FORM 10-K

DANKA BUSINESS SYSTEMS PLC - DANKY

Exhibit:

Filed: June 27, 1997 (period: March 31, 1997)

Annual report which provides a comprehensive overview of the company for the past year

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended MARCH 31, 1997	Commission file number: 0-20828

DANKA BUSINESS SYSTEMS PLC
(Exact name of registrant as specified in its charter)

ENGLAND	98-0052869
(State of other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

11201 DANKA CIRCLE NORTH ST. PETERSBURG, FLORIDA	33716
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (813) 576-6003

Securities registered pursuant to Section 12(g) of the Act:
ORDINARY SHARES
1.25 p each

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or an amendment to this Form 10-K. [ ]

As of March 31, 1997, the Registrant had 226,827,049 Ordinary Shares outstanding, including 171,566,107 represented by American Depositary Shares ("ADS"). Each ADS represents four Ordinary Shares. The ADSs are evidenced by American Depositary Receipts. The aggregate market value of voting shares held by non-affiliates of the Registrant as of March 31, 1997 was $1,718,205,396 based on the average bid and asked prices of ADSs as quoted on the NASDAQ National Market.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the year ended March 31, 1997, are incorporated by reference in Part I and Part II of this Form 10-K.

The information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Shareholders to be held July 25, 1997, which has been filed with the Securities and Exchange Commission.

DANKA BUSINESS SYSTEMS PLC

ANNUAL REPORT ON FORM 10-K

MARCH 31, 1997

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PART I

ITEM 1. BUSINESS

INTRODUCTION

Danka Business Systems PLC and its subsidiaries (the "Company") is one of the world's largest independent suppliers of photocopiers, facsimiles and other related automated office equipment. The Company primarily markets these products and related services, parts and supplies on a direct basis to retail customers. The Company also markets photocopiers, facsimiles, and related parts and supplies on a wholesale basis to dealers. The Company principally distributes the products of Canon, Kodak, Konica, Minolta, Ricoh, Sharp and Toshiba. The Company became the exclusive distributor of Kodak branded photocopiers and printers in December 1996 after completing the acquisition of Eastman Kodak Company's Office Imaging division and facilities management business. See -- "Acquisition of Eastman Kodak's Office Imaging Division".

The Company provides a wide range of customer-related support services, maintenance and supply contracts, training and technical support, and leasing arrangements. The Company's focus on customer service and the contractual nature of its service business, combined with its service contract renewals, provide a significant source of recurring revenue. In addition, the Company provides outsourcing services including traditional facilities management and strategic consulting services, advising customers on the management of document systems and how to add efficiencies. The acquisition of Eastman Kodak's facilities management business in December 1996 significantly increased the scope of the Company's outsourcing operations. See -- "Acquisition of Eastman Kodak's Office Imaging Division".

The Company's principal business strategy is to increase its presence as one of the leading independent suppliers of automated office equipment and related services, parts and supplies in existing and new strategic geographic markets worldwide. The Company's internal expansion has resulted from increased product offerings, aggressive marketing to new customers and an emphasis on providing service and supplies. The Company has expanded externally as a result of the acquisition of selected suppliers of automated office equipment, and throughout its history, has completed over 140 acquisitions in the industry. See -- "Acquisition Strategy". The Company seeks to improve the profitability of the businesses it acquires by integrating them into the Company's sales and service network and standardizing their operations with the Company's. The Company's operating philosophy is to support its sales and service network through training in technical, marketing and administrative support procedures, advertising and promotion campaigns, and volume purchasing and uniform operating procedures.

Danka Business Systems PLC is a corporation organized under the laws of England and Wales. The Company's principal operating subsidiaries are located in North America, Europe, Australasia and Latin America. The registered and principal executive office of the Company is located at 33 Cavendish Square, London W1M 0DE England, and its telephone number is 011-44171-399-3000. The Company's North American headquarters are located at 11201 Danka Circle North, St. Petersburg, Florida 33716, and its telephone number is 813-576-6003.

ACQUISITION STRATEGY

The Company expands its business through internal growth by increasing its penetration in existing markets, and by entering new geographic areas primarily through the acquisition of existing businesses. The Company's acquisition strategy is focused on acquiring businesses in current territories to increase penetration in those markets and on acquiring businesses in new territories. The Company seeks to acquire companies that generally have (i) an established customer base, (ii) a product line that compliments or is comparable with the Company's current and anticipated products and services; (iii) necessary manufacturer authorizations, and (iv) the potential to benefit from the Company's centralized purchasing power as well as from other potential synergies including increasing productivity and streamlining operations.

Acquired companies are integrated into the Company through the implementation of the Company's operating procedures, which (i) establishes financial controls, common information systems and reporting requirements, (ii) introduces the Company's service, marketing and sales programs and compensation plans, (iii) evaluates, transfers and retrains personnel as necessary, and (iv) in many cases, expands the acquiree's product mix to incorporate new products and services which are sold by the Company. This integration generally results in a replication of the Company's service, sales, marketing and other business programs in the short-term. In most business acquisitions, the acquired businesses' owners and management are contractually bound by executive non-compete and trade secret protection agreements.

As a result of the Company's acquisitions, it has grown to a network in excess of 700 locations in over 30 countries. Technological developments increasing the complexity of new products, combined with the higher costs of product support, has driven the consolidation within the North American and European markets. This trend has caused smaller independent distributors to consider selling their dealerships to larger marketing and service organizations such as the Company. Through such acquisitions, the Company entered the United Kingdom in 1993, the Canadian market in 1994, Continental Europe in 1995 and Australasia in 1996. The acquisition of certain assets of Eastman Kodak's Office Imaging division in December 1996, which added over $1.5 billion in annualized revenue and 19 new countries of operations, is the largest by the Company to date.

The Company believes that select acquisition opportunities continue to exist in the fragmented automated office equipment industry in certain geographic areas. The Company's acquisition activity will be limited over the next twelve to eighteen months as the Company concentrates on integrating the acquired operations of Eastman Kodak's Office Imaging and facilities management businesses. The Company's goal is to generate cost savings and margin improvements with respect to the combined organization through increasing sales and service productivity, streamlining operations and capitalizing on the new purchasing power.

The Company's continued success in future acquisitions will be dependent on a variety of factors, including the timing and size of an acquisition; the success or failure to integrate any significant acquisition and minimize integration costs related thereto; the Company's ability to successfully grow its infrastructure to sustain, manage, operate and continue significant expansion; and the Company's ability to maintain, manage and operate its core business. Although the Company is currently engaged in preliminary discussions and consideration of various possible acquisition candidates, it does not have any agreement, arrangement or understanding with respect to any acquisition candidate that are, individually or in the aggregate, material to the Company.

ACQUISITION OF EASTMAN KODAK'S OFFICE IMAGING DIVISION

Effective December 31, 1996, the Company acquired from Eastman Kodak Company ("Kodak") (i) the net assets relating to the sales, marketing, distribution and services business of Kodak's Office Imaging and Customer Equipment Services business units and (ii) all of the issued and outstanding stock of certain subsidiaries of Kodak which constitute the facilities management services business known as Kodak Imaging Services (collectively, the "Kodak Sales and Services Business"). The Company paid net cash of $688.0 million for the Kodak Sales and Services Business, subject to post-closing adjustments. The purchase price was funded exclusively by a new six-year multicurrency $1.275 billion credit agreement. As of December 31, 1995, the net assets of the Kodak Sales and Services Business were approximately $800.0 million, and for such year, generated revenue of $1.8 billion and net earnings before income taxes of $25.0 million. For the nine months ended September 30, 1996, the Kodak Sales and Services Business generated revenue of $1.3 billion and net earnings before income taxes of $72.0 million. Based on the December 31, 1996 audited balance sheet provided by Kodak, the Company will receive a refund under the price adjustment provision of the asset purchase agreement totaling approximately $86.0 million.

The Kodak Sales and Services Business is engaged worldwide in the direct sale and marketing of Kodak manufactured and branded black and white and accent color high-volume photocopiers, duplicators and printers, as well as Kodak branded mid-volume black and white and color photocopiers manufactured by Canon, Inc., and in some cases, remanufactured by Kodak. The Kodak Sales and Services Business also provides on-site repair and technical and field engineering support for equipment sold, leased and rented to others by the Kodak Sales and Services Business and by other photocopier distributors. In addition, the Kodak Sales and Services Business provides customers with facilities management services, including the management of central reprographics departments, the placement and maintenance of convenience copiers, fleet management of customer equipment, the operation of mail centers, the processing of statements, print-on-demand operations and document archiving and retrieval services. The acquisition of the Kodak Sales and Services Business greatly enhances the Company's product line and significantly increases the scope of its outsourcing business.

In connection with the acquisition of the Kodak Sales and Services Business, the Company and Kodak entered into a number of agreements effective December 31, 1996 relating to the purchase, sale and service of electrophotographic equipment and related software, supplies, accessories and spare parts manufactured or remanufactured by Kodak (the "Supply Agreements"). Pursuant to the Supply Agreements, the Company is required to purchase from Kodak various levels of Kodak manufactured or remanufactured electrophotographic equipment and accessories, spare parts, supplies and toner. The Company's pricing for purchases of Kodak branded products is based on the Company purchasing certain agreed upon levels. To the extent the Company exceeds or fails to purchase these amounts, the Company may either receive a refund or be required to make additional payments. Currently, the Company believes that it will meet its required purchasing levels. Subject to certain limitations, the Company has the worldwide exclusive right to distribute Kodak's currently existing line of electrophotographic equipment for office imaging and reprographics manufactured or remanufactured by Kodak, and the related software, supplies, accessories and spare parts and a right of first refusal to exclusively distribute worldwide certain future electrophotographic products manufactured by Kodak for office imaging and reprographics. The Company has also agreed to contribute a total of $175.0 million (plus an additional $30.0 million if certain research milestones are met) to Kodak's ongoing research and development for new electrophotographic products to be funded over the period April 1, 1997 through December 31, 2002. The Company and Kodak have appointed three representatives to serve as members of an advisory committee which meet on a regular basis to discuss overall research and development progress.

