management system, will be launched during the year. Psion Internet's business consolidates Psion's existing internet activities and focuses on providing wireless Personal Information Management services (PIM) and personalised content and other services for mobile professionals. We expect to partner with others for much of the content and services. We regard the implementation of GPRS as an important precursor to the business's future growth.

OUTLOOK We had good revenues in January and February, particularly at Psion Computers and Psion Enterprise. We have a rich product portfolio which should stand us in good stead for the remainder of the year, supported by an increased level of marketing spend. Psion will continue to invest in the new products required to grow our position in the future and I expect profit and loss charges relating to new products development to rise in 2000. We enter the year with an outstanding, if relatively new, management team, a strong brand name and a clear strategic focus. These are exactly the assets needed in this complex and fast growing arena. There are real challenges to resolve, both commercial and technical. Our markets are highly competitive and we are dedicated to producing products at the front of the technology wave. Risk is inherent to this approach but it offers great rewards if we continue to anticipate market needs correctly. We are working on just that.

DAVID LEVIN
Chief Executive

INVESTING FOR THE FUTURE

MARINA WYATT *Finance Director*

TURNOVER FROM CONTINUING OPERATIONS WAS £150.4M, 5% LOWER THAN IN 1998 (1998 – £158.0M). THE TRADING PERFORMANCE IMPROVED IN THE SECOND HALF OF THE YEAR GENERATING 57% OF THE YEAR'S REVENUES AS WELL AS £6.9M IN OPERATING PROFITS (EXCLUDING EXCEPTIONAL CHARGES), COMPARED WITH £0.9M IN THE FIRST HALF. PSION'S SHARE OF SYMBIAN'S NET LOSSES INCREASED SUBSTANTIALLY DURING THE YEAR TO £6.1M COMPARED WITH £1.3M IN 1998. PROFITS FOR THE YEAR REACHED £10.8M (EXCLUDING EXCEPTIONAL ITEMS AND SYMBIAN INVESTMENT) (1998 – £13.2M).

CORPORATE ACTIVITY AND STRATEGIC ALLIANCES During the year Motorola and Matsushita joined Symbian as equity partners. Psion reduced its shareholding to 28%, Ericsson, Motorola and Nokia now each hold 21% and Matsushita 9%. Symbian issued new shares to Motorola and Matsushita with the proceeds being loaned back to shareholders pro rata. As a result Psion recorded an exceptional gain in its profit and loss account of £1.5m and a further gain of £8.9m which was recognised in balance sheet reserves. In addition Psion received £15.6m as its share of the loans from Symbian.

Psion signed agreements with Motorola to develop jointly a range of new mobile internet devices, and to cross license Motorola's Tri-band cellular communications technology and Psion's 'Halla' processor. Motorola made advance payments to Psion towards the development projects which have been recognised in the balance sheet as deferred income since the projects are at an early stage. The first product from this joint development effort is expected in the first half of 2001.

Psion Dacom's long term relationship with Dell for the supply of PC Card modem products continued to generate significant revenues for the Group.

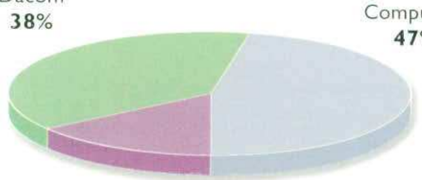
On 2nd March 2000 we announced an agreement to acquire up to a 3% interest in Quicknet Technologies, a US-based specialist in low-density internet telephony products, for a consideration of approximately $2.25 million. The consideration will be satisfied either through an issue of new Psion shares or in cash. This will facilitate development of a range of mobile Voice over IP telephony products which will be launched by Psion Dacom in the second half of this year.

REVIEW OF TRADING The trading picture was a mixed one for Psion's three product divisions. After a poor first half Psion Computers recovered well to record revenues of £70.0m for the year (1998 – £76.2m). Revenues for the second half were £45.5m, 86% up on the first half. This growth was driven by the Revo following its launch in October and by the enhanced Series 5 product, the Series 5mx.

In February 1999 we indicated that the adoption of embedded modems in notebook computers would reduce Psion Dacom's revenues. The shift had a more pronounced effect in the second half of the year than in the first. Revenues for the year of £57.2m were marginally lower than in the previous year (1998 – £59.7m).

Psion Enterprise launched the netBook in the second half with volume production commencing in January 2000. On the back of a stronger second half performance revenues for the year of £23.2m were 5% ahead of 1998 (1998 – £22.1m).

TURNOVER BY PRODUCT GROUP %

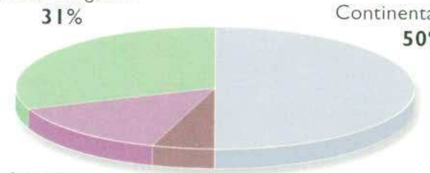


An exceptional charge of £1.1m was taken against the disposal of production machinery when Psion Computers outsourced its manufacturing plant at Greenford. An exceptional property provision of £0.6m was recorded against contractual dilapidations commitments at Psion's headquarters in central London.

Adverse foreign exchange rates depressed profits by approximately £2.2m compared with 1998. This reduced the group's gross margin by 1% to 33% (1998 – 34%). In addition there were sharp price rises in memory chips, screens and in certain capacitors in the last quarter which also reduced margins. Prices remain high for these components in the first months of 2000 and the continued weakness of the Euro remains a concern.

Sales in overseas markets increased to 68% of total sales with growth in all of Psion's major European continental markets. Sales in the US grew by 24%, driven by Psion Dacom's Dell business.

TURNOVER BY DESTINATION %

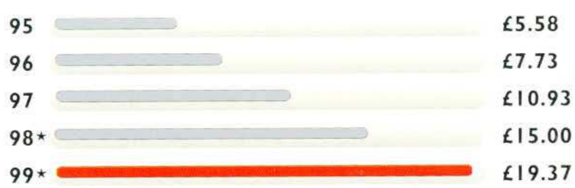


BALANCE SHEET AND CASH FLOW Cash balances increased to £80.7m from £54.1m. The increase included £15.6m of loans received from the Symbian joint venture; a portion of these funds will be drawn down by Symbian during 2000. Reductions in working capital generated £4.8m of cash. Capital expenditure of £6.3m (1998 – £8.0m) was lower than the prior year when there was significant investment in buildings and in production machinery. Net assets increased during the year from £93.8m to £105.5m.

RESEARCH AND DEVELOPMENT Research and development in Psion's three product divisions rose to £10.7m (1998 – £7.5m) on the basis of continuing operations. Taken with Psion's share of Symbian's operating costs, research and development expenditure for the year was £19.4m (1998 – £15.0m). At year end, Psion employed 132 people in research and development (1998 – 111). In 2000 investment will rise further across all divisions to enable development of a range of connected devices and solutions. There will also be increased investment in Symbian and in two newly-established divisions, Psion InfoMedia and Psion Internet.

RESEARCH & DEVELOPMENT EXPENDITURE

in £millions



* Includes share of Symbian's operating expenses

TREASURY, TAX AND EPS The Group's exposure to foreign exchange fluctuations is in part naturally hedged since the majority of purchased components originate from overseas. The principal exposures are to the Euro and dollar, and to the yen for component purchases. Psion operates a centralised treasury function to manage its exposure to foreign currency fluctuations. As a matter of policy, the company seeks to minimise its foreign exchange risk through entering into forward exchange contracts to protect its foreign currency denominated cash flows. 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 although the cash flows which arise in these subsidiaries are protected by forward exchange contracts.

The overall tax charge for 1999 was reduced by a minimal tax charge on the exceptional gain.

Adjusted earnings per share was 3.94p (1998 – 10.93p). The Directors consider that this measure reflects Psion's underlying business performance. Basic earnings per share for the year was 4.29p as a result of the exceptional gain made during the year.

As a result of changes in Government legislation both Psion and Symbian have started to accrue for National Insurance payable on the exercise of share options. Depending on respective valuations of the companies these charges could have an effect on profits in future years.

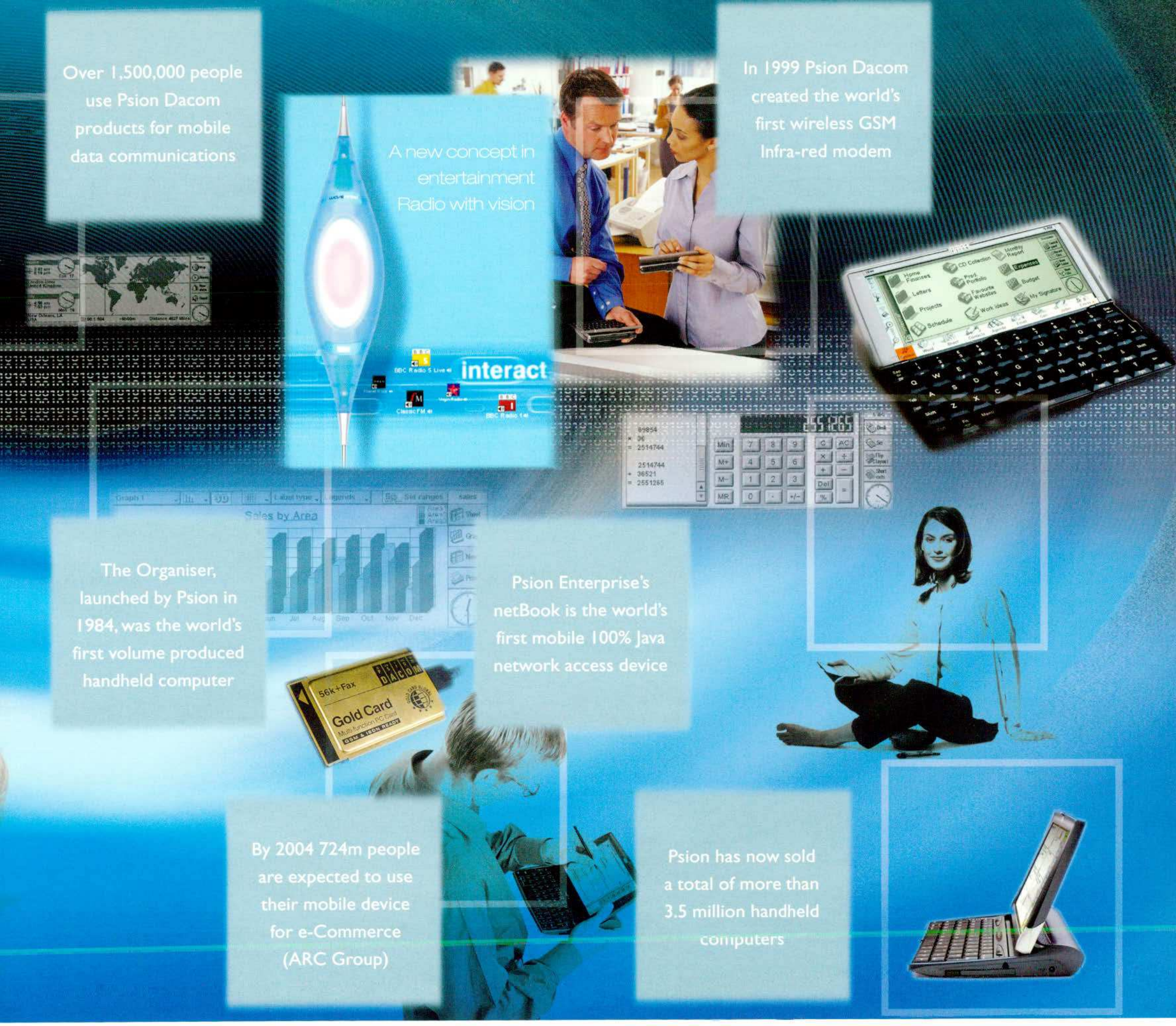
YEAR 2000 An extensive Year 2000 project was completed during 1999 and January 1st 2000 passed with minimal disruption to internal systems, Psion's products and to the supply chain.