Currently, 63% of the Kodak Sales and Services Business is conducted in North America and 34% is conducted in Europe. Approximately 90% of the Kodak Sales and Services Business is operated in countries in which the Company was already conducting its business prior to the acquisition. Kodak has agreed to fund the Company $30.0 million per year over three years, to promote the sale of Kodak branded products in Europe, Asia and Latin America. (Reference is made to Note 6 of the "Notes to the Consolidated Financial Statements" entitled "Foreign Operations" contained in the Company's Annual Report to Shareholders for the year ended March 31, 1997 which is incorporated by reference.) In accordance with the "Acquisition Strategy" discussed above, the Company's goal is to increase the net margins of the Kodak Sales and Services Business through certain cost efficiencies and synergies it expects to achieve by operating the businesses. A number of factors will be important in the Company's goal of successfully integrating the acquired business into the Company including increasing sales and service productivity, streamlining operations and capitalizing on the new purchasing power. There can be no assurances regarding the ultimate impact of the Kodak Sales and Services Business on the Company and its future business and operations.

PRODUCTS

The Company's primary products are photocopiers, facsimile equipment, other automated office equipment, and related parts and supplies. The photocopier industry is informally divided into six segments. Segments one and two contain the least sophisticated photocopiers; segments three and four contain faster and more sophisticated mid-range photocopiers; and segments five and six contain the most sophisticated and fastest photocopiers in the industry. The principal manufacturers in segments one through four are Canon, Konica, Minolta, Ricoh, Sharp and Toshiba. The Company offers products from each of these manufacturers. Advances in technology and changing market demands have also led to the emergence of color, digital and multifunctional equipment as well as high speed printers, all of which the Company currently distributes. As a result of the acquisition of the Kodak Sales and Services Business, the Company is now the exclusive distributor of Kodak branded photocopiers and printers worldwide. The sales, marketing, distribution and services operations of the acquired Kodak Sales and Services Business is now known as Danka Office Imaging. The Company sells photocopiers in segments one through six through its retail operations. In addition, the Company principally sells segment one equipment through its wholesale operations. The Company will continue to expand its product offerings to encompass new equipment as it is made available by its vendors.

The Company distributes a range of facsimile equipment, with a concentration in the more sophisticated plain paper and multifunctional models. The plain paper and multifunctional models use toner and other supplies and require maintenance similar to photocopiers. A majority of these facsimile machines are private label products of the Company.

TECHNOLOGY

The Company believes that the black and white photocopier and facsimile equipment markets will continue to change with the increasing acceptance of digital technology. Digital photocopiers have the ability to communicate with other automated office equipment. This innovation is resulting in a blurring of the distinction between traditional photocopiers, facsimile equipment and printers, with the emergence of a range of multifunctional office equipment that prints, copies, scans and faxes all from one machine.

Many of the Company's existing vendors have expended considerable resources in the research, development, and creation of digital products and have introduced several digital black and white and color photocopiers and printers. The Company has developed and acquired certain of the expertise necessary to support the transition to digital technology and provides training and support to its sales professionals and service technicians for new vendor digital product offerings. In acquiring the Kodak Sales and Services Business, the Company gained additional digital expertise and products including Kodak's LionHeart products that enable digital devices to be connected to a computer.

Currently, color photocopiers represent a growing segment of the photocopier market and are an increasing component of the Company's retail copier sales. The Company continues to expand its color markets through its relationship with Ricoh and Canon. With a color server, color photocopiers can be converted into networkable color printers that will accept digital output from a computer as well as hard copy inputs which can be reproduced or scanned into the computer, thus increasing the functionality of the unit.

SERVICES

In fiscal 1997, retail service, supplies and rentals represented 55% of the Company's total revenue. This revenue is primarily derived from its equipment, maintenance and supply contracts ("EMS Contracts") and other maintenance contracts. Generally, EMS Contracts are for a one-year term and are automatically renewable. Although the Company has various payment arrangements, most maintenance contracts are based upon a per copy charge. These arrangements provide the customer with scheduled payments that can be conveniently budgeted and provide the Company with a steady source of revenue. As a percentage of total revenue, retail service, supplies and rentals increased in fiscal 1997 due to the acquisition of the Kodak Sales and Services Business, where a significantly higher portion of the revenue generated from the Kodak Sales and Services Business was from retail service, supplies and rentals as compared to the Company's core operations.

The Company has a stated mission of repairing a machine on the first service call, and has full time service trainers who teach classes to the Company's technicians. The Company also maintains an emergency toll-free number to assist its own service technicians and service technicians of independent dealers who are customers of its wholesale operations. The Company maintains a database of common service problems and related solutions to assist technicians in the field.

The Company's outsourcing operations are also included in retail service, supplies and rentals. The acquisition of the Kodak Sales and Services Business significantly increased the scope of the Company's outsourcing business. The Company's outsourcing business combined with the facilities management business acquired from Kodak is now known as Danka Imaging Services, and provides services including the management of central reprographics departments, placement of convenience copiers, fleet management of customer equipment, print-on-demand operations, and document archiving and retrieval services. Danka Imaging Services also provides strategic consulting services, advising customers on the management of their document systems and how to add efficiencies -- including the shift from a stand alone analog copier to a networked digital printer/copier system, the storage of data, and the flow of information throughout the business.

MARKETING AND CUSTOMERS

The Company believes that, in addition to price and product performance and capabilities, its retail customers primarily base their purchasing decisions on the quality of post-sales service and support, speed of service, and the availability of financing and rental programs. The Company believes that its wholesale customers primarily base their purchasing decisions on price, speed of delivery, dealer support, product performance and capabilities, and availability of financing.

The Company's retail operations target a broad range of customer groups which include small businesses to large multinational companies, professional firms, and governmental and educational institutions. Customers of the Company's wholesale operations consist generally of independent dealers who are not authorized dealers for major manufacturers. Additionally, the Company markets Infotec private label copiers and facsimiles as well as its dex private label facsimile equipment and related supplies on a wholesale basis to a network of authorized independent dealers. No customer represents more than one percent of the Company's total revenue, and the loss of any one customer would not materially affect the Company.

As of March 31, 1997, there were approximately 4,400 Company employees devoted to sales which represents a substantial increase from March 31, 1996, primarily due the acquisition of the Kodak Sales and Services Business. Sales personnel turnover is common in the industry and the Company makes a considerable effort to retain qualified sales personnel. The Company's sales teams are highly specialized, with each office dedicated to marketing the products of one or two particular manufacturers. Individual team members will concentrate on particular product groups, focusing on lower segment machines during their first year and graduating to more complex equipment as their knowledge and experience increases. With its sales force, the Company emphasizes product knowledge, commitment and professionalism. Each sales person negotiates a method of payment - lease, outright sale or rental - to suit the individual customer. Their compensation is comprised of a base salary and a selling commission, based on achievement of unit placements and gross profit dollars. The Company has instituted a standard compensation plan for the sales personnel that joined the Company through the acquisition of the Kodak Sales and Services Business, which is more in line with that of the Company's existing sales force.

The Company utilizes a wide range of advertising and promotional activities, including television, radio, and billboard advertising campaigns, sponsorship of major sporting events and teams, distribution of descriptive brochures and direct mail pieces, and informational seminars and presentations. The Company's marketing efforts are enhanced by manufacturers' national advertising campaigns and co-op arrangements where appropriate and applicable.

MARKET BASED APPROACH

To further the Company's goal of providing better support for its sales and service force as well as its customers, the Company began moving away from its traditional branch management concept to a more centralized, market oriented, support concept of administration in North America during fiscal 1997 (the "Market Based Approach"). Under the Market Based Approach, most of the administrative and management functions which were performed at the branch level are centralized on a regional basis. Such functions include managerial support, service dispatch, billing and collections, supply sales and equipment setup and delivery. The Company's goal is for the transition to be fully implemented, excluding the Kodak Sales and Services Business, by the first half of fiscal 1998 and once complete, the Company's North American operations will consist of approximately 22 regions with numerous markets within each region. The Company believes that this Market Based Approach will provide for a higher quality of customer support, increased productivity and reduced administrative costs. The Company is also in the process of rolling out a new computer system for the North American operations which is expected to be complete by the third quarter of fiscal 1998. The completion of these two initiatives are intended to help facilitate additional future efficiencies in the Company's North American operations.

LEASING

Leasing plays a significant role in the Company's sale of equipment. The Company believes that the ability of its sales force to offer customers the option to lease equipment leads to additional sales. In substantially all of its lease transactions, the Company initiates the lease, then one of a number of available third-party leasing companies approves the customer's credit and the Company immediately finances the lease in return for a single payment. The Company has significantly reduced the credit risks normally associated with leasing arrangements, while improving its cash flow and profit margins. The Company has also established relationships with certain leasing companies through which the Company participates in a portion of the leasing company's profits in exchange for the Company targeting certain leasing volumes.

The Company believes customers are less resistant to a small increase in monthly lease payments as opposed to an increase in the outright cash sales price of such equipment. As a result, in most of these leasing arrangements, the Company is able to achieve a higher sale price, and a higher profit margin than that which would have been obtained by a cash sale of such equipment. Finally, these leasing arrangements permit the Company to utilize its capital for other business activities. The Company has similar arrangements for leases which are offered to customers outside the U.S.

Through various acquisitions, the Company has acquired certain lease arrangements and installment receivables that have not been sold to third-party leasing companies. Over time, the Company will seek to convert these acquisition leasing programs to arrangements similar to those described above.

TRAINING

A key element of the Company's operating philosophy is the training of its sales, service and administrative employees in order to assist in uniform application of the Company's established operating procedures throughout the sales network. Upon employment, Company salespersons begin a sales program developed and conducted by the Company. Training continues throughout their careers in sales and sales management with certifications awarded upon completion of various courses. The training sessions, coupled with weekly sales meetings, assist the Company's staff in enhancing and maintaining their marketing and sales management skills.