ACCOUNTING POLICIES AND STANDARDS During the year a number of Financial Reporting Standards (FRSs) were issued. These have been implemented where required. Disclosure regarding foreign currency and interest rate risk has been increased to comply with FRS 13 Financial Instruments and Derivatives.

The accounting policies adopted during the year were consistent with those applied during 1998.

MARINA WYATT
Finance Director

PSION CREATES INNOVATIVE SOLUTIONS ADDRESSING REAL CUSTOMER NEEDS....



PSION WILL SHAPE AND LEAD THE MOBILE INTERNET AGE BY DELIVERING DISTINCTIVE MOBILE INTERNET SOLUTIONS AND DEVICES TO PEOPLE AND ORGANISATIONS.

1999[1] BY THE END OF 2003, MORE THAN ONE BILLION PEOPLE ARE PREDICTED TO BE USING MOBILE PHONES. OF THESE, MORE THAN 100 MILLION WILL BE WIRELESS INFORMATION DEVICES (INDUSTRY ESTIMATES).

1999[2] THE PSION REVO, LAUNCHED IN OCTOBER 1999, WON BEST HARDWARE PRODUCT AT NORTH AMERICA'S LARGEST IT TRADE SHOW, COMDEX.

PSION COMPUTERS

OPERATIONAL REVIEW Psion Computers introduced three new products during the second half of 1999, the Revo, Series 7 and Series 5mx, the latter being a significant enhancement of the original Series 5. The products were all highly acclaimed by the market and press with the Revo winning Best Hardware Product at Comdex (North America's leading IT trade show) in November. In addition, the company created the MC218, a variant of the Series 5mx for Ericsson.

The company's management has been substantially restructured during the year with the appointment of Margaret Rice-Jones as Managing Director, as well as new engineering and commercial directors. Margaret Rice-Jones' almost ten years' experience with Motorola's Communications division will be vital as Psion Computers' markets are revolutionised by the convergence of computing and mobile communication technologies.

Psion Computers works in a variety of partnerships. The company has a joint development partnership with Motorola for a range of Symbian-powered on-line palmtop products, the first product will be launched in the first half of 2001. The company also has close manufacturing partnerships, with Flextronics International, who produce the Series 5mx and certain other Psion products, and with Taiwan-based manufacturer Inventec, who manufacture the Revo.

With a restructured management team, a successful new product range and enhanced operational and strategic focus, Psion Computers is well positioned for growth in 2000.

PUTTING THE INTERNET IN YOUR POCKET...

PSION COMPUTERS WORKS IN PARTNERSHIP TO DESIGN, DEVELOP AND MARKET MOBILE INTERNET PRODUCTS FOR CONSUMER AND ENTERPRISE MARKETS. KEY PRODUCTS ARE REVO, SERIES 5MX AND SERIES 7. AS THE INVENTOR OF HANDHELD COMPUTING, PSION COMPUTERS HAS A UNIQUE UNDERSTANDING OF CUSTOMER NEEDS IN THE MOBILE ENVIRONMENT, AND HAS THE EXPERIENCE, DESIGN AND TECHNOLOGY SKILLS TO DEVELOP PRODUCTS TO MEET THOSE NEEDS. BASED IN LONDON, UNITED KINGDOM, THE COMPANY WORKS WITH ITS GLOBAL DISTRIBUTION NETWORK TO MARKET ITS PRODUCTS WORLDWIDE.

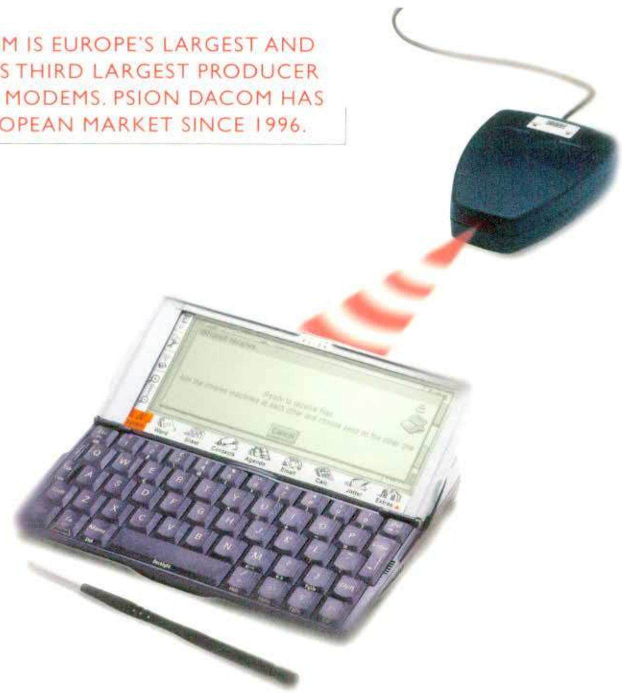
1999[3]
THE MARKET FOR MOBILE DEVICES WAS ESTIMATED TO BE WORTH $5BN IN 1999. WITH THE ADVENT OF MOBILE INTERNET ACCESS DEVICES, THE MARKET WILL DOUBLE TO MORE THAN $10BN BY 2003 (IDC).

1999[4]
FOUNDED IN 1980, PSION HAS BEEN CREATING INNOVATIVE HANDHELD COMPUTING SOLUTIONS LONGER THAN ANY OTHER COMPANY.

1999[5]
IMODE, THE JAPANESE MOBILE INTERNET SERVICE, HAS SIGNED UP MORE THAN 4 MILLION USERS SINCE IT WAS FORMED IN EARLY 1999 (ARC GROUP).

1999[1]

PSION DACOM IS EUROPE'S LARGEST AND THE WORLD'S THIRD LARGEST PRODUCER OF PC CARD MODEMS. PSION DACOM HAS LED THE EUROPEAN MARKET SINCE 1996.



PSION DACOM

OPERATIONAL REVIEW 1999 was a year of consolidation and transition for Psion Dacom. As anticipated, during 1999 the increasing use of modems built into notebook computers reduced PC Card modem sales, resulting in a 4% decline in revenues. However the company has restructured and refocused its strategy towards the many opportunities in emerging mobile internet markets.

In early 2000, Gareth Hughes, Psion Dacom's Managing Director since 1994, took up the new challenge of overseeing Psion's new divisions, Psion Internet and Psion InfoMedia. His successor is Clive Hudson who brings a wealth of experience, including eight years with 3Com and U.S. Robotics.

Strategic relationships with major PC vendors including Dell and Toshiba were further developed during the year, with several commercial opportunities for new wireless products identified. The product range was strengthened during 1999 with the launch of a Fast Ethernet CardBus range of Gold Cards as well as the new Gold Port range of USB Solutions, and enhanced Ethernet and ISDN products for notebook computers.

During the year the GSM data wireless connectivity product range was expanded with solutions for new handsets. Further innovation in wireless data-communications was demonstrated with the launch of the Psion 56k Travel Modem with GSM, the world's first wireless infra-red modem with GSM data support. It provides customers with a complete mobile internet solution when used with a handheld computing devices such as the new Psion Revo.

Much progress has been made in 1999 in product development. Psion Dacom leads Psion's development of evolving wireless technologies such as Bluetooth Voice over Internet Protocol and GPRS. Looking forward, Psion Dacom is well positioned for the emerging mobile internet age to offer users simple solutions to their increasingly complex communications needs.

PSION DACOM PLC – A WORLD LEADER IN MOBILE DATA COMMUNICATIONS – AIMS TO MAKE CUTTING-EDGE WIRELESS CONNECTIVITY PRODUCTS WHICH ARE SIMPLE AND RELIABLE TO USE. THE COMPANY EMPLOYS 300 PEOPLE AT ITS HEADQUARTERS IN MILTON KEYNES, UNITED KINGDOM, WHERE IT DESIGNS, MANUFACTURES AND MARKETS ALL ITS PRODUCTS. AS AN ISO 9002 ACCREDITED COMPANY, PSION DACOM'S PRODUCTS ARE ENGINEERED TO THE HIGHEST QUALITY STANDARDS TO MEET THE DEMANDS OF TODAY'S MOBILE COMMUNICATIONS ENVIRONMENT.

UNLIMITED CONNECTIVITY...

1999[2]
BY 2005 BLUETOOTH WIRELESS TECHNOLOGY WILL BE BUILT INTO MORE THAN 670 MILLION PRODUCTS PER YEAR (CAHNERS INSTAT GROUP).

1999[3]
SHIPMENTS OF USB PERIPHERALS WILL GROW FROM 26 MILLION IN 1998 TO ALMOST 500 MILLION BY 2003 (DATAQUEST).

1999[4]
BY 2003, THERE WILL BE AROUND 500M MOBILE DATA USERS GLOBALLY. (ARC GROUP)

PSION ENTERPRISE COMPUTING DESIGNS, MANUFACTURES AND SUPPORTS MOBILE SYSTEMS WHICH PROVIDE MOBILE ACCESS TO ENTERPRISE-WIDE DATA AND COMMUNICATIONS. THE COMPANY OFFERS ALL PSION PRODUCTS BUT ITS OWN RANGES INCLUDE THE AWARD WINNING WORKABOUT RANGE FOR COMMERCIAL AND INDUSTRIAL ENVIRONMENTS, AND THE NETBOOK FOR PROFESSIONAL AND CORPORATE MARKETS. THE COMPANY FOCUSES ON FIELD SERVICE, TRANSPORT AND LOGISTICS, FINANCE, INSURANCE AND WAREHOUSING APPLICATIONS. BASED NEAR OXFORD AND EMPLOYING 200 PEOPLE, PSION ENTERPRISE MARKETS ITS PRODUCTS THROUGH A WORLDWIDE NETWORK OF DISTRIBUTORS AND VALUE ADDED RESELLERS.

PSION ENTERPRISE

OPERATIONAL REVIEW In 1999 Psion Enterprise continued to develop its successful industrial handheld business based around the Workabout product range. In addition, the company also invested in development of its professional and corporate business based around the netBook family of products. The company's objective is to become a provider of enterprise-wide information management solutions.

The Workabout's flexibility has allowed the company to enter significant new markets by adding new functionality to meet emerging customer needs. Wireless tag identification and data transmission in particular are helping the company deliver mobile computing solutions which enable customers to add real value to their business operations.

Audi and BMW salesforces in Germany are using the Series 5 to complete and automatically transmit customers' vehicle configuration information to their distributors. In France, Calberson are using Psion Workabouts to enable delivery of logistics information to customers – resulting in faster invoicing and more accurate information about shipment status. In South America Coca Cola are using Workabouts to manage van sales and delivery processes more effectively. The Polish Forestry Commission has implemented a Workabout-based solution to improve information collection and analysis in its forestry management systems.

The new netBook product family represents a major investment in the company's opportunities in wider corporate markets. The company's newest product, the netPad, was also showcased at the CeBit trade show in early 2000. The netBook was launched – together with its sister product the Series 7 – towards the end of 1999. Psion also added major alliances to its global partners program to include IBM, Sun, Oracle and Citrix, all of whose software now runs on the netBook. With these partnerships and with 100% Java compatibility the netBook offers corporate users the first genuine alternative to the laptop for access to corporate applications whilst on the move. Psion Enterprise is well placed to grow during 2000 as it moves into these emerging markets.

MOBILE INTERNET SOLUTIONS FOR THE ENTERPRISE...

1999[1]
BY 2003 THE NUMBER OF MOBILE E-COMMERCE USERS WILL EXCEED THE NUMBER OF FIXED E-COMMERCE USERS. (ARC GROUP)

1999[2]
MORE THAN 40% OF THE WORKFORCE IN DEVELOPED ECONOMIES IS NOW MOBILE.

1999[3]
THERE ARE MORE THAN 1 MILLION JAVA SOFTWARE DEVELOPERS WORLDWIDE (SUN MICROSYSTEMS). 100% PURE JAVA TECHNOLOGY IS BUILT INTO PSION ENTERPRISE'S NETBOOK PRODUCT RANGE.

1999[4]
PSION ENTERPRISE'S NETBOOK IS THE WORLD'S FIRST MOBILE NETWORK COMPUTER. IT ENABLES CORPORATIONS TO EXTEND TRADITIONAL ENTERPRISE SYSTEMS TO GIVE EMPLOYEES ON THE MOVE ACCESS TO CORPORATE NETWORKS.

OPERATIONAL REVIEW Symbian made good progress in 1999 both operationally and in developing partnerships across the wireless industry to promote co-operation and innovation in emerging WID markets and technologies.

In May 1999 Matsushita (better known as Panasonic) joined Symbian as its fifth equity partner, strengthening Symbian's presence in the Asia Pacific region. During the year Symbian grew to more than 430 employees, notably through the acquisition of Ericsson's Mobile Applications Laboratory, a key software competence centre in Ronneby, Sweden.

During 1999 and early 2000 Symbian signed significant co-operative technology agreements with many wireless industry leaders, including IBM, Lotus, Qualcomm, Oracle, Texas Instruments, RSA Security, Lernout and Hauspie. Particularly notable were agreements with Sun to incorporate Java technology within the Symbian platform and with Japanese mobile network giant NTT DoCoMo to jointly develop wireless applications and solutions.

Third party developer support for Symbian's platform expanded substantially in 1999 through the Symbian Developer Network. With free web-based support and conferences world-wide, Symbian had more than 18,000 independent software developers by the end of 1999.

SYMBIAN

A NEW INITIATIVE IN PARTNERSHIP...

In creating an industry technology standard, Symbian's objective is to enable the development of the market for wireless information devices. This market is potentially very substantial; industry estimates suggest more than a billion people will be using mobile phones by 2003, between 10% and 15% of whom are predicted to be using Smartphones or Communicators. In 1999 Symbian's licensees launched products which realise the potential of mobile internet. Psion announced two palmtop products, the Series 5mx and the Revo, while Ericsson launched the first Symbian-based Smartphone, the R380, as well as a palmtop, the MC218.

Symbian's open approach allows licensees to innovate around the Symbian platform to create a wide range of devices to meet all mobile users' needs. For example Nokia will use the Palm user interface for a Smartphone based on the Symbian technology platform.

In 2000 Symbian will release the first versions of its platform to fully integrate computing and communications technologies. Products based on this platform will begin to enter the market during the latter half of 2000 and early 2001.

Symbian's mission is to establish the standard for mobile wireless operating systems and to help develop a mass market for Wireless Information Devices.

SYMBIAN IS A SOFTWARE LICENSING COMPANY ESTABLISHED IN JUNE 1998. SYMBIAN IS JOINTLY OWNED BY: PSION 28%; ERICSSON, MOTOROLA, NOKIA 21% EACH; MATSUSHITA 9%. THE COMPANY'S PRINCIPAL ASSET IS THE SYMBIAN PLATFORM WHICH INCORPORATES AN ADVANCED 32-BIT OPERATING SYSTEM, APPLICATIONS AND USER INTERFACES ORIGINALLY DEVELOPED BY PSION. THIS TECHNOLOGY IS BEING LICENSED TO MANUFACTURERS TO ENABLE THEM TO CREATE A NEW OF GENERATION OF PRODUCTS WHICH WILL GIVE MOBILE DEVICES WIRELESS ACCESS TO SERVICES SUCH AS E-MAIL, CORPORATE INFORMATION, THE INTERNET AND MOBILE E-COMMERCE. THESE PRODUCTS ARE KNOWN AS WIDS OR WIRELESS INFORMATION DEVICES. AT THE END OF 1999 SYMBIAN EMPLOYED 438 STAFF AT ITS HEADQUARTERS IN LONDON AND OFFICES IN TOKYO AND KANAZAWA, JAPAN; RONNEBY, SWEDEN; CAMBRIDGE, UK AND SAN FRANCISCO BAY AREA, USA.

The company aims to maximise long term value by:

- developing core software, application frameworks and application development tools for Wireless Information Devices (WIDs).
- working across the mobile internet industry to agree and promote industry standards to ensure compatibility across all WIDs, network operators, content services, messaging and enterprise-wide solutions.

WHAT

symbian is...

DIRECTORS

DAVID POTTER, M.A. (Cantab.), Ph.D., CBE
Chairman

David Potter, aged 56, founded Psion in 1980. As Chairman and Chief Executive he led Psion through 19 years of rapid growth. With the appointment of David Levin as Chief Executive, David focuses on his role as Chairman of Psion and of Symbian's Supervisory Board. David is a Board member of both the Higher Education Funding Council for England and the Government advisory body, the Committee for Science and Technology.

MARINA WYATT, M.A. (Cantab.), ACA
Finance Director

Marina Wyatt, aged 36, joined Psion in 1994 from Arthur Andersen. She was appointed to the Board as Group Financial Director in November 1996. She is a member of Symbian's Supervisory Board and is also a Non-Executive Director of Blackwell Science Limited.

DAVID LEVIN, M.A. (Oxon), MBA (Stanford, CA)
Chief Executive

David Levin, aged 38, joined Psion as Chief Executive in February 1999 after five years with Euromoney Institutional Investor PLC, most recently as Chief Operating Officer and previously as President, Institutional Investor Inc. based in New York. David spent 4 years with Apax Partners running the UK division of a portfolio engineering company, having previously spent 5 years with Bain & Co. in Asia and the United States.

CHARLES DAVIES, B.Sc., Ph.D

Charles Davies, aged 46, 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. In June 1998, following an interim year as Managing Director of Psion Computers, he returned to his previous role of Chief Technology Officer to focus on technology and business development.

DANIEL FISZMAN
Non-Executive Director

Daniel Fiszman, aged 55, has wide business experience in the diamond industry, property investment and finance. He is also a Director of Arsenal Football Club.

GARETH HUGHES

Gareth Hughes, 36, joined Psion in 1989 having previously worked for Dun & Bradstreet and GEC. In 1994 Gareth was appointed as Managing Director of Psion Dacom, a post he held until early 2000. He was appointed to the Board of Psion PLC in 1997 and now has responsibility for the Group's new businesses, Psion Internet and Psion Infomedia.

ANDREW CLEGG, B.SC.

Andrew Clegg, aged 45, 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 (subsequently renamed Psion Enterprise) on its formation in July 1996.

SIR JOHN FAIRCLOUGH
Non-Executive Director

Sir John Fairclough, aged 69, 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.

BARRIE MORGANS
Non-Executive Director

Barrie Morgans, aged 58, joined the board in May 1998. He was Chairman and Chief Executive of IBM UK Holdings Ltd having also held executive responsibility for a wide range of IBM activities in both the UK and Europe. He is Non-Executive Chairman of Plasmon PLC, Azlan Group PLC, IBM Pensions Trust Ltd and a Non-Executive Director of Legal and General Group PLC.

ADVISORS

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

Corporate Stockbrokers

CSFB de Zoete & Bevan Ltd
One Cabot Square
London
E14 4QJ

Auditors

Arthur Andersen
Chartered Accountants
1 Surrey Street
London WC2R 2PS

Solicitors

Slaughter & May
35 Basinghall Street
London EC2V 5DB

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

Clyde & Co.
51 Eastcheap
London
EC3M 1JP

Registrars and Transfer Agents

Lloyds Bank Registrars
The Causeway
Worthing
West Sussex BN99 6DA

CORPORATE CALENDAR 2000

Annual General Meeting	*5th May 2000*
Payment of 1999 Final Dividend	*12th May 2000*
Announcement of 2000 Interim Results	*September 2000*
Payment of 2000 Interim Dividend	*October 2000*
Announcement of 2000 Final Results	*March 2001*

ACCOUNTS CONTENTS

DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR ANNUAL REPORT ON THE AFFAIRS OF THE GROUP, TOGETHER WITH THE ACCOUNTS AND AUDITORS' REPORT, FOR THE YEAR ENDED 31ST DECEMBER 1999.