Service technicians new to the Company are immediately trained and certified in accordance with the Company's methods, procedures, and standards. The Company's technical personnel are continuously updated and retrained as new technology is developed. The Company's service training centers are certified as manufacturers' authorized service facilities. The Company monitors service technicians' continued educational experience and fulfillment of requirements in order to evaluate the competence of its service technicians. All the Company's service technicians receive service bulletins, service technician tips and continued training seminars throughout their careers with the Company. Similar to the Company, the Kodak Sales and Services Business places great emphasis on training sales and service personnel and has a strong reputation for high customer satisfaction.

VENDORS

The Company's business is dependent upon close relationships with its vendors and its ability to purchase products from these vendors on competitive terms. During fiscal 1997, the Company's sales of Canon, Konica, Minolta, Ricoh, Sharp and Toshiba photocopiers and facsimile equipment represented approximately 73% of its total equipment revenue, excluding its dex and Omnifax private label facsimiles and the acquired Kodak Sales and Services Business. The Company's dex and Omnifax private labels are imported from various Japanese and Korean manufacturers. The majority of the Company's Kodak branded equipment sales were generated from the acquired Kodak Sales and Services Business. In addition, the Company relies on its photocopier and facsimile vendors for parts and supplies.

The Company conducts its business in reliance upon its continuing ability to purchase equipment, supplies, and parts from its current manufacturers pursuant to authorized retail dealer and wholesale agreements ("Authorized Manufacturer Agreements"). The Company's retail operations' primary Authorized Manufacturer Agreements are with Canon, Konica, Minolta, Ricoh, Sharp and Toshiba. Such agreements are generally for one-year terms, cover only specific products, have specific territorial boundaries, and may be terminated with cause, and in some instances, without cause. Although Authorized Manufacturer Agreements are non-exclusive, they are generally limited to one or two authorized dealers within specific territorial boundaries. The Company also has exclusive Supply Agreements with Kodak, the terms of which vary from the Company's traditional Authorized Manufacturing Agreements. See -- "Acquisition of Eastman Kodak's Office Imaging Division" above. The Company's wholesale operations' primary Authorized Manufacturer Agreements are with Copystar, Konica, Minolta, Ricoh, Sharp and Toshiba, and contain terms which are substantially similar to those of the Company's retail operations. Private label facsimile products are provided under purchase agreements with various manufacturers, and the terms of these agreements are similar to the agreements with certain of the Company's photocopier vendors.

COMPETITION

The Company's business is highly competitive with a number of competitors in most geographic markets. The Company's retail operations are in direct competition with local and regional equipment suppliers and dealers, manufacturers, mass merchandisers, and wholesale clubs. Depending upon the customer, principal areas of competition may include: quality and speed of post-sales service support; availability of competitive products, parts and supplies; speed of delivery; product capability and performance; financing terms; and the availability of financing, leasing, or rental programs. The Company's wholesale operations are in direct competition with local, regional, and national distributors and manufacturers. Principal areas of competition for wholesale operations are availability of competitive products, price, speed of delivery, dealer support, centralized volume buying, product performance, and the availability of financing programs. The continued ability of the Company to offer competitive photocopiers in all segment areas is important in both retail and wholesale operations. See -- "Products". As a result of acquiring the Kodak Sales and Services Business, the Company substantially increased its presence in the high-volume photocopier market currently dominated by Xerox Corporation. In addition, the Kodak Sales and Services Business significantly increased the scope of the Company's outsourcing business. Competition in the outsourcing industry is based primarily on the technical solutions devised, the breadth of services offered and pricing. The Company also competes with other large competitors for acquisitions, particularly its principal competitor Ikon Office Solutions, Inc., and in some instances such competition can raise the price of an acquisition.

EMPLOYEES

As of March 31, 1997, the Company employed approximately 21,800 persons, of which approximately 11,600 employees were devoted to service, and approximately 4,400 persons in the Company were devoted to sales. The remaining employees were devoted to training, management, and various administrative and support positions at the regional and corporate locations. Support positions include receiving customer service calls and dispatching service technicians, contacting customers to obtain meter readings, renewing customer maintenance agreements, collecting accounts receivable, controlling inventory, and performing certain billing functions. The Company's total employees doubled in size from March 31, 1996 primarily due to the acquisition of the Kodak Sales and Services Business. The ratio of service employees increased more so due to the higher percentage of service personnel at the Kodak Sales and Services Business.

Some of the Company's non-U.S. employees are subject to labor agreements that establish rates of pay, working hours, procedures for orderly settlement of disputes and other terms and conditions of employment. The Company considers its employee relations to be good, and believes that it provides working conditions and wages which compare favorably to those of its competitors.

The Company relies heavily on its senior management, and the loss of certain Executive Officers could have an adverse effect on the Company. Additionally, the Company's ability to successfully grow and maintain its management and employee base, as well as to successfully integrate acquired company employees during periods of expansion, are extremely important to the Company's continued success.

TRADEMARKS AND SERVICE MARKS

The Company believes that its trademarks and service marks have gained significant recognition in the automated office equipment market and are important to its marketing efforts. The Company has registered various trademarks and service marks in certain markets. The trademarks "Danka", "dex", "Omnifax" and "Infotec" are among those registered marks which are viewed as important to the Company's ongoing business. The Company's policy is to continue to pursue registration of its marks whenever possible and to oppose vigorously any infringement of its proprietary rights. Depending on the jurisdiction, trademarks and service marks are valid as long as they are in use and/or their registrations are properly maintained, and they have not been found to have become generic. Registrations of trademarks and service marks in the United States can generally be renewed indefinitely as long as the trademarks and service marks are in use.

BACKLOG

The backlog of orders at March 31, 1997 and March 31, 1996 were not material.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained throughout this Form 10-K such as statements concerning the anticipated effect of the acquisition of the Kodak Sales and Services Business (the "Acquisition") on the Company's expenses, productivity, and earnings, the expected synergies and efficiencies resulting from the integration of the Acquisition, future intentions for reducing costs and prospects for improving margins and maximizing profitability from the Acquisition, and from the anticipated growth of digital and color equipment and other statements contained herein regarding matters that are not historical facts are "forward looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995) and because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward looking statements. Factors that might cause such differences include, among others, the following: (i) the Company's ability to manage and operate the Kodak Sales and Services Business, (ii) the demands that the Acquisition and integration of the Kodak Sales and Services Business will place, and the effect that such demands will have, on the Company's resources, infrastructure and current operations, (iii) the Company's ability to successfully operate in new international markets, (iv) the ability of the Company to retain current management and other employees of the Kodak Sales and Services Business accustomed to different corporate culture, compensation arrangements and benefits, (v) the Company's ability to successfully manage and reduce the increased debt resulting from the Acquisition, (vi) the Company's ability to achieve the minimum equipment purchase commitments under the Supply Agreements, (vii) the Company's ability to obtain an alternative and acceptable source of high-volume equipment and related parts and supplies in the event the Supply Agreements are not renegotiated or Kodak equipment is not competitive in the marketplace, (viii) increased competition resulting from other high-volume copier distributors and the discounting of such copiers by competitors, (ix) fluctuations in foreign currency, (x) domestic and foreign political developments and governmental regulations and policies, (xi) increased costs resulting from technological developments, (xii) general economic and business conditions, (xiii) future performance of the Kodak Sales and Services Business and the Company's current business, (xiv) the ability of the Company to successfully implement its growth and business strategy, (xv) the ability of the Company to continue to receive acceptable financing as required in the future, (xvi) the Company's inability to achieve substantial operating cost reductions and efficiencies in productivity, (xvii) the potential for unanticipated increases in expenditures for labor, equipment, inventory, materials and supplies required to manage the increased size of the Company as a result of the Acquisition, (xviii) the ability of the Company to continue to gain access to and successfully distribute new and current products brought to the marketplace at competitive costs and prices, and (xix) there can be no assurances that the implementation of the Company's Market Based Approach and new computer system will result in additional efficiencies. Readers are cautioned not to place undue reliance on the forward looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to update the forward looking statements to reflect events or circumstances that arise after the date hereof.

ITEM 2. PROPERTIES

The Company's general policy is to lease, rather than own, its business locations. The Company leases numerous properties for administration, sales and service, and distribution functions. The terms vary under the respective leases and some contain a right of first refusal or an option to purchase the underlying real property and improvements. In general, the Company's lease agreements require it to pay its proportionate share of taxes, common area expenses, insurance, and related costs of such rental properties. In addition, the Company leases in excess of 700 properties for its retail and wholesale operations.

The Company owns several smaller business locations, none of which are necessary to the success of the particular location's business. Generally, these properties were included among the assets obtained in certain acquisitions. In the future, the Company may dispose of such properties and enter into leases of properties which the Company believes may be more desirable or more centrally located.

Management believes that the properties which it occupies are, in general, suitable and adequate for the purposes for which they are utilized. Additional space may be occupied as necessary upon future expansion of operations.

ITEM 3. LEGAL PROCEEDINGS

There are no legal proceedings to which the Company is a party to which the Company believes will have a material adverse effect on its results of operations or its financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET PRICE FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The following table sets forth the high and low sale price per American Depositary Share ("ADS") as reported by the Nasdaq National Market and the high and low middle market quotations (which represent an average of bid and offered prices in pence) for the Ordinary Shares as reported on the London Stock Exchange Official List. Each ADS represents four Ordinary Shares.