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, through its interest in a joint venture, the Group is involved in the research into, development and licensing of software platforms.

RESULTS AND DIVIDENDS

The audited financial statements for the year ended 31st December 1999 are set out on pages 37 to 61. Profit on ordinary activities after taxation was £3,312,000 (1998 – £18,679,000).

A review of the business of the Group is given on pages 5 to 13.

The Directors recommend a final dividend of 2.2p per share (1998 – 2.0p) on all Ordinary shares in issue on 13th March 2000. Together with an interim dividend of 0.9p (1998 – 0.8p) per share paid on 18th October 1999, this makes a total dividend for the year of 3.1p (1998 – 2.8p).

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 £10,730,000 (1998 – £11,326,000), which, in line with established accounting policies, was written off to the Profit and Loss Account as incurred.

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, D.D. Fiszman (Chairman), Sir John Fairclough and J.B. Morgans. The Audit Committee deals directly with the Group's Business Risk Manager and external auditors and oversees the discharge of the Directors' responsibilities as set out on page 35.
2) Remuneration Committee
   The Remuneration Committee is a formally constituted sub-committee of the Board. Its members comprise the Group's Non-Executive Directors, D.D. Fiszman (Chairman), Sir John Fairclough and J.B. Morgans. 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, D.D. Fiszman, Sir John Fairclough and J.B. Morgans. The Nomination Committee recommends to the Board new appointments, whether of Executive or Non-Executive Directors.

DIRECTORS

The Directors who served during the year were as follows:

D.E. Potter
A. Clegg
C.W. Davies
H.C.A. Goddijn *(resigned 21st April 1999)*
G.J. Hughes
I. Joffe *(resigned 13th December 1999)*
D.S. Levin *(appointed 22nd February 1999)*
M.M. Wyatt
D.D. Fiszman
Sir John Fairclough
J.B. Morgans

Directors (continued)

D.S. Levin was appointed to the Board on 22nd February 1999. His service agreement may be terminated on or after 22nd February 2001 upon giving twelve months' notice. A. Clegg and D.E. Potter, who are eligible for re-election at this year's Annual General Meeting, have a twelve month unexpired period on their service contracts. D.D. Fiszman, Non-Executive Director, is also eligible for re-election. He is engaged under the terms of a three year letter of appointment which may be terminated, without compensation, at any time by either party on giving three months' notice. Sir John Fairclough will retire as a director at this year's Annual General Meeting and P. Ogden will be proposed as a Non-Executive Director at that Meeting.

Directors' Transactions

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

Substantial Shareholdings

On 29th February 2000, the following, excluding directors' shareholdings, 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	3,504,224	4.51
Henderson Investors	2,775,122	3.57
Wellington Management Company	2,381,941	3.07

The interests of the Directors, their families and any connected persons in the issued share capital of the Company are shown on page 46.

Fixed Assets

Information relating to changes in fixed assets is given in notes 11 to 13 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 1999 the number of days of annual purchases represented by the year end creditors for the Group amounted to 64 days (1998 – 57 days) and for Psion PLC, the holding company, amounted to nil days (1998 – 19 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.

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, Sharesave scheme, share option schemes and performance related bonuses.

Charitable Donations

The Group contributed £25,000 to charities during the year (1998 – £36,000). No contributions have been made to political parties.

Annual General Meeting

The Notice describing the ordinary and special business to be dealt with at the Company's Annual General Meeting to be held on 5th May 2000 is set out at the end of the enclosed circular to shareholders. The special business will include resolutions to effect the bonus issue, to authorise directors to allot shares in the Company and to enable the introduction of a new All Employee Share Scheme.

Auditors

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

DIRECTORS' REPORT

Statement of Compliance with the Code of Best Practice

The Company has complied throughout the year with the Provisions of the Code of Best Practice set out in section 1 of the Combined Code except for the following matters:

The Role of Chairman and Chief Executive

The Company supports the concept of a division of responsibilities of the head of the Company. The Company complies with this provision with David Potter, as Executive Chairman, being responsible for running the Board, whilst David Levin, as Chief Executive (following his appointment on 22nd February 1999), is responsible for running the Company's business. Prior to David Levin's appointment, David Potter combined the role of Chairman and Chief Executive.

Board Balance

The Company's Board is comprised of nine Directors, three of whom are Non-Executive Directors: Danny Fiszman, Sir John Fairclough and Barrie Morgans. Danny Fiszman is the senior Non-Executive Director. Although the Non-Executive Directors represented less than one-third of the Board during certain periods of the year they have always provided a significant influence over the Board's decision-making process. The Board proposes that Peter Ogden be appointed as an additional Non-Executive Director upon Sir John Fairclough's retirement from the Board at this year's Annual General Meeting.

The Board considers that all three Non-Executive Directors are independent of management and free from any business or other relationship that could materially interfere with their independent judgement, notwithstanding that Danny Fiszman is a significant shareholder in the Company.

Statement about applying the Principles of Good Governance

The Company has applied the Principles of Good Governance as set out in section 1 of the Combined Code by complying with the Code of Best Practice as reported above. Further explanation of how the Principles have been applied is set out below and, in connection with Directors' remuneration, in the Remuneration Report.

Board Effectiveness

The Board continually reviews the effectiveness with which it operates in order to maximise the benefit to the Company and its shareholders. The Company holds a Board Meeting every month and the Executive Directors meet regularly to address operational management issues. Meetings are held to define and reassess the Company's strategy and the Board seeks the active participation of its staff and advisers in helping to formulate that strategy.

Timeliness and Quality of Board Information

The Board has sought to ensure that the Directors are properly briefed on issues arising at board meetings distributing board papers sufficiently in advance of meetings; considering the adequacy of the information provided before making decisions; and deferring decisions when Directors have concerns about the information available to them. The Board acknowledges the importance of accurate and timely information and its rapid dissemination to relevant staff. It continues to promote the development and use of Company knowledge databases and the Group intranet.

Transparency of Board Appointments

In the Board's view the appointment of David Levin shows how the Board follows formal and transparent procedures when appointing Directors. In particular, the Nomination Committee instructed external consultants to identify a short-list of suitable candidates. All the candidates were interviewed by at least two members of the Committee and evaluations of all candidates were circulated to all members of the Nomination Committee. The Nomination Committee was unanimous in recommending the appointment to the Board.

Regular Re-election of Directors

Directors are subject to re-election every three years as required by the Provisions of the Code of Best Practice. Biographical details of the Directors are set out on pages 26 and 27.

Dialogue with Institutional Shareholders

The Board acknowledges the importance of an open dialogue with its institutional shareholders. The Company makes presentations to them and communicates regularly throughout the year.

Constructive use of AGM

The Board would like private investors to be given a greater opportunity to understand the business and believes that, in addition to the Annual Report and the Company's website, the AGM is an ideal forum at which to communicate with investors and encourage their participation. The AGM not only deals with the formal business of the Company, but provides shareholders with the opportunity to hear the Chairman's views on the business and an explanation of the Group's performance over the last year in more detail.

Balanced and Understandable Assessment of Position and Prospects

The Board has shown its commitment to presenting balanced and understandable assessments of the Company's position and prospects by seeking wherever possible to use plain English.

Maintenance of a Sound System of Internal Control

In applying the principle that the Board should maintain a sound system of internal control to safeguard shareholders' investments and the Group's assets, the Directors are responsible for the Group's system of internal controls, financial and otherwise, recognising that such a system can only provide reasonable and not absolute assurance against material misstatement or loss.

In September 1999, the Turnbull Committee published further guidance for Directors on the Combined Code. This extended the Directors' review of the effectiveness of internal financial controls to encompass all control aspects such as operational, compliance and risk management. Following the appointment of a Group Risk Manager and prior to the publication of the guidance, the Group had already initiated a programme of risk management reviews across all its companies. Consequently, the Board confirms that procedures have been established to implement the Turnbull guidance, such that they can comply with it for the accounting period ending on 31 December 2000.

Directors of the Group companies have identified the major financial, operational and compliance risks facing each business. Nevertheless, the Directors have taken advantage of the London Stock Exchange's transitional rules and for 1999 continued to review internal financial controls in accordance with ICAEW's 1994 guidance note Internal Control and Financial Reporting.

The key features of the internal financial control system that operated throughout the period covered by the accounts are described below.

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 for 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.

Appropriate Audit Committee Responsibilities and Relationships with Auditors

The Board is committed to formal and transparent arrangements for financial reporting, internal control and external audit. The Audit Committee's terms of reference also cover the Group's risk management activities as a whole and not just the financial aspects of internal control.

Remuneration Report

As well as complying with the Provisions of the Code as disclosed in the Company's corporate governance statements, the Board has applied the Principles of Good Governance relating to Directors' remuneration as described below.

The Level and Composition of Directors' Remuneration

The Board considers that it provides the necessary remuneration to attract and retain the Directors needed to run the Company successfully. Having benchmarked the Directors' remuneration against quoted technology companies, the Company believes that the Directors' remuneration is reasonable.

DIRECTORS' REPORT

Procedures for Developing Policy and Fixing Remuneration

The members of the Remuneration Committee are disclosed on page 30. The Board has shown its commitment to formal and transparent procedures for developing remuneration policy, fixing executive remuneration and ensuring that no Director is involved in deciding their own remuneration by referring to external consultants' reports on Executive Directors' pay trends.

Statement of Remuneration Policy and Details of Remuneration

Full details of the remuneration packages of individual Directors and information on share options and pension benefits are set out in note 7 to the accounts.

In determining the remuneration of Executive Directors, the Remuneration 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 (in the form of bonuses and share options) is performance related and dependent on achieving specific personal objectives and Group profitability targets. 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 Executive Directors having regard to personal performance and achievement of objectives. Share options are granted at the prevailing market price. New performance criteria attach to the exercise of all options granted after September 1999. 'Basic options' (options of up to four times annual earnings) will be exercisable between 3 and 10 years from grant, and will be exercisable if the adjusted earnings per share growth of the Company over the life of the option has exceeded the growth in the Retail Prices Index by an average of at least 3% per annum. 'Super options' (options of between four and ten times annual earnings) will be exercisable between 3 and 10 years from grant, and will be exercisable if the adjusted earnings per share growth of the Company over the life of the option has exceeded the growth in the Retail Prices Index by an average of at least 5% per annum. Options granted prior to September 1999 contain a variety of performance criteria.