	U.S. Dollars per ADS		Pence per Ordinary Share	
	High	Low	High	Low
Fiscal Year 1997:				
Quarter ended June 30, 1996	$51.88	$26.50	848p	468p
Quarter ended September 30, 1996	45.25	22.25	700	403
Quarter ended December 31, 1996	45.13	35.13	663	533
Quarter ended March 31, 1997	46.25	30.25	683	472
Fiscal Year 1996:				
Quarter ended June 30, 1995	$27.75	$22.50	420p	356p
Quarter ended September 30, 1995	37.38	24.13	590	384
Quarter ended December 31, 1995	38.50	29.75	595	489
Quarter ended March 31, 1996	44.50	34.63	714	560

As of March 31, 1997, 42,891,527 ADSs were held of record by 3,692 registered holders and 55,260,942 Ordinary Shares were held of record by 1,530 registered holders. Since some of the ADSs and Ordinary Shares are held by nominees, the number of holders may not be representative of the number of beneficial owners. The Company currently expects to continue its policy of paying semi-annual cash dividends, although there can be no assurance as to future dividends because they are dependent upon future operating results, capital requirements and the Company's financial condition.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is incorporated herein by reference to the information under the heading "Selected Consolidated Financial Data" in the Company's Annual Report to Shareholders for the Year Ended March 31, 1997. See Exhibit 13 to this Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is incorporated herein by reference to the information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report to Shareholders for the Year Ended March 31, 1997. See Exhibit 13 to this Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated herein by reference to the information under the headings "Consolidated Statements of Earnings", "Consolidated Balance Sheets", "Consolidated Statements of Cash Flows", "Consolidated Statements of Shareholders' Equity" and "Notes to the Consolidated Financial Statements" in the Company's Annual Report to Shareholders for the Year Ended March 31, 1997. See Exhibit 13 to this Report. As is the case with any company, prior financial condition and results of operations are not necessarily indicative of future results.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated herein by reference to the information under the headings "MANAGEMENT - Directors and Executive Officers" in the Company's definitive Proxy Statement to be used in connection with the Company's 1997 Annual Meeting of Shareholders, which has been filed with the Commission.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the information under the headings "MANAGEMENT - Compensation of Executive Officers and Directors" in the Company's definitive Proxy Statement to be used in connection with the Company's 1997 Annual Meeting of Shareholders, which has been filed with the Commission.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated herein by reference to the information under the heading "MANAGEMENT - Security Ownership of Management and Others" in the Company's definitive Proxy Statement to be used in connection with the Company's 1997 Annual Meeting of Shareholders, which has been filed with the Commission.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference to the information under the heading "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" in the Company's definitive Proxy Statement to be used in connection with the Company's 1997 Annual Meeting of Shareholders, which has been filed with the Commission.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. The following Financial Statements of the Registrant included in Part II, Item 8, of this Report are incorporated herein by reference as described in Item 8:

Consolidated Statements of Earnings - Years ended March 31, 1997, 1996 and 1995
Consolidated Balance Sheets - March 31, 1997 and 1996
Consolidated Statements of Cash Flows - Years ended March 31, 1997, 1996 and 1995
Consolidated Statements of Shareholders' Equity - Years ended March 31, 1997, 1996 and 1995
Notes to the Consolidated Financial Statements - Years ended March 31, 1997, 1996 and 1995
Independent Auditors' Report

2. The following Financial Statement Schedules of the Registrant are included in Item 14(d):

Independent Auditors' Report

II - Valuation and Qualifying Accounts

All other schedules are omitted because the required information is not present in amounts sufficient to require submission of the schedule, the information required is included in the financial statements and notes thereto or the schedule is not required or inapplicable under the related instructions.

3. Exhibit index:

Exhibit Number	Description of Document
2.1*	Asset Purchase Agreement between Eastman Kodak Company and Danka Business Systems PLC dated as of September 6, 1996, including Exhibit 5.19 (a) which is the form of Amended and Restated Supply Agreement by and between Eastman Kodak Company and ______________________ dated as of ___________________, 1996. (Exhibit 2.1 to the Company's Form 8-K dated November 14, 1996.)
2.2*	Amendment No. 1 to Asset Purchase Agreement between Eastman Kodak Company and Danka Business Systems PLC dated December 20, 1996 (Excluding schedules and similar attachments). (Exhibit 2.2 to the Company's Form 8-K dated January 15, 1997).
3.1*	Memorandum of Association of the Company. (Exhibit 3.1 of Company's Registration Statement on Form 20-F, No. 0-20828, filed on November 10, 1992 [the "1992 Registration Statement"].)
3.2*	Articles of Association of the Company. (Exhibit 3.2 to the 1992 Registration Statement.)

4.1*	Memorandum of Association of the Company, including paragraphs 5 and 6. (Exhibit 2.1 to the 1992 Registration Statement.)
4.2*	Articles of Association of the Company, including sections relating to Shares, Variation of Rights and Votes of Members. (Exhibit 2.2 to the 1992 Registration Statement.)
4.3*	Form of Ordinary share certificate. (Exhibit 4.3 of Company's Registration Statement on Form S-1, No. 33-68278, filed on October 8, 1993 [the "1993 Registration Statement"]).
4.4*	Form of American Depositary Receipt. (Exhibit 4.4 to the 1993 Registration Statement.)
4.5*	Deposit Agreement dated June 25, 1992, Amendment No. 1 dated February 26, 1993 and Amendment No. 2 dated July 2, 1993 (Exhibit 4.9 to the 1993 Registration Statement.) and Amendment No. 3 dated August 16, 1994 between The Bank of New York, Company and Owners and Holders of American Depositary Receipts.
4.6*	Indenture dated March 13, 1995 between the Company and The Bank of New York, as Trustee. (Exhibit 2 to the Company's Form 8-K dated March 21, 1995).
4.7*	Deposit and Custody Agreement dated March 13, 1995, between The Bank of New York as Depositary and the Company. (Exhibit 3 to the Company's Form 8-K dated March 21, 1995).
4.8*	Registration Rights Agreement dated as of March 13, 1995 relating to $175,000,000 in Aggregate Principal Amount of 6.75% Convertible Subordinated Notes Due 2002 by and among the Company and Prudential Securities Incorporated and Smith Barney, Inc. and Robert W. Baird & Co. and Raymond James & Associates, Inc. (Exhibit 4.12 to the Company's 1995 Form 10-K).
4.9*	Resolution No. 8 adopted by shareholders at the 1996 general meeting waiving pre-emptive rights of shareholders under certain circumstances.
4.10*	Credit Agreement dated March 19, 1996 among Danka Business Systems PLC, Danka Holding Company, the several financial institutions from time to time a party to this Agreement, Bank of America National Trust and Savings Association, Bank of America International Limited, Nationsbank, N.A., and Southtrust National Bank of Alabama, N.A., in an amount up to $400.0 million. (Exhibit 1 to the Company's Form 8-K dated March 19, 1996).
4.11*	Credit Agreement dated December 5, 1996, by and among Danka Business Systems PLC, Dankalux Sarl & Co. SCA, Danka Holding Company, the several financial institutions from time to time a party and NationsBank, N.A., as agent (Exhibit 4 to the Company's Form 8-K December 16, 1996).
	No other instruments defining the rights of holders of long-term debt of the Company and its subsidiary have been included as exhibits because the total amount of obligation authorized under any such agreement does not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company hereby agrees to furnish supplementally a copy of any omitted long-term debt instrument to the Commission upon request.
10.1*	Office Building Lease dated February 4, 1986 between Daniel M. Doyle and Francis J. McPeak, Jr., and Copies, Inc. (Exhibit 3.4 to the 1993 Form 20-F).

10.2*	Office Building Lease dated May 1, 1992 between Daniel M. Doyle and Francis J. McPeak, Jr., and Gulf Coast Business Machines. (Exhibit 3.5 to the 1993 Form 20-F).
10.3*	Office Building Lease dated April 1, 1990 between Daniel M. Doyle and Francis J. McPeak, Jr., and Danka. (Exhibit 3.6 to the 1993 Form 20-F).
10.4*	Lease Agreement dated December 22, 1986, and Addendum Lease Agreement dated March 1, 1987, between Daniel M. Doyle and Francis J. McPeak and Danka. (Exhibit 3.7 to the 1993 Form 20-F).
10.5*	U.K. Executive Share Option Scheme. (Exhibit 3.11 to the 1993 Form 20-F).
10.6*	U.S. Executive Incentive Stock Option Plan. (Exhibit 3.12 to the 1993 Form 20-F).
10.7*	Form of Stock Option Agreement. (Exhibit 3.13 to the 1993 Form 20-F).
10.8*	Addendum to Lease Agreement dated September 1, 1992, between Mid-County Investments, Inc. and Danka. (Exhibit 3.38 to the 1993 Form 20-F).
10.9*	Lease Agreement dated November 12, 1992 and Lease Commencement Agreement dated April 7, 1993 between PARD, Inc. and Danka. (Exhibit 10.41 to the 1993 Form 20-F).
10.10*	Deposit Agreement dated June 25, 1992, Amendment No. 1 dated February 26, 1993 and Amendment No. 2 dated July 2, 1993, between The Bank of New York, Company and Owners and Holders of American Depositary Receipts, filed as Exhibit 4.5 and incorporated as reference.
10.11*	Employment Agreement dated April 1, 1994 among the Company, Danka Industries, Inc. and Daniel M. Doyle. (Exhibit 10.49 to the 1994 Form 10-K).
10.12*	Employment Agreement dated April 1, 1994 among the Company, Danka Industries, Inc. and David C. Snell. (Exhibit 10.50 to the 1994 Form 10-K).
10.13*	Employment Agreement dated April 1, 1994 among the Company, Danka Industries, Inc. and Mark A. Vaughan-Lee. (Exhibit 10.51 to the 1994 Form 10-K).
10.14*	Danka Business Systems PLC 1994 Executive Performance Plan. (Exhibit 10.52 to the 1994 Form 10-K).
10.15*	Indenture dated March 13, 1995 between the Company and The Bank of New York, as Trustee. (Exhibit 2 to the Company's Form 8-K dated March 21, 1995).
10.16*	Deposit and Custody Agreement dated March 13, 1995, between The Bank of New York as Depositary and the Company. (Exhibit 3 to the Company's Form 8-K dated March 21, 1995).
10.17*	Registration Rights Agreement dated as of March 13, 1995 relating to $175,000,000 in Aggregate Principal Amount of 6.75% Convertible Subordinated Notes Due 2002 by and among the Company and Prudential Securities Incorporated and Smith Barney, Inc. and Robert W. Baird & Co. and Raymond James & Associates, Inc. (Exhibit 10.24 to the Company's 1995 Form 10-K).