The Executive Directors have service agreements that are terminable upon no more than twelve months notice. David Levin's contract dated 22nd February 1999 provides him with an initial 2 year contract which then becomes terminable by twelve months notice either on or after the second anniversary of the commencement. This complies with provision B1.8 of the Code which allows for externally recruited Directors to have a longer notice period longer than twelve months in length which then reduces after the initial period.

The remuneration of the Non-Executive Directors is determined by the Board as a whole, based on outside advice and review of current practices in other companies.

1 Red Place
London W1Y 3RE
2nd March 2000

By Order of the Board
A.J. Bodenham
Company Secretary

DIRECTORS' RESPONSIBILITIES

Accounts, including adoption of going concern basis

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

In preparing the accounts, the Directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

Other Matters

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 accounts 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' REPORT

To the Shareholders of Psion PLC

We have audited the accounts on pages 37 to 61 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 41 to 42.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including as described on page 35, preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company and the Group is not disclosed.

We review whether the corporate governance statement on pages 32 to 34 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts 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 accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31st December 1999 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
2nd March 2000

CONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 1999

	Notes	1999 £000s	1998 £000s
GROUP TURNOVER			
Continuing operations		150,417	158,044
Discontinued operations		-	1,816
	2	150,417	159,860
Cost of sales	3	(100,773)	(105,643)
GROSS PROFIT		49,644	54,217
Exceptional operating expenses	3	(1,733)	–
Other operating expenses (net)	3	(41,886)	(43,110)
GROUP OPERATING PROFIT			
Continuing operations		6,025	14,477
Discontinued operations		-	(3,370)
		6,025	11,107
Share of operating loss of joint venture		(7,017)	(1,614)
Share of operating (loss) profit of associates		(10)	241
Exceptional gains	25	1,532	11,387
PROFIT BEFORE INTEREST		530	21,121
Net interest receivable	4	3,082	1,838
Share of net interest receivable of joint venture		942	303
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	4,554	23,262
Tax on profit on ordinary activities	8	(1,242)	(4,583)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		3,312	18,679
Dividends	9	(2,403)	(2,144)
RETAINED PROFIT		909	16,535
BASIC EARNINGS PER SHARE	10	4.29p	24.62p
ADJUSTED BASIC EARNINGS PER SHARE	10	3.94p	10.93p
DILUTED EARNINGS PER SHARE	10	4.23p	24.27p

The Group's share of joint venture turnover was £2,198,000 (1998 – £603,000).

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 1999

	Notes	1999 £000s	1998 £000s
RETAINED PROFIT FOR THE YEAR		909	16,535
Gain on investment in joint venture	25	8,853	21,957
Currency translation differences on foreign currency investments		(310)	207
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR		9,452	38,699

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 1999

	Notes	1999 £000s	1998 £000s
Fixed Assets			
Goodwill	11	2,151	2,269
Tangible assets	12	16,231	19,777
Investments in joint venture			
– share of gross assets		23,695	17,444
– share of gross liabilities		(3,326)	(2,985)
	13	20,369	14,459
– loan to joint venture	13	3,000	3,000
Other investments	13	118	170
		41,869	39,675
Current Assets			
Stocks	14	11,142	12,652
Debtors	15	28,373	26,984
Cash at bank and in hand		80,703	54,112
		120,218	93,748
Creditors: Amounts falling due within one year	16	(55,525)	(38,352)
Net Current Assets		64,693	55,396
Total Assets Less Current Liabilities		106,562	95,071
Creditors: Amounts falling due after more than one year	17	(70)	(402)
Provisions for Liabilities and Charges	18	(1,022)	(867)
Net Assets		105,470	93,802
Capital and Reserves			
Called-up share capital	19	3,882	3,841
Share premium account	20	30,660	25,346
Revaluation reserve	20	612	612
Other reserves	20	(570)	(260)
Profit and loss account	20	70,886	64,263
Total Equity Shareholders' Funds	21	105,470	93,802

Signed on behalf of the board on 2nd March 2000

M.M. Wyatt Director

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

COMPANY BALANCE SHEET

AS AT 31ST DECEMBER 1999

	Notes	1999 £000s	1998 £000s
Fixed Assets			
Tangible assets	12	2,307	2,709
Investments	13	21,253	20,578
		23,560	23,287
Current Assets			
Debtors	15	6,870	9,308
Cash at bank and in hand		78,897	44,180
		85,767	53,488
Creditors: Amounts falling due within one year	16	(31,693)	(6,945)
Net Current Assets		54,074	46,543
Total Assets Less Current Liabilities		77,634	69,830
Provisions for Liabilities and Charges	18	(822)	(167)
Net Assets		76,812	69,663
Capital and Reserves			
Called-up share capital	19	3,882	3,841
Share premium account	20	30,660	25,346
Revaluation reserve	20	612	612
Profit and loss account	20	41,658	39,864
Total Equity Shareholders' Funds	21	76,812	69,663

Signed on behalf of the board on 2nd March 2000

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 1999

	Notes	1999 £000s	1998 £000s
Group operating profit		6,025	11,107
Depreciation charges		8,196	8,374
Loss on sale of tangible fixed assets		789	22
Decrease in stocks		1,510	7,140
Increase in debtors		(865)	(5,153)
Increase in creditors		4,159	7,741
NET CASH INFLOW FROM OPERATING ACTIVITIES		19,814	29,231
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		3,256	1,418
Interest paid		(33)	(34)
Interest element of finance lease rental payments		(42)	(98)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		3,181	1,286
TAXATION PAID	22	(6,636)	(3,941)
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		(5,986)	(8,281)
Sale of tangible fixed assets		948	228
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE		(5,038)	(8,053)
ACQUISITIONS AND DISPOSALS			
Purchase of subsidiary undertaking		-	(856)
Sale of interest in subsidiary and assets		-	18,646
Sale of interest in joint venture	25	199	-
NET CASH INFLOW FROM ACQUISITIONS AND DISPOSALS		199	17,790
EQUITY DIVIDENDS PAID		(2,233)	(1,962)
CASH FLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		9,287	34,351
MANAGEMENT OF LIQUID RESOURCES			
Increase in short term deposits		(21,451)	(36,400)
FINANCING			
Issue of ordinary share capital		2,016	563
New finance leases		-	757
Capital element of finance lease rental payments		(307)	(961)
Loan from joint venture		15,595	-
Loan to joint venture		-	(3,000)
NET CASH INFLOW (OUTFLOW) FROM FINANCING		17,304	(2,641)
INCREASE (DECREASE) IN CASH IN THE PERIOD	22	5,140	(4,690)

The accompanying notes are an integral part of this consolidated cash flow statement.

NOTES TO THE ACCOUNTS

1. *Accounting Policies*

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.

During the year the Financial Reporting Standard (FRS) 12 'Provisions, Contingent Liabilities and Contingent Assets' and FRS 13 'Derivatives and other Financial Instruments: Disclosures' became effective and were adopted by the Group. Adoption of these standards did not change the policies set out below. Disclosures under FRS 13 are shown in note 23.

b) *Basis of consolidation*
The Group accounts consolidate the accounts of all subsidiary undertakings made up to 31st December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

In the Company balance sheet, investments in subsidiary undertakings and associated undertakings are stated at cost less provision for impairment.

No profit and loss account is presented for Psion PLC as provided by Section 230 of the Companies Act 1985. Psion PLC reported a profit after tax of £3,997,000 for the year ended 31st December 1999 (1998 – £19,830,000).

c) *Goodwill*
Goodwill arising on the acquisitions since 1998 of subsidiary undertakings, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is a maximum of twenty years. Provision is made for any impairment.

Goodwill arising on acquisitions in earlier periods was written off to reserves in accordance with the accounting standard then in force.

d) *Associates and joint ventures*
In the Group accounts investments in associates are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of associates' profit less losses while the Group's share of the net assets of the associates is shown in the consolidated balance sheet.

Joint ventures are accounted for using the gross equity method, which is a form of equity method under which the share of the gross assets and liabilities underlying the net amount included for the investment is shown on the face of the balance sheet and in the profit and loss account, the share of turnover is noted.

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

f) *Tangible fixed assets*
Land and buildings are shown at original historical cost or subsequent valuation as set out in note 12. 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.

1. *Accounting Policies* (continued)

g) *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.

h) *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.

i) *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 assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing 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.

Gains and losses arising on forward foreign currency contracts are recognised in the profit and loss account when the hedged transaction is recognised in the Group's accounts. Unhedged contracts are marked to market and any resulting profit or loss recognised at this time.

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.

j) *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.

k) *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.

l) *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.

m) *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.

n) *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*

	Turnover 1999 £000s	Turnover 1998 £000s	Profit before tax 1999 £000s	Profit before tax 1998 £000s	Net assets 1999 £000s	Net assets 1998 £000s
GEOGRAPHICAL ORIGIN:–						
United Kingdom	131,638	150,381	5,105	12,463	80,643	73,701
North America	7,920	7,158	(874)	(2,645)	745	2,195
Continental Europe	32,443	28,838	1,794	1,289	3,641	3,365
Inter-segment	(21,584)	(26,517)				
	150,417	159,860	6,025	11,107	85,029	79,261
Joint venture & associates			(7,027)	(1,373)	20,441	14,541
Exceptional items – non operating			1,532	11,387		
Net interest receivable			4,024	2,141		
Profit before tax/net assets			4,554	23,262	105,470	93,802

	1999 £000s	1998 £000s
TURNOVER BY DESTINATION:–		
United Kingdom	47,387	64,440
Continental Europe	74,620	71,640
North America	20,447	16,373
Rest of the World	7,963	7,407
	150,417	159,860

The Group's business comprises one business segment. The amounts disclosed for the joint venture and associates primarily originate in the United Kingdom.

3. *Other Operating Expenses (Net)*

	1999 Continuing operations £000s	1998 Continuing operations £000s	1998 Discontinued operations £000s	1998 Total £000s
Cost of sales	100,773	104,454	1,189	105,643
Operating expenses (net)				
Distribution costs	22,225	24,189	304	24,493
Administrative costs	19,661	14,924	3,693	18,617
	41,886	39,113	3,997	43,110
Exceptional administrative costs	1,733	–	–	–
Operating profit	6,025	14,477	(3,370)	11,107

£1,122,000 of the exceptional administrative costs relates to the loss on disposal of fixed assets and redundancy costs associated with the cessation of surface mount assembly at the Group's Greenford production facility and the subsequent sale of that facility. The balance of £611,000 comprises a property provision.

4. *Net Interest Receivable*

	1999 £000s	1998 £000s
Interest receivable on loan to joint venture	175	81
Other interest receivable	3,608	1,885
	3,783	1,966
Interest payable and similar charges:		
– Loans from joint venture	624	–
– Finance leases and hire purchase contracts	42	94
– Bank loans and overdrafts	35	34
	701	128
Net interest receivable	3,082	1,838

5. *Profit on Ordinary Activities Before Taxation*

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

	1999 £000s	1998 £000s
Depreciation – assets owned	7,160	7,218
– assets held under finance leases and hire purchase contracts	918	1,078
Amortisation of goodwill	118	78
Research and development costs	10,730	11,326
Hire of plant and machinery	266	326
Auditors' remuneration – audit services	187	139
– other non-audit services	270	425
Own work capitalised on fixed asset tooling	(967)	(958)

Research and development costs for 1998 included £3,789,000 in respect of discontinued operations.

Included within fees for other non-audit services for 1998 are fees totalling £260,000 that were payable to the Group's auditors in connection with the formation of the Symbian joint venture.

6. *Staff Costs*

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

	1999 £000s	1998 £000s
Employee costs during the year amounted to:–		
Wages and salaries	22,605	25,488
Social security costs	2,318	2,390
Other pension costs	853	862
	25,776	28,740

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

	1999 Number	1998 Number
Distribution	727	777
Research and development	139	198
Finance and administration	112	126
	978	1,101

7. *Directors' Remuneration and Interests*

DIRECTORS' REMUNERATION:

	Fees £000s	Basic salary £000s	Taxable benefits £000s	Bonus £000s	Compensation for loss of office £000s	Pension contri-butions £000s	1999 total £000s	1998 total £000s
EXECUTIVE								
D.E. Potter	–	98	–	20	–	75	193	260
C.W. Davies	–	130	11	20	–	10	171	168
D.S. Levin *(appointed 22/2/99)*	–	205	12	80	–	15	312	–
A. Clegg	–	130	7	20	–	10	167	154
M.M. Wyatt	–	165	8	28	–	13	214	183
G.J. Hughes	–	144	10	39	–	8	201	208
H.C.A. Goddijn *(appointed 8/5/98, resigned 21/4/99)*	–	40	–	–	125	–	165	91
N.S. Myers *(resigned 27/10/98)*	–	–	–	–	–	–	–	128
NON-EXECUTIVE								
Sir J. Fairclough	15	–	–	–	–	–	15	15
D.D. Fiszman	10	–	–	–	–	–	10	10
J.B. Morgans *(appointed 8/5/98)*	15	–	–	–	–	–	15	8
I. Joffe *(resigned 13/12/99)*	13	–	5	–	–	–	18	130
Sir I. Morrow *(retired 8/5/98)*	–	–	–	–	–	–	–	5
Aggregate emoluments	53	912	53	207	125	131	1,481	1,360

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

7. *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:–

	Notes	*Number of Ordinary Shares of 5p each in issue* 31/12/99	31/12/98 or date of appointment
D.E. Potter	*1*	11,785,249	14,824,583
C.W. Davies		1,449,186	1,662,000
A. Clegg		160,669	330,669
D.S. Levin		2,000	2,000
G.J. Hughes		2,400	2,400
M.M. Wyatt		716	–
D.D. Fiszman		2,126,288	2,326,288
Sir J. Fairclough		9,057	9,057
J.B. Morgans		5,000	5,000

1. These include nil Ordinary Shares (1998 – 1,739,334) in which D.E. Potter has a non-beneficial interest.

There were no changes in the Directors' interests in the Ordinary Shares of the Company between the Balance Sheet date and the date of approval of these accounts.

On 2nd March 2000, the Chairman and certain of the Directors announced their intention to dispose of Ordinary Shares or options over Ordinary Shares set out below:

	Number of Ordinary Shares	Number of options over Ordinary Shares
D.E. Potter	1,000,000	–
C.W. Davies	250,000	–
A. Clegg	50,000	–
G.J. Hughes	–	50,000
M.M. Wyatt	716	30,000
D.D. Fiszman	250,000	–

Gains made on Directors' share options:

	1999 £000s	1998 £000s
C.W. Davies	**792**	–
G.J. Hughes	**289**	–
M.M. Wyatt	**257**	–
I. Joffe	**1,845**	284
N.S. Myers	**–**	345
A. Clegg	**243**	1,704
	3,426	2,333

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

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

Name	*As at 01/01/99 or date of appointment*	*Number of Options granted during the year*	*Number of Options exercised during the year*	*As at 31/12/99*	*Option Price*	*Market Price at date of exercise*	*Exercise Period From*	*Exercise Period To*
A. Clegg	30,000	–	30,000	–	£0.8167	£8.90	12/10/97	11/10/04
	18,000	–	–	18,000	£3.6433		30/04/99	29/04/06
	16,000	–	–	16,000	£2.9000		14/04/01	13/04/05
	–	25,000	–	25,000	£9.3000		01/04/02	31/03/06
	64,000			59,000				
C.W. Davies	15,186	–	15,186	–	£0.5896	£9.48	04/05/92	03/05/99
	42,000	–	42,000	–	£0.4433	£9.48	20/04/93	19/04/00
	30,000	–	30,000	–	£0.2467	£9.48	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
	16,000	–	–	16,000	£2.9000		14/04/01	13/04/05
	–	16,000	–	16,000	£9.3000		01/04/02	31/03/06
	181,186			110,000				
G.J. Hughes	105,000	–	55,000	50,000	£3.6433	£8.90	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
	9,850	–	–	9,850	£2.9000		14/04/01	13/04/08
	90,994	–	–	90,994	£2.9000		14/04/01	13/04/05
	2,074	–	–	2,074†	£4.7000		01/11/01	01/05/02
	–	1,720	–	1,720	£9.3000		01/04/02	31/03/06
	228,992			175,712				
I. Joffe	30,000	–	30,000	–	£0.4567	£24.99	27/10/96	26/10/03
	30,000	–	30,000	–	£0.8167	£24.99	12/10/97	11/10/04
	18,000	–	18,000	–	£3.6433	£24.99	30/04/99	29/04/06
	78,000			–				
D.S. Levin	–	174,337	–	174,337	£7.1700		11/03/02	10/03/06
	–	4,184	–	4,184	£7.1700		11/03/02	10/03/09
	–			178,521				
M.M. Wyatt	30,000	–	30,000	–	£0.9567	£9.54	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
	24	–	–	24	£2.9000		14/04/01	13/04/08
	35,976	–	–	35,976	£2.9000		14/04/01	13/04/05
	–	25,000	–	25,000	£9.3000		01/04/02	31/03/06
	116,000			111,000				

† These options were granted under the Psion PLC 1998 Sharesave Scheme.

The market price of Ordinary Shares at 31st December 1999 was £27.00 (1998 – £5.78) and the range of share prices for the year was £5.78 to £30.06 (1998 – £2.05 to £7.23).

8. *Tax on Profit on Ordinary Activities*

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

	1999 £000s	1998 £000s
Corporation tax at 30.25% (1998 – 31%)	3,369	3,948
Tax on exceptional gains	62	1,000
Tax on exceptional operating expenses	(537)	–
Overseas taxation	639	567
Deferred taxation arising from		
– capital allowances	(573)	(51)
– other timing differences	119	(25)
Adjustment of taxation for prior years		
– current	(66)	(358)
– deferred	28	(111)
Share of joint venture's tax	(1,799)	(467)
Share of associated undertaking's tax	–	80
	1,242	4,583

9. *Dividends Paid and Proposed*

	1999 £000s	1998 £000s
Interim dividend paid of 0.9p per Ordinary Share (1998 – 0.8p)	695	608
Final dividend proposed of 2.2p per Ordinary Share (1998 – 2.0p)	1,708	1,536
	2,403	2,144

The interim dividend paid of 0.9p per Ordinary Share was based on the Ordinary Shares in issue on 28th September 1999. The final dividend proposed of 2.2p per Ordinary Share will be based on the Ordinary Shares in issue on 13th March 2000.

10. *Earnings Per Share*

	1999	1998
Weighted average number of Ordinary Shares		
For basic earnings per Ordinary Share	77,171,312	75,874,343
Exercise of share options	1,176,448	1,087,518
For diluted earnings per Ordinary Share	78,347,760	76,961,861
	£000s	£000s
Earnings attributable to Ordinary Shareholders	3,312	18,679
Exceptional operating expenses net of tax	1,196	–
Exceptional gain net of tax	(1,470)	(10,387)
Adjusted basic earnings	3,038	8,292
Basic earnings per Ordinary Share	4.29p	24.62p
Adjusted basic earnings per Ordinary Share	3.94p	10.93p
Diluted earnings per Ordinary Share	4.23p	24.27p

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

11. *Goodwill*

GROUP	£000s
COST	
Beginning and end of year	2,347
DEPRECIATION	
Beginning of year	78
Charge for year	118
End of year	196
NET BOOK VALUE	
Beginning of year	2,269
End of year	2,151

12. *Tangible Fixed Assets*

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

	Group		*Company*	
	1999 £000s	1998 £000s	**1999 £000s**	1998 £000s
Land and buildings				
– freehold	**1,776**	1,797	**1,776**	1,797
– short leasehold	**1,724**	2,282	**60**	181
Plant and machinery	**12,731**	15,698	**471**	731
Net tangible fixed assets	**16,231**	19,777	**2,307**	2,709

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

12. *Tangible Fixed Assets* (continued)

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

GROUP	Freehold £000s	Short leasehold £000s	Plant & machinery £000s	**Total £000s**
COST OR VALUATION				
Beginning of year	2,049	3,434	39,970	**45,453**
Additions	18	233	6,042	**6,293**
Disposals	–	(679)	(5,549)	**(6,228)**
Exchange adjustment	–	1	(78)	**(77)**
End of year	2,067	2,989	40,385	**45,441**
DEPRECIATION				
Beginning of year	252	1,152	24,272	**25,676**
Charge for year	39	559	7,480	**8,078**
Disposals	–	(446)	(4,046)	**(4,492)**
Exchange adjustment	–	–	(52)	**(52)**
End of year	291	1,265	27,654	**29,210**
NET BOOK VALUE Beginning of year	1,797	2,282	15,698	**19,777**
NET BOOK VALUE End of year	1,776	1,724	12,731	**16,231**
Leased assets included in the above:– NET BOOK VALUE, Beginning of year			1,484	**1,484**
NET BOOK VALUE, End of year			613	**613**

12. *Tangible Fixed Assets* (continued)

COMPANY	Freehold £000s	Short leasehold £000s	Plant & machinery £000s	**Total £000s**
COST OR VALUATION				
Beginning of year	2,049	335	2,018	**4,402**
Additions	18	12	230	**260**
Disposals	–	–	(540)	**(540)**
Net transfers to subsidiary undertakings	–	–	(622)	**(622)**
End of year	2,067	347	1,086	**3,500**
DEPRECIATION				
Beginning of year	252	154	1,287	**1,693**
Charge for year	39	133	178	**350**
Disposals	–	–	(540)	**(540)**
Net transfers to subsidiary undertakings	–	–	(310)	**(310)**
End of year	291	287	615	**1,193**
NET BOOK VALUE				
Beginning of year	1,797	181	731	**2,709**
NET BOOK VALUE				
End of year	1,776	60	471	**2,307**
Leased assets included in the above:–				
NET BOOK VALUE, Beginning of year			21	**21**
NET BOOK VALUE, End of year			–	**–**

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 £273,000 (1998 – £254,000) as at 31st December 1999.