10.18*	Purchase Agreement dated October 25, 1995 between ABN AMRO Bank N.V. and Credit Lyonnais Bank Nederland N.V. and Danka Europe B.V. (Exhibit 2 to the Company's Form 8-K dated November 3, 1995).
10.19*	Credit Agreement dated March 19, 1996 among Danka Business Systems PLC, Danka Holding Company, the several financial institutions from time to time a party to this Agreement, Bank of America National Trust and Savings Association, Bank of America International Limited, Nationsbank, N.A., and Southtrust National Bank of Alabama, N.A., in an amount up to $400.0 million. (Exhibit 1 to the Company's Form 8-K dated March 19, 1996).
10.20*	The Danka 1996 Share Option Plan filed as Appendix 1 of the 1996 Annual Proxy Statement and approved by shareholders under Resolution 10.
10.21*	The Danka 1996 Non-Employee Directors Share Option Plan filed as Appendix 2 of the 1996 Annual Proxy Statement and approved by shareholders under Resolution 11.
13	Annual Report to Shareholders of the Company for the year ended March 31, 1997. Portions of such Annual Report to Shareholders are incorporated by reference into this Report.
21	List of Current Subsidiaries of the Company.
23	Independent Auditors Consent.
27	Financial Data Schedule

* Document has heretofore been filed with the Commission and is incorporated by reference and made a part hereof.

(b) Reports on Form 8-K

On June 26, 1996, the Company filed a report on Form 8-K announcing expected results of operations for the first quarter of fiscal 1997 and the effects to the Company resulting from its change to a market based management approach, expansion of its sales division, and its increased commitment to the sale of color and higher segment products.

On November 14, 1996, the Company filed a report on Form 8-K announcing the Company's second quarter financial results, the agreement with Eastman Kodak Company to acquire the sales, marketing and equipment service operations of Kodak's Office Imaging Business, as well as Kodak's facilities management business known as Kodak Imaging Services (collectively the "Kodak Sales and Services Business"), and the promotion of David Snell to Chief Operating Officer.

On December 16, 1996, the Company filed a report on Form 8-K announcing the Company's New Credit Facility dated December 5, 1996 with NationsBank, N.A. as agent and the approval by the Company's shareholders of the acquisition of the Kodak Sales and Services Business.

On January 3, 1997, the Company filed a report on Form 8-K announcing the Company's closing of the acquisition of the Kodak Sales and Services Business and the Consent of Price Waterhouse LLP dated December 23, 1996.

On January 15, 1997, the Company filed a report on Form 8-K reporting the acquisition of the Kodak Sales and Services Business.

On March 13, 1997, the Company filed a report on Form 8-K/A reporting the audited historical financial statements of the Kodak Sales and Services Business for the nine months ended September 30, 1996 and the unaudited pro forma consolidated statement of earnings for the combined operations of the Company and the Kodak Sales and Serivces Business for the year ended March 31, 1996 and the nine months ended December 31, 1996.

(c) Exhibits:

The exhibits listed in Item 14(a)(3) to this Report are filed with this Report.

(d) Financial Statement Schedules

Report of Independent Auditors

II - Valuation and Qualifying Accounts

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedules.

INDEPENDENT AUDITORS' REPORT

To the Members of Danka Business Systems PLC:

Under date of May 12, 1997, we reported on the consolidated balance sheets of Danka Business Systems PLC and subsidiaries as of March 31, 1997 and 1996 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 1997, as contained in the 1997 annual report to shareholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 1997. In connection with our audits of the aforementioned financial statements, we also have audited the related financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

KPMG Audit Plc
Chartered Accountants
Registered Auditors
London, England

May 12, 1997

DANKA BUSINESS SYSTEMS PLC

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In Thousands)

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts (1)	Deductions (2)	Balance at End of Period
Allowance for doubtful accounts:					
Year ended March 31, 1995	$5,290	$2,016	$1,213	$(2,485)	$6,034
Year ended March 31, 1996	$6,034	$3,717	$8,009	$(8,956)	$8,804
Year ended March 31, 1997	$8,804	$21,062	$12,382	$(14,395)	$27,853

(1) Represents beginning balances of acquired companies.

(2) Represents accounts written off during the year, net of recoveries.

Note: Certain prior year amounts have been reclassified to conform to the current year presentation.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 18, 1997

DANKA BUSINESS SYSTEMS PLC
(Registrant)

By: /s/ DANIEL M. DOYLE

Daniel M. Doyle,
Chief Executive (The Chief Executive Officer)

By: /s/ DAVID C. SNELL

David C. Snell,
Finance Director (The Chief Operating Officer and the Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Company and in the capacities indicated on June 18, 1997.

SIGNATURE	TITLE
/s/ MARK A. VAUGHAN-LEE Mark A. Vaughan-Lee	Chairman and Director
/s/ DANIEL M. DOYLE Daniel M. Doyle	Chief Executive and Director
/s/ DAVID C. SNELL David C. Snell	Finance Director, Chief Operating Officer and Principal Accounting Officer
/s/ DAVID S. HOOKER David S. Hooker	Director
/s/ DAVID W. KENDALL David W. Kendall	Director
/s/ JAMES F. WHITE, JR. James F. White, Jr.	Director
/s/ PIERSON M. GRIEVE Pierson M. Grieve	Director
/s/ KEITH J. MERRIFIELD Keith J. Merrifield	Director

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EXHIBIT 13

FINANCIAL AND CORPORATE INFORMATION

Contents

Note
The financial information in this section has been prepared under United States Generally Accepted Accounting Principles in U.S. dollars. Financial information prepared under United Kingdom Generally Accepted Accounting Principles in pounds sterling may be obtained by contacting the Company's offices at the addresses shown on the inside back cover.

SELECTED CONSOLIDATED FINANCIAL DATA

For the years ended March 31	1997 $000	1996 $000	1995 $000	1994 $000 (Except per ADS data)	1993 $000
STATEMENTS OF EARNINGS DATA:					
REVENUE:					
Retail	1,860,516	1,069,593	702,740	453,218	292,538
Wholesale	240,531	170,711	99,456	78,190	60,157
	2,101,047	1,240,304	802,196	531,408	352,695
GROSS PROFIT:					
Retail	775,342	466,533	306,202	199,080	129,683
Wholesale	44,061	30,116	17,691	14,688	10,164
	819,403	496,649	323,893	213,768	139,847
Selling, general and administrative expenses	650,655	378,407	245,525	162,119	107,668
Amortization of intangible assets	19,386	13,587	6,818	3,765	1,821
Restructuring charges	35,000	8,500	--	--	--
Provision for committed research and development costs	12,500	--	--	--	--
EARNINGS FROM OPERATIONS	101,862	96,155	71,550	47,884	30,358
Interest expense and other, net	33,985	21,566	7,742	3,667	2,751
EARNINGS BEFORE INCOME TAXES	67,877	74,589	63,808	44,217	27,607
Provision for income taxes	25,522	28,241	24,761	17,751	6,395
EARNINGS BEFORE EXTRAORDINARY ITEM	42,355	46,348	39,047	26,466	21,212
Extraordinary item*	578	1,133	--	--	--
NET EARNINGS	41,777	45,215	39,047	26,466	21,212
PER ADS DATA:					
Earnings before extraordinary item	$ 0.73	$ 0.90	$ 0.80	$ 0.59	$ 0.51
Extraordinary item*	(0.01)	(0.02)	--	--	--
Net earnings per ADS	$ 0.72	$ 0.88	$ 0.80	$ 0.59	$ 0.51
Dividends per ADS	$ 0.16	$ 0.13	$ 0.11	$ 0.09	$ 0.07
BALANCE SHEET DATA:					
Total assets	2,459,359	1,091,556	635,314	356,804	164,504
Long-term debt, less current maturities	1,059,823	318,262	233,681	67,520	19,954
Shareholders' equity	465,731	441,843	206,408	169,925	62,154

*Extraordinary item in fiscal 1997 and 1996 represents the loss on early extinguishment of debt, net of the related income tax benefit.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company

Danka Business Systems PLC and its subsidiaries (the "Company") is one of the world's largest independent suppliers of photocopiers, facsimiles and other related automated office equipment. The Company primarily markets these products and related service, parts and supplies on a direct basis to retail customers. The Company also markets photocopiers, facsimiles, and related parts and supplies on a wholesale basis to dealers. The Company principally distributes the products of Canon, Kodak, Konica, Minolta, Ricoh, Sharp and Toshiba. The Company became the exclusive distributor of Kodak branded photocopiers and printers in December 1996 after completing the acquisition of Eastman Kodak Company's Office Imaging division and facilities management business.

Effective December 31, 1996, the Company acquired from Eastman Kodak Company ("Kodak") (i) the net assets relating to the sales, marketing, distribution and services business of Kodak's Office Imaging and Customer Equipment Services business units and (ii) all of the issued and outstanding stock of certain subsidiaries of Kodak which constitute the facilities management services business known as Kodak Imaging Services (collectively, the "Kodak Sales and Services Business"). The Company paid net cash of $688.0 million for the Kodak Sales and Services Business, subject to post-closing adjustments. The purchase price was funded exclusively by a new six-year multicurrency $1.275 billion credit agreement. As of December 31, 1995, the net assets of the Kodak Sales and Services Business were approximately $800.0 million, and for such year, generated revenue of $1.8 billion and net earnings before income taxes of $25.0 million. For the nine months ended September 30, 1996, the Kodak Sales and Services Business generated revenue of $1.3 billion and net earnings before income taxes of $72.0 million.

The Kodak Sales and Services Business is engaged worldwide in the direct sale and marketing of Kodak manufactured and branded black and white and accent color high-volume photocopiers, duplicators and printers, as well as Kodak branded mid-volume black and white and color photocopiers manufactured by Canon, Inc., and in some cases, remanufactured by Kodak. The Kodak Sales and Services Business also provides on-site repair and technical and field engineering support for equipment sold, leased and rented to others by the Kodak Sales and Services Business and by other photocopier distributors. In addition, the Kodak Sales and Services Business provides customers with facilities management services, including the management of central reprographics departments, the placement and maintenance of convenience copiers, the operation of mail centers, the processing of statements, print-on-demand operations and document archiving and retrieval services. The acquisition of the Kodak Sales and Services Business greatly enhances the Company's product line and significantly increases the scope of its outsourcing business.

In connection with the acquisition of the Kodak Sales and Services Business, Kodak and certain affiliates of the Company entered into a number of agreements effective December 31, 1996 relating to the purchase, sale and service of electrophotographic equipment and related software, supplies, accessories and spare parts manufactured or remanufactured by Kodak (the "Supply Agreements"). Pursuant to the Supply Agreements, the Company is required to purchase from Kodak various levels of Kodak manufactured or remanufactured electrophotographic equipment and accessories, spare parts, supplies and toner. The Company's pricing for Kodak branded products is based on its purchases of agreed upon levels. To the extent the Company exceeds or fails to purchase these amounts, the Company may either receive a refund or be required to make additional payments. Currently, the Company believes that it will meet its required purchasing levels. Subject to certain limitations, the Company has the worldwide exclusive right to distribute Kodak's currently existing line of electrophotographic equipment for office imaging and reprographics manufactured or remanufactured by Kodak, and the related software, supplies, accessories and spare parts and a right of first refusal to exclusively distribute worldwide certain future electrophotographic products manufactured by Kodak for office imaging and reprographics. The Company has also agreed to contribute a total of $175.0 million (plus an additional $30.0 million if certain research milestones are met) to Kodak's ongoing research and development for new electrophotographic products to be funded over the period April 1, 1997 through December 31, 2002. The Company and Kodak have appointed three representatives to serve as members of an advisory committee which meet on a regular basis to discuss overall research and development progress. Additionally, Kodak has agreed to fund the Company $30.0 million per year over three years, to promote the sale of Kodak branded products in Europe, Asia and Latin America. For the year ended March 31, 1997, the Company recognized approximately $8.0 million of income under this agreement.

Currently, 63% of the Kodak Sales and Services Business is conducted in North America and 34% in Europe. Approximately 90% of the Kodak Sales and Services Business is operated in countries in which the Company was already conducting its business. The Company's goal is to increase the net margins of the Kodak Sales and Services Business

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

through certain cost efficiencies and synergies it expects to achieve by operating the businesses. A number of factors will be important in the Company's goal of successfully integrating the acquired business into the Company. The acquisition of the Kodak Sales and Services Business is the largest acquisition by the Company to date. There can be no assurances regarding the ultimate impact of the Kodak Sales and Services Business on the Company and its future business and operations.

The Company recorded a $35.0 million pre-tax restructuring charge in the third quarter of fiscal 1997 related to the integration of the Kodak Sales and Services Business and the related transition to the Company's Market Based Approach in North America. The restructuring charge included, among other things, severance and other employee termination benefits, lease settlement costs associated with the consolidation of duplicate facilities and the write-off of certain fixed assets. Charges related to the integration of the Kodak Sales and Services Business consist mainly of the costs associated with the planned closure of certain of the Company's facilities which are duplicative of some acquired facilities.

To further the Company's goal of providing better support for its sales and service force as well as its customers, the Company began moving away from its traditional branch management concept to a more centralized, market oriented support concept of administration in North America (the "Market Based Approach") during the first quarter of fiscal 1997. The Company's goal is for the transition to be fully implemented, excluding the Kodak Sales and Services Business, by the first half of fiscal 1998 and once complete, the Company's North American operations will consist of approximately 22 regions with numerous markets within each region. As a result of the transition to the Market Based Approach, the Company experienced a short-term duplication of certain administrative and management functions, which resulted in an increase in selling, general and administrative expenses during the first half of fiscal 1997. The Company is also in the process of rolling out a new computer system for the North American operations which is expected to be complete by the third quarter of fiscal 1998. The completion of these two initiatives are intended to help facilitate additional future efficiencies in the Company's North American operations.

Results of Operations

The following table sets forth for the periods indicated the percentage of total revenue represented by certain items in the Company's Consolidated Statements of Earnings:

	Year Ended March 31		
	1997	1996	1995
REVENUE:			
Retail equipment sales	33.3%	38.2%	40.5%
Retail service, supplies and rentals	55.3	48.0	47.1
Wholesale	11.4	13.8	12.4
TOTAL REVENUE	100.0	100.0	100.0
Cost of revenue	61.0	60.0	59.6
GROSS PROFIT	39.0	40.0	40.4
Selling, general and administrative expenses	31.0	30.5	30.6
Amortization of intangible assets	0.9	1.1	0.9
Restructuring charges	1.7	0.7	--
Provision for committed research and development costs	0.6	--	--
EARNINGS FROM OPERATIONS	4.8	7.7	8.9
Interest expense and other, net	1.6	1.7	0.9
EARNINGS BEFORE INCOME TAXES	3.2	6.0	8.0
Provision for income taxes	1.2	2.3	3.1
EARNINGS BEFORE EXTRAORDINARY ITEM	2.0	3.7	4.9
Extraordinary item	--	0.1	--
NET EARNINGS	2.0%	3.6%	4.9%

The following table sets forth for the periods indicated the gross profit margin percentage for each of the Company's revenue classifications:

	Year Ended March 31 1997	1996	1995
Retail equipment sales	37.4%	39.3%	39.4%
Retail service, supplies and rentals	44.2	47.1	47.2
Wholesale	18.3	17.6	17.8

Revenue: In fiscal 1997, the Company achieved record revenue of $2.1 billion compared with revenue of $1.2 billion in fiscal 1996 and $802.2 million in fiscal 1995. Revenue increased by 69% in fiscal 1997 and 55% in fiscal 1996.

The increase resulted from growth in core operations as well as significant contributions from acquisitions. Growth in the Company's core operations was principally a result of its focus on major accounts, its increased penetration in segment 5 and its entry into segment 6 high-volume copiers, and increased sales of digital color photocopiers. During the past four years, the Company has made over 110 acquisitions adding approximately $2.8 billion of acquired annualized revenue. The Company's two most significant acquisitions during this period were the acquisition of Infotec Europe B.V. and its subsidiaries in November 1995 and the acquisition of the Kodak Sales and Services Business in December 1996. As a result of the acquisition of the Kodak Sales and Services Business, the Company's revenue mix has changed. As a percentage of revenue, retail service, supplies and rentals have increased, while retail equipment sales and wholesale revenue have decreased.

Gross profit: Gross profit increased 65% to $819.4 million in fiscal 1997 from $496.6 million in fiscal 1996, and 53% in fiscal 1996 from $323.9 million in fiscal 1995. Gross profit as a percentage of total revenue decreased to 39.0% in fiscal 1997 from 40.0% in fiscal 1996 and 40.4% in fiscal 1995. The decrease in fiscal 1997 was due to the Company's acquisition of the Kodak Sales and Services Business which has lower individual gross profit margins than the Company's core operations, and to lower margins on retail equipment revenue. The decrease in fiscal 1996 from fiscal 1995 related to a higher mix of wholesale revenue. Gross profit as a percentage of retail equipment sales decreased to 37.4% in fiscal 1997 from 39.3% in fiscal 1996 due to the acquisition of the Kodak Sales and Services Business which has lower retail equipment margins than the Company's core operations, and to lower margins on retail equipment revenue. Retail equipment margins were also impacted by the discounting of high-volume machines during the second half of the year. Under the Supply Agreements, the Company is purchasing Kodak branded equipment at significantly lower prices than prior to the acquisition of the Kodak Sales and Services Business. In an effort to increase the sales of remaining Kodak high-volume copiers, the Company instituted lower pricing of the inventory on hand at the time of acquisition. In fiscal 1996, this margin remained relatively constant at 39.3% compared to 39.4% in fiscal 1995. As a percentage of revenue, gross profit on retail service, supplies and rentals decreased in fiscal 1997 to 44.2% from 47.1% in fiscal 1996. This was primarily due to the Company's acquisition of the Kodak Sales and Services Business which has lower individual gross profit margins than the Company's core operations. This margin in fiscal 1996 and fiscal 1995 remained relatively constant at 47.1% and 47.2%, respectively. Gross profit as a percentage of wholesale revenue also remained relatively constant at 18.3%, 17.6% and 17.8% in fiscal 1997, 1996 and 1995, respectively.

Selling, general and administrative expenses: Selling, general and administrative expenses increased 72% to $650.7 million in fiscal 1997 and 54% in fiscal 1996. The increases were primarily related to acquisitions. As a percentage of total revenue, selling, general and administrative expenses increased to 31.0% in fiscal 1997 from 30.5% in fiscal 1996. The increase related to the Company's aggressive hiring and training of new sales representatives and support personnel during the first half of fiscal 1997 as well as to costs incurred to regionally centralize certain management and administrative functions in the transition to the Market Based Approach in North America. As a percentage of revenue, selling, general and administrative expenses in fiscal 1996 and 1995 remained relatively constant.

Amortization of intangible assets: Amortization of intangible assets increased to $19.4 million in fiscal 1997 from $13.6 million in fiscal 1996 and $6.8 million in fiscal 1995. These increases related to acquisitions for which additional intangible assets are being amortized.

Restructuring charges: The Company recorded a $35.0 million pre-tax restructuring charge during the third quarter of fiscal 1997 related to the integration of the Kodak Sales and Services Business and the related transition to the Company's Market Based Approach in North America. The Company also recorded an $8.5 million restructuring charge in the third quarter of fiscal 1996 principally related to the restructuring of its international operations. The restructuring charges included, among other things, severance and other employee termination benefits, lease settlement costs associated with the consolidation of duplicate facilities, and the write-off of certain leasehold improvements and other fixed assets.

Provision for committed research and development costs: In connection with the acquisition of the Kodak Sales and Services Business, the Company will provide funding to Kodak for ongoing research and development. For fiscal 1997, the Company recorded a provision for committed research and development costs of $12.5 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Earnings from operations: Earnings from operations rose to $101.9 million in fiscal 1997, a 6% increase over fiscal 1996 earnings from operations of $96.2 million. Fiscal 1996 earnings from operations were 34% higher than fiscal 1995 earnings from operations of $71.6 million. The increases primarily related to increased total revenue. As a percentage of total revenue, earnings from operations were 4.8%, 7.7% and 8.9% in fiscal 1997, 1996 and 1995, respectively. The decrease in earnings from operations as a percentage of revenue during fiscal 1997 was principally due to the $35.0 million restructuring charge, the $12.5 million provision for committed research and development costs, and to a lower combined gross profit margin. The decrease in fiscal 1996 was principally due to the $8.5 million restructuring charge and higher levels of amortization of intangible assets.