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

13. *Fixed Asset Investments*

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

	Group 1999 £000s	1998 £000s	*Company* 1999 £000s	1998 £000s
Subsidiary undertakings	–	–	9,599	9,599
Joint venture	20,369	14,459	48	48
Loan to joint venture	3,000	3,000	3,000	3,000
Associated undertakings	72	82	16	16
Investments	3	3	3	3
Long term loans to subsidiary undertakings	–	–	8,544	7,827
Own shares	43	85	43	85
	23,487	17,629	21,253	20,578

SUBSIDIARY UNDERTAKINGS AND LONG TERM LOANS TO SUBSIDIARIES:–

	Subsidiary undertakings £000s	Loans to subsidiaries £000s
COST		
Beginning of year	13,142	10,403
Additions	7,328	2,717
Disposals	(7,328)	(2,000)
End of year	13,142	11,120
AMOUNTS WRITTEN OFF		
Beginning and end of year	(3,543)	(2,576)
NET BOOK VALUE		
Beginning of year	9,599	7,827
NET BOOK VALUE		
End of year	9,599	8,544

Principal subsidiary undertakings:–

	Country of incorporation	*Proportion of equity owned and voting rights*
Psion Enterprise Computing Limited*(a)	England	100%
Psion Computers PLC*(a)	England	100%
Psion Dacom PLC (a)	England	100%
Psion Dacom Homenetworks Limited (a)	England	100%
Psion Incorporated *(b)	US	100%
Psion GmbH (b)	Germany	100%
Psion Nederland BV (b)	Holland	100%
Psion Dacom GmbH (b)	Germany	100%
Psion DataCard Nordic AB (b)	Sweden	100%
Psion Services Limited*(c)	England	100%
Psion Dacom Holdings Limited* (d)	England	100%
Psion Overseas Investments Limited*(d)	England	100%
Psion UK Limited*†	England	100%

*held directly by Psion PLC. †Dormant.

13. *Fixed Asset Investments* (continued)

a) These companies' principal activities are to research and develop, manufacture and sell portable computers and datacommunication products.

b) These companies market and distribute the Group's products in their country of incorporation.

c) Psion Services Limited's principal activity is to provide services to the Group.

d) These companies act as holding companies.

JOINT VENTURE AND ASSOCIATE:–

	Group Joint venture £000s	*Group* Associate undertaking £000s	*Company* Joint venture £000s	*Company* Associate undertaking £000s
COST AND NET BOOK VALUE				
Beginning of year	14,459	82	48	16
Share of retained loss for the year	(4,276)	(10)	–	–
Realised gain on investment	1,333	–	–	–
Unrealised gain on investment	8,853	–	–	–
End of year	20,369	72	48	16

Joint venture:–

	Country of incorporation	*Proportion of equity owned*	*Share capital*
Symbian Limited	England	28.1%	£119,000

Symbian Limited's principal activity is to research and develop and license operating systems and applications software. The joint venture was formed on 28 August 1998 and therefore the 1998 comparatives relate to the 4 months to 31st December 1998. During the year the Psion Group was charged £1,798,000 (1998 – £576,000) for royalties, support costs and development fees, and recharged Symbian £348,000 (1998 – £168,000) for facility and administrative costs. Amounts owed by and to Symbian are disclosed in notes 13, 15 and 16.

The following information is given in respect of the Group's share of Symbian Limited:–

	1999 £000s	1998 £000s
Turnover	**2,198**	603
Loss before tax	**(6,075)**	(1,311)
Taxation	**1,799**	467
Loss after tax	**(4,276)**	(844)
Fixed assets	**1,522**	820
Current assets	**22,173**	16,624
Liabilities due within one year	**(2,160)**	(1,399)
Liabilities due after one year or more	**(1,166)**	(1,586)
Net assets	**20,369**	14,459

Included within Symbian's turnover of £7,427,000 (1998 – £6,216,000) are sales of £5,969,000 (1998 – 3,787,000) to Symbian's shareholders. Included within Symbian's operating expenses of £29,238,000 (1998 – £10,974,000) are research and development costs of £17,480,000 (1998 – £6,669,000).

13. *Fixed Asset Investments* (continued)

Associated undertaking:–
The Group's associated undertaking comprises:

	Country of incorporation	*Proportion of equity owned*	*Share capital*
Therefore Limited	England	40%	£40,000

Therefore Limited's principal activity is 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.

OTHER INVESTMENTS
Group & Company

	Loan to Joint Venture £000s	Own shares £000s	Other investments £000s
COST AND NET BOOK VALUE			
Beginning of year	3,000	85	3
Disposal	–	(42)	–
End of year	3,000	43	3

Loan to joint venture:-
The £3m loan to Symbian is repayable on 1st December 2001. Interest receivable on the loan is disclosed in note 4.

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 1999 was 43,615 (1998 – 118,615) and £1,178,000 (1998 – £686,000) respectively. Of these shares, 30,000 (1998 – 105,000) shares are allocated to satisfy commitments in respect of the Psion Executive Share Option Scheme.

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.

14. *Stocks*

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

	Group 1999 £000s	1998 £000s
Raw materials	**6,149**	5,108
Work-in-progress	**1,444**	2,392
Finished goods	**3,549**	5,152
	11,142	12,652

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

15. *Debtors*

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

	Group 1999 £000s	Group 1998 £000s	Company 1999 £000s	Company 1998 £000s
Trade debtors	22,266	24,488	–	–
Amounts owed by subsidiary undertakings	–	–	4,226	8,581
Amounts owed by associated undertaking	186	–	–	–
Amounts owed by joint venture	448	99	383	99
Other debtors	1,738	371	729	31
VAT recoverable	1,700	433	–	–
Prepayments and accrued income	2,035	1,593	1,532	597
	28,373	26,984	6,870	9,308

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

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

	Group 1999 £000s	Group 1998 £000s	Company 1999 £000s	Company 1998 £000s
Obligations under finance leases and hire purchase contracts	327	302	–	8
Trade creditors	18,826	19,265	–	219
Amounts owed to subsidiary undertakings	–	–	12,450	2,917
Amounts owed to joint venture	772	575	–	159
Loan from joint venture	16,218	–	16,218	–
Proposed dividends	1,708	1,536	1,708	1,536
Other creditors				
– UK corporation tax payable	2,598	5,750	613	498
– ACT on paid and proposed dividends	–	152	–	152
– VAT	443	502	–	–
– Social security and PAYE	645	590	–	48
Accruals and deferred income	13,988	9,680	704	1,408
	55,525	38,352	31,693	6,945

17. Creditors: Amounts Falling Due After More Than One Year

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

Borrowings due wholly or in part by instalments within 5 years:–

	Group 1999 £000s	Group 1998 £000s	Company 1999 £000s	Company 1998 £000s
Obligations under finance leases and hire purchase contracts	70	402	–	–

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

	Group 1999 £000s	Group 1998 £000s	Company 1999 £000s	Company 1998 £000s
Within 1–2 years	70	265	–	–
Within 2–5 years	–	137	–	–
	70	402	–	–

18. Provisions for Liabilities and Charges

	Group 1999 £000s	Group 1998 £000s	Company 1999 £000s	Company 1998 £000s
Property provision	700	–	700	–
Deferred taxation	322	867	122	167
	1,022	867	822	167

a) Property provision

	Group & Company 1999 £000s
Beginning of year	–
Transfer from accruals	110
Charged in year	611
Utilised	(21)
End of year	700

18. Provisions for Liabilities and Charges (continued)

b) Deferred taxation

Deferred taxation relates to the excess of capital allowances over depreciation.

	Group		Company	
	1999 £000s	1998 £000s	1999 £000s	1998 £000s
The movement on deferred taxation comprises:–				
Beginning of year	867	577	167	–
Credited to profit and loss account	(426)	(187)	(6)	(92)
Transferred to subsidiary undertakings	–	–	(39)	–
Disposal of subsidiary undertaking	–	(191)	–	–
Transferred (to) from current tax	(119)	200	–	–
ACT on paid and proposed dividends	–	468	–	259
End of year	322	867	122	167

The potential amount of deferred taxation not provided at 31st December 1999 was approximately £190,000 (1998 – £190,000) relating to the revaluation gain on the freehold property with further potential unprovided deferred tax of a maximum of £3,875,000 (1998 – £3,875,000) were the Company not to obtain the capital gains tax rollover reliefs anticipated on the gains arising on the sale of assets to a joint venture in the relevant period.

19. Called-Up Share Capital

	1999 £000s	1998 £000s
a) Authorised:–		
98,291,456 Ordinary Shares of 5p each	4,915	4,915
b) Allotted, called-up and fully paid:–		
1998 – 76,824,766 Ordinary Shares of 5p each	–	3,841
1999 – 77,638,831 Ordinary Shares of 5p each	3,882	–

During the year 789,909 shares were issued for cash in respect of the exercise of share options. In addition 24,156 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 1998.