Interest expense and other, net: Interest expense increased to $34.0 million in fiscal 1997 from $21.6 million in fiscal 1996 and $7.7 million in fiscal 1995. Interest expense increased in fiscal 1997 primarily due to borrowings used to fund the acquisition of the Kodak Sales and Services Business. The increase in fiscal 1996 from fiscal 1995 primarily related to the Company's acquisition program which was financed in part with the net proceeds from the issuance in March 1995 of the Company's 6.75% Convertible Subordinated Notes due 2002, and borrowings under its credit facilities.

Income taxes: Income taxes decreased to $25.5 million in fiscal 1997 from $28.2 million in fiscal 1996 and increased from $24.8 million in fiscal 1995. The decrease in fiscal 1997 primarily related to the restructuring charge which impacted earnings before income taxes. The effective tax rate was 37.6% for fiscal 1997, 37.9% for fiscal 1996 and 38.8% for fiscal 1995. These rates have decreased due to higher earnings outside of the U.S. for which the effective tax rates are lower.

Extraordinary item: In the third quarter of fiscal 1997, the Company recorded an extraordinary loss of $0.6 million related to the early extinguishment of debt, net of the income tax benefit of $0.3 million. The extraordinary charge resulted from the early retirement of the Company's $400.0 million credit facility and consisted primarily of the write-off of unamortized deferred finance costs. The Company recorded a similar charge in the fourth quarter of fiscal 1996 in the amount of $1.1 million, net of the income tax benefit of $0.7 million.

Net earnings: As a result of the above factors, net earnings decreased 8% to $41.8 million in fiscal 1997 and increased 16% to $45.2 million in fiscal 1996. As a percentage of total revenue, net earnings were 2.0% in fiscal 1997, 3.6% in fiscal 1996 and 4.9% in fiscal 1995. The decreases in fiscal 1997 and fiscal 1996 were primarily due to the respective restructuring charges as well as to higher levels of interest expense. Fiscal 1997 was also impacted by the provision for committed research and development costs.

Exchange Rates

Fluctuations in the exchange rate between the pound sterling and the U.S. dollar affect the dollar equivalent of the pound sterling of the Ordinary Shares of the Company on the London Stock Exchange and, as a result, are likely to affect the market price of the ADSs. Additionally, the Company declares its dividends in pounds sterling. Fluctuations in exchange rates will affect dividend income measured in U.S. dollars because the Depositary is required to convert pounds sterling into U.S. dollars at the prevailing exchange rates at the time of making any dividend payments or other distributions. The Company operates in over 30 countries worldwide, and therefore, fluctuations in exchange rates between the U.S. dollar and the currencies in each of the countries in which the Company operates, will affect the results of the Company's international operations reported in U.S. dollars and the value of such operations' net assets reported in U.S. dollars. The Company has significantly increased its international business over the last few years and most recently, with the acquisition of the Kodak Sales and Services Business, has added 19 additional countries. The results of operations, financial condition and competitive position of the Company's business may be affected by the relative strength of its currencies in countries where its products are currently sold. The Company's results of operations and financial condition may be affected by fluctuations in foreign currencies and by translations of the financial statements of the Company's foreign subsidiaries from local currencies into U.S. dollars.

The Company purchases a significant amount of its automated office equipment, related parts and supplies from Japanese manufacturers. The purchase price for these products is generally denominated in local currencies and therefore, short term fluctuations in the local currencies relative to the Japanese yen do not impact the Company's purchase price. However, if the yen were to strengthen significantly against the U.S. dollar, this would impact the yen amounts received by the Company's Japanese manufacturers as they converted the U.S. dollars received from the Company and other dealers into yen. As a result, Japanese manufacturers could raise prices. The Company has historically been successful in passing price increases on to its customers. However, there can be no assurances that it can continue to do so in the future. Also, most of the Company's service contracts are for one year periods and accordingly, pricing for parts and supplies could not be adjusted until the contract was renewed.

Liquidity and Capital Resources
The Company's net cash flow provided by operating activities was $192.7 million, $57.2 million and $52.0 million for fiscal 1997, 1996 and 1995, respectively. Cash flow provided by operating activities was significantly impacted in fiscal 1997 by the acquisition of the Kodak Sales and Services Business. The net assets acquired contained low levels of accounts payable, and the normal buildup of trade payables positively impacted fiscal 1997 operating cash flow. Cash flow used in investing activities was $871.6 million, $306.6 million and $126.6 million for fiscal 1997, 1996 and 1995, respectively. The increases were primarily due to the Company's acquisition of the Kodak Sales and Services Business in fiscal 1997 and of Infotec Europe B.V. and its subsidiaries in fiscal 1996. Net cash provided by financing activities was $707.5 million, $198.1 million and $145.9 million in fiscal 1997, 1996 and 1995, respectively. The increase in fiscal 1997 was primarily due to higher levels of borrowings for the purchase of the Kodak Sales and Services Business made available through the $1.275 billion credit agreement discussed below.

In December 1996 the Company signed a six-year $1.275 billion multicurrency credit agreement (the "Credit Agreement") with a consortium of international banks. The proceeds from the Credit Agreement were utilized to purchase the Kodak Sales and Services Business, to repay the outstanding balance under the Company's previous $400.0 million credit facility, as well as for ongoing working capital and general corporate purposes. The Credit Agreement provides the Company with a revolving component in aggregate amount of up to $725.0 million, and a term loan/letter of credit component of $550.0 million. The Credit Agreement is secured and guaranteed by certain of the Company's subsidiaries and a covenant that the Company will not pledge its assets except as specifically permitted under the terms of the Credit Agreement. The Credit Agreement contains negative and affirmative covenants and agreements which place restrictions on the Company regarding disposition of assets, capital expenditures, additional indebtedness, permitted liens and payment of dividends, as well as requiring the maintenance of certain financial ratios. The adjustable interest rate on the Credit Agreement is, at the option of the Company, either: (i) the London InterBank Offered Rate plus a tiered margin based on leverage for the periods of one, two, three or six months or (ii) an alternative base rate, consisting of the higher of the lead bank's prime rate or the Federal Funds Rate plus 0.5%. Interest expense is expected to significantly rise in the near future due to the use of proceeds from the Credit Agreement to acquire the Kodak Sales and Services Business. As of March 31, 1997 the Credit Agreement had an outstanding balance of approximately $329.6 million under the revolving component and $532.2 million under the term loan, all of which was incurring interest at a weighted average rate of 5.6% per annum. Therefore, subject to availability under the covenants, $413.2 million was available for future borrowings.

In March 1995, the Company issued $200.0 million of 6.75% Convertible Subordinated Notes (the "Notes") at par, in a private placement offering, due April 2002. The Notes are convertible into the Company's ADSs at a conversion rate of $29.125 per ADS, or into the Company's Ordinary Shares at a conversion rate of $7.281 per Ordinary Share (equivalent to approximately 34.335 ADSs or 137.339 Ordinary Shares for each $1,000 principal amount of Notes). Interest is payable semi-annually on April 1 and October 1. The Notes are not subject to sinking fund requirements.

The Company has a number of other loans and credit facility arrangements with banks, financial institutions and certain other individuals which had an aggregate balance of $39.4 million at March 31, 1997. This balance is primarily comprised of various cash management lines of credit (the "Lines") in each of the countries in which the Company operates. The Lines provide for daily liquidity of local operations in each such country, and vary widely in terms and conditions.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

While the Company does not have any other material contractual commitments for capital expenditures other than the funding of Kodak's research and development efforts, additional investments in facilities and computer equipment will continue to be necessary to support the anticipated growth of the business, and the transition of the Kodak Sales and Services Business off of Kodak's computer system. The Company's cash flow from operations together with the borrowing capacity under the Credit Agreement are expected to be adequate to finance its operating cash requirements and capital expenditures for the short-term. It is anticipated that future acquisitions and growth in the long-term will be funded primarily with cash flow from operations, borrowings available under the Credit Agreement, other credit sources and, where desirable, funding from the sale of additional debt or equity securities.

Seasonality
The Company experiences some seasonality in its business. The Company's European and Canadian operations have historically experienced lower revenues and net earnings for the three month period ended September 30 due to increased vacation time by Europeans and Canadians during July and August. This has resulted in reduced sales activity and reduced usage of photocopiers, facsimiles and other automated office equipment during such period.

Impacts of Inflation
The Company believes that inflation has not had a significant impact on its operations.

Special Note Regarding Forward Looking Statements
Certain statements contained throughout this Annual Report such as statements concerning the anticipated effect of the acquisition of the Kodak Sales and Services Business (the "Acquisition") on the Company's expenses, productivity and earnings, the expected synergies and efficiencies resulting from the integration of the Acquisition, future intentions for reducing costs and prospects for improving margins and maximizing profitability arising from the Acquisition, and from the anticipated growth of digital and color equipment and other statements contained herein regarding matters that are not historical facts are "forward looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995) and because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward looking statements. Factors that might cause such differences include, among others, the following: (i) the Company's ability to manage and operate the Kodak Sales and Services Business, (ii) the demands that the Acquisition and integration of the Kodak Sales and Services Business will place, and the effect that such demands will have, on the Company's resources, infrastructure and current operations, (iii) the Company's ability to successfully operate in new international markets, (iv) the ability of the Company to retain current management and other employees of the Kodak Sales and Services Business accustomed to different corporate culture, compensation arrangements and benefits, (v) the Company's ability to successfully manage and reduce the increased debt resulting from the Acquisition, (vi) the Company's ability to achieve the minimum equipment purchase commitments under the Supply Agreements, (vii) the Company's ability to obtain an alternative and acceptable source of high-volume equipment and related parts and supplies in the event the Supply Agreements are not renegotiated or Kodak equipment is not competitive in the marketplace, (viii) increased competition resulting from other high-volume copier distributors and the discounting of such copiers by competitors, (ix) fluctuations in foreign currency, (x) domestic and foreign political developments and governmental regulations and policies, (xi) increased costs resulting from technological developments, (xii) general economic and business conditions, (xiii) future performance of the Kodak Sales and Services Business and the Company's current business, (xiv) the ability of the Company to successfully implement its growth and business strategy, (xv) the ability of the Company to continue to receive acceptable financing as required in the future, (xvi) the Company's inability to achieve substantial operating cost reductions and efficiencies in productivity, (xvii) the potential for unanticipated increases in expenditures for labor, equipment, inventory, materials and supplies required to manage the increased size of the Company as a result of the Acquisition, (xviii) the ability of the Company to continue to gain access to and successfully distribute new and current products brought to the marketplace at competitive costs and prices, and (xix) there can be no assurances that the implementation of the Company's Market Based Approach and new computer system will result in additional efficiencies. Readers are cautioned not to place undue reliance on the forward looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to update the forward looking statements to reflect events or circumstances that arise after the date hereof.