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*
18,000	25th October 1996 to 24th October 2003	0.4267
30,000	27th October 1996 to 26th October 2003	0.4567
42,000	19th September 1997 to 18th September 2004	0.9500
30,000	12th October 1997 to 11th October 2004	0.8167
212,000	30th April 1999 to 29th April 2006	3.6433
6,000	9th September 1999 to 8th September 2003	4.3650
166,148	18th April 2000 to 17th April 2007	4.1000
77,000	16th October 2000 to 15th October 2007	4.6850
388,814	14th April 2001 to 13th April 2008	2.9000
79,000	13th October 2001 to 12th October 2008	3.4300
109,443	1st November 2001 to 1st May 2002	4.7000
157,354	1st November 2001 to 1st May 2004	4.7000
178,521	11th March 2002 to 10th March 2009	7.1700
234,745	1st April 2002 to 31st March 2006	9.3000
94,241	2nd November 2002 to 1st November 2006	15.6500
1,823,266		

20. *Reserves*

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

	Group Other reserves £000s	*Group* Profit and loss account £000s	*Company & Group* Revaluation reserve £000s	*Company & Group* Share premium account £000s	*Company* Profit and loss account £000s
Beginning of year	(260)	64,263	612	25,346	39,864
Issued shares	–	(3,339)	–	5,314	–
Employee profit share distribution	–	200	–	–	200
Foreign currency translation	(310)	–	–	–	–
Gain on investment in joint venture	–	8,853	–	–	–
Profit for the year	–	3,312	–	–	3,997
Dividends paid and proposed	–	(2,403)	–	–	(2,403)
End of year	(570)	70,886	612	30,660	41,658

21. *Movements in Equity Shareholders' Funds*

	Group **1999 £000s**	*Group* 1998 £000s	*Company* **1999 £000s**	*Company* 1998 £000s
Profit on ordinary activities after taxation	**3,312**	18,679	**3,997**	19,830
Dividends paid and proposed	**(2,403)**	(2,144)	**(2,403)**	(2,144)
Retained profit for the year	**909**	16,535	**1,594**	17,686
Other recognised gains and losses	**8,543**	22,164	**–**	–
New share capital subscribed	**2,016**	2,763	**5,355**	2,763
Employee profit share distribution	**200**	224	**200**	224
Net addition to shareholders' funds	**11,668**	41,686	**7,149**	20,673
Opening shareholders' funds	**93,802**	52,116	**69,663**	48,990
Closing shareholders' funds	**105,470**	93,802	**76,812**	69,663

22. *Cash Flow Information*

a) *Reconciliation of movement in net funds*

	1999 £000s	1998 £000s
Increase/(decrease) in cash	5,140	(4,690)
Finance lease repayments	307	961
New finance leases	–	(757)
Increase in short term deposits	21,451	36,400
Increase in net funds	26,898	31,914

b) *Analysis of net funds*

	Cash £000s	Finance leases £000s	Total £000s
As at 1st January 1999	54,112	(704)	53,408
Cash flow	26,591	307	26,898
As at 31st December 1999	80,703	(397)	80,306

c) *Taxation*

	1999 £000s	1998 £000s
UK corporation tax paid	5,705	3,515
Consortium relief	345	–
Overseas tax paid	586	426
Net cash outflow	6,636	3,941

23. *Financial Instruments*

The Group's financial instruments, other than derivatives, comprise cash, liquid resources and various items, such as trade debtors, trade creditors etc; that arise directly from its operations. The main purpose of the financial instruments is to finance the Group's operations. The Group also enters into derivatives transactions in the form of forward foreign currency contracts in order to manage the currency risk arising from the Group's operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments should be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of 1999.

INTEREST RATE RISK

The Group has significant cash balances and loans to its joint venture, Symbian. The Group's policy is to limit its exposure to interest rates by placing deposits on the money markets with a range of maturities up to 12 months.

FOREIGN CURRENCY RISK

The Group has transactional currency exposure principally to the Euro and US Dollar arising from foreign currency sales and purchases. The Group's policy is to manage this risk through forward contracts which are taken out to cover between 2 and 14 months of forecast net currency cash flows. The Group's foreign currency exposure to the net investment in overseas subsidiaries is not hedged as it is not considered material.

As permitted by FRS 13, short term debtors and creditors have been excluded from the following analysis, other than for currency exposure disclosure.

23. *Financial Instruments* (continued)

INTEREST RATE EXPOSURE

The group has the following financial assets at year end:-

	Floating rate 1999 £000s
Loan to joint venture – Sterling	3,000
Cash:-	
Sterling	71,203
Euro	2,146
US Dollar	7,188
Other currencies	166
	83,703

Of the total cash balance £68,851,000 was placed in sterling money markets deposits with a weighted average period until maturity of 4 months. The balance of cash was held in interest bearing bank current accounts. Details of the £3m loan to the joint venture are disclosed in note 13.

FAIR VALUES

The book value of the financial assets detailed above approximates fair value due to the short maturity of the assets or because the interest on the investment is reset every 3 months. The fair value of forward currency contracts was £132,000 (book value – nil).

CURRENCY EXPOSURE

The transactional currency exposures to the Group's main functional currency, sterling, at 31 December 1999 were:-

	Asset (liability) £000
Euro	–
US dollar	5,884
Japanese Yen	(348)
Other currencies	181
	5,717

The balances above are stated net of hedging forward currency contracts. They do not take into account forecast future cash flows.

Gains and losses on forward currency contracts are not realised until the hedged position matures. An analysis of all unrealised gains and losses are as follows:-

	Gains £000s	Losses £000s	Total £000s
Unrealised gains and losses on hedges as at 1 January 1999	46	(11)	35
Gains and losses arising in previous years that were realised in the year	(46)	11	(35)
Gains and losses arising before 1 January 1999 that were not realised in the year	–	–	–
Gains and losses arising in the year that were not realised in the year	132	–	132
Unrealised gains and losses on hedges as at 31 December 1999	132	–	132
Gains and losses expected to be realised in 2000	(132)	–	(132)
	–	–	–

BORROWING FACILITY

At 31st December 1999 the Group had overdraft facilities of £20m that mature within a year. No accounts had been drawn down on these facilities during the year.

24. Guarantees and Other Financial Commitments

a) *Capital Commitments*

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

	Group		Company	
	1999 £000s	1998 £000s	1999 £000s	1998 £000s
Contracted but not provided for	473	56	–	–

b) *Lease commitments*

The Group has operating leases on certain premises. The annual rentals on these leases total £2,206,000 (1998 – £2,204,000). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases.

	Group		Company	
	1999 £000s	1998 £000s	1999 £000s	1998 £000s
Leases which expire:				
within 1 year	285	134	221	54
within 2–5 years	447	584	–	221
over 5 years	1,474	1,486	753	753
	2,206	2,204	974	1,028

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 1999, outstanding contributions to these pension schemes amounted to £108,000 (1998 – £173,000). The pension costs charged for the period are disclosed in note 6.

d) *Guarantees*

The Company has guaranteed the obligations of certain subsidiary undertakings arising from bank loan agreements up to a maximum of £159,000 (1998 – £180,000). Guarantees of £1,600,000 (1998 – £370,000) 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.

25. Disposal

During the year Motorola and Matsushita acquired an interest in the Symbian joint venture, which diluted Psion's interest in Symbian from 40% to 28.1%. The transactions gave rise to a £8,853,000 gain on investment recorded in the statement of total recognised gains and losses and a £1,532,000 exceptional profit. The exceptional profit arose from a £1,333,000 release of provisions against profit on the sale of assets to the joint venture at the time of its formation and a £199,000 net contribution towards Psion's deal fees.

Net cash inflow in respect of the disposal comprised a net £199,000 contribution to deal fees.

26. Subsequent Event

On 2nd March 2000 the Group announced a £100m cash placing of new Ordinary Shares, to raise additional resources to provide flexibility for acquisitions and other investment opportunities as they arise.The placing is conditional inter alia and the number of shares to be issued will be determined by the placing price. The new shares issued will rank pari passu with the existing Ordinary Shares save that they will not rank for the final dividend for the year ended 31st December 1999.

On 2nd March 2000 the Group also announced that it had signed an agreement to acquire up to a 3% interest in Quicknet Technologies, a US based specialist in low-density internet telephony products, for consideration of approximately $2.25m. The consideration will be satisfied either through an issue of new Psion shares or cash.

FIVE YEAR RECORD

	1995 £000s	1996 £000s	1997 £000s	1998 £000s	**1999 £000s**
Consolidated Profit and Loss Accounts					
TURNOVER					
Continuing operations	90,546	124,178	141,275	158,044	**150,417**
Discontinued operations	–	–	737	1,816	**–**
	90,546	124,178	142,012	159,860	**150,417**
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS *					
Continuing operations	11,590	17,243	15,489	14,718	**7,748**
Discontinued operations †	–	–	(4,912)	(3,370)	**–**
	11,590	17,243	10,577	11,348	**7,748**
Exceptional items	–	(1,519)	–	–	**(1,733)**
OPERATING PROFIT	11,590	15,724	10,577	11,348	**6,015**
Share of operating loss of joint venture	–	–	–	(1,614)	**(7,017)**
Profit on disposal of undertakings	–	–	–	11,387	**1,532**
Profit before interest	11,590	15,724	10,577	21,121	**530**
Interest (net)	64	312	849	2,141	**4,024**
PROFIT BEFORE TAXATION	11,654	16,036	11,426	23,262	**4,554**
Tax on profit on ordinary activities	(4,202)	(5,683)	(3,712)	(4,583)	**(1,242)**
PROFIT AFTER TAXATION	7,452	10,353	7,714	18,679	**3,312**
Consolidated Statements of Total Recognised Gains and Losses					
Retained profit for the year	6,288	8,699	5,836	16,535	**909**
Gain on investment in joint venture	–	–	–	21,957	**8,853**
Currency translation differences on foreign currency investments	50	(317)	(141)	207	**(310)**
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR	6,338	8,382	5,695	38,699	**9,452**
RESEARCH AND DEVELOPMENT EXPENDITURE	5,579	7,731	10,934	11,326	**10,730**
EARNINGS PER ORDINARY SHARE	10.75p	14.57p	10.30p	24.62p	**4.29p**
ADJUSTED EARNINGS PER ORDINARY SHARE	10.75p	16.00p	10.30p	10.93p	**3.94p**
DILUTED EARNINGS PER ORDINARY SHARE	10.41p	14.18p	10.13p	24.27p	**4.23p**
Consolidated Balance Sheets					
Goodwill	–	–	–	2,269	**2,151**
Tangible fixed assets	13,869	18,408	21,907	19,777	**16,231**
Investments	402	534	796	17,629	**23,487**
	14,271	18,942	22,703	39,675	**41,869**
Stocks	10,491	13,267	19,306	12,652	**11,142**
Debtors	13,397	21,731	22,637	26,984	**28,373**
Cash and short term investments	11,850	26,563	22,402	54,112	**80,703**
	35,738	61,561	64,345	93,748	**120,218**
Creditors due within one year	(25,167)	(33,173)	(34,217)	(38,352)	**(55,525)**
Creditors due after one year	(1,640)	(817)	(138)	(402)	**(70)**
Provisions for liabilities and charges	(132)	(656)	(577)	(867)	**(1,022)**
NET ASSETS	23,070	45,857	52,116	93,802	**105,470**

*includes share of results of associates.

†it is not possible to separately identify the results of the discontinued operation prior to 1997.

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