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended March 31	Note	1997 $000	1996 $000 (Except per ADS data)	1995 $000
REVENUE:				
Retail equipment sales		698,996	474,116	324,758
Retail service, supplies and rentals		1,161,520	595,477	377,982
Wholesale		240,531	170,711	99,456
Total revenue		2,101,047	1,240,304	802,196
COSTS AND OPERATING EXPENSES:				
Cost of retail equipment sales		437,387	288,000	196,953
Retail service, supplies and rental costs		647,787	315,060	199,585
Wholesale costs of revenue		196,470	140,595	81,765
Selling, general and administrative expenses		650,655	378,407	245,525
Amortization of intangible assets		19,386	13,587	6,818
Restructuring charges	11	35,000	8,500	--
Provision for committed research and development costs		12,500	--	--
Total costs and operating expenses		1,999,185	1,144,149	730,646
EARNINGS FROM OPERATIONS		101,862	96,155	71,550
Interest expense and other, net	4	33,985	21,566	7,742
EARNINGS BEFORE INCOME TAXES		67,877	74,589	63,808
Provision for income taxes	7	25,522	28,241	24,761
EARNINGS BEFORE EXTRAORDINARY ITEM		42,355	46,348	39,047
Extraordinary item--loss on early extinguishment of debt, net of income tax benefit of $349 (1996--$691)	4	578	1,133	--
NET EARNINGS		41,777	45,215	39,047
EARNINGS PER ADS:				
Earnings before extraordinary item		$ 0.73	$ 0.90	$ 0.80
Extraordinary item		(0.01)	(0.02)	--
NET EARNINGS PER ADS		$ 0.72	$ 0.88	$ 0.80
Weighted average ADSs outstanding		57,725	51,533	$ 48,735

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

At March 31	Note	1997 $000	1996 $000
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		73,875	38,217
Accounts receivable, net of allowance for doubtful accounts of $27,853 (1996--$8,804)		847,258	247,479
Inventories		488,931	214,519
Prepaid expenses and other current assets		39,534	9,534
TOTAL CURRENT ASSETS		1,449,598	509,749
Equipment on operating leases, net	2	311,069	73,303
Property and equipment, net	3	87,768	42,795
Intangible assets:			
Goodwill, net of accumulated amortization of $39,235 (1996--$22,391)	5	460,262	427,354
Noncompete agreements, net of accumulated amortization of $9,128 (1996--$6,944)		7,100	8,490
Other assets		143,562	29,865
TOTAL ASSETS		2,459,359	1,091,556
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term debt and notes payable	4	41,385	30,414
Accounts payable		446,612	88,817
Accrued expenses and other current liabilities		323,596	108,621
Deferred revenue		69,149	64,223
TOTAL CURRENT LIABILITIES		880,742	292,075
Convertible subordinated notes	4	200,000	200,000
Other long-term debt	4	859,823	118,262
Deferred income taxes and other long-term liabilities	7	53,063	39,376
TOTAL LIABILITIES		1,993,628	649,713
SHAREHOLDERS' EQUITY:			
Ordinary shares 1.25 pence stated value; 500,000,000 authorized; 226,827,049 issued and outstanding (1996--219,112,247)	9	4,734	4,585
Additional paid-in capital		301,623	297,378
Retained earnings		186,306	148,501
Currency translation adjustment		(26,932)	(8,621)
TOTAL SHAREHOLDERS' EQUITY		465,731	441,843
Commitments and contingencies	10		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,459,359	1,091,556

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31	1997 $000	1996 $000	1995 $000
OPERATING ACTIVITIES			
Net earnings	41,777	45,215	39,047
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	96,414	52,136	32,400
Loss (gain) on sale of property and equipment	1,039	3,081	(2,730)
Proceeds from sale of rental equipment	12,505	9,018	9,459
Extraordinary item	927	494	--
Changes in assets and liabilities, net of effects from the purchase of subsidiaries:			
Accounts receivable	(37,549)	(32,806)	(17,561)
Inventories	(65,204)	(16,721)	(26,699)
Prepaid expenses and other current assets	(8,688)	(3,751)	1,789
Income tax refund receivable	--	--	4,492
Other noncurrent assets	(24,137)	(4,039)	(4,444)
Accounts payable	165,448	3,687	5,841
Accrued expenses	20,229	843	4,181
Deferred revenue	(11,160)	(9,463)	(1,889)
Deferred income taxes and other long-term liabilities	1,053	9,511	8,075
NET CASH PROVIDED BY OPERATING ACTIVITIES	192,654	57,205	51,961
INVESTING ACTIVITIES			
Capital expenditures	(92,747)	(45,212)	(51,256)
Proceeds from sale of property and equipment	16,890	1,961	9,127
Payment for purchase of subsidiaries, net of cash acquired	(794,672)	(269,860)	(70,752)
Payment for purchase of noncompete agreements	(1,058)	(4,312)	(2,315)
Purchase of investments	--	--	(11,451)
Net proceeds from sale of investments	--	10,854	--
NET CASH USED IN INVESTING ACTIVITIES	(871,587)	(306,569)	(126,647)
FINANCING ACTIVITIES			
Net borrowings (payments) under line of credit agreements	734,057	74,773	(35,431)
Principal payments on debt	(19,670)	(69,047)	(13,659)
Net proceeds from issuance of Convertible Subordinated Notes	--	--	195,000
Net proceeds from issuance of other long-term debt	--	1,599	4,132
Net proceeds from ADS offering	--	195,985	--
Proceeds from stock options exercised	2,131	935	833
Dividends	(9,015)	(6,164)	(4,970)
NET CASH PROVIDED BY FINANCING ACTIVITIES	707,503	198,081	145,905
EFFECT OF EXCHANGE RATES	7,088	2,652	9
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	35,658	(48,631)	71,228
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	38,217	86,848	15,620
CASH AND CASH EQUIVALENTS, END OF PERIOD	73,875	38,217	86,848
SUPPLEMENTAL DISCLOSURES			
Cash flow information:			
Interest paid	26,739	21,958	7,871
Income taxes paid	13,980	15,008	11,634
Non-cash flow information:			
Notes payable issued for noncompete agreements	--	3,030	1,745
Notes payable issued for purchase of subsidiaries	288	21,932	29,205

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Ordinary shares $000	Additional paid-in capital $000	Retained earnings $000	Currency translation adjustment $000	Total $000
BALANCES AT MARCH 31, 1994	3,974	90,376	76,066	(491)	169,925
Net earnings	--	--	39,047	--	39,047
Dividends	--	--	(4,970)	--	(4,970)
Currency translation adjustment	--	--	--	(71)	(71)
Shares issued under employee option plans	35	798	--	--	833
Shares issued for acquisitions	41	1,603	--	--	1,644
BALANCES AT MARCH 31, 1995	4,050	92,777	110,143	(562)	206,408
Net earnings	--	--	45,215	--	45,215
Dividends	--	--	(6,164)	--	(6,164)
Distributions to former shareholders of pooled companies	--	--	(693)	--	(693)
Currency translation adjustment	--	--	--	(8,059)	(8,059)
Shares issued under employee option plans	35	900	--	--	935
Shares issued in public offering	380	195,605	--	--	195,985
Shares issued for acquisitions	120	8,096	--	--	8,216
BALANCES AT MARCH 31, 1996	4,585	297,378	148,501	(8,621)	441,843
Net earnings	--	--	41,777	--	41,777
Dividends	--	--	(9,015)	--	(9,015)
Distributions to former shareholders of pooled companies	--	--	(324)	--	(324)
Currency translation adjustment	--	--	--	(18,311)	(18,311)
Shares issued under employee option plans	14	2,117	--	--	2,131
Shares issued for acquisitions	135	2,128	5,367	--	7,630
Balances at March 31, 1997	4,734	301,623	186,306	(26,932)	465,731

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(a) Basis of preparation: The financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles. The principal accounting policies are set forth below.

(b) Basis of consolidation: The consolidated financial statements include the accounts of Danka Business Systems PLC and its subsidiaries (the "Company"). The Company's principal operating subsidiaries are located in North America, Europe, Australasia, and Latin America, and are principally engaged in the retail and wholesale distribution and service of photocopiers and facsimile equipment and outsourcing of document imaging solutions. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at year end and the reported amounts of revenues and expenses during the reporting period. Certain significant estimates are disclosed throughout this report. Actual results could differ from these estimates.

(d) Revenue recognition: Equipment sales are recognized at the time of customer acceptance, or in the case of equipment sales financed by third party leasing companies, at the time of acceptance by the leasing company and the customer. Supply sales to customers are recognized at the time of shipment, or in the case of service contracts which include supplies, upon usage by the customer.

Operating lease income is recognized as earned and maintenance contract service revenues are recognized ratably over the term of the underlying maintenance contract. Revenue from outsourcing contracts is recognized as earned over the contract term. Deferred revenue consists of unearned maintenance contract revenue that is recognized using the straight-line method over the life of the related contract, generally twelve months.

(e) Property and equipment: Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is provided using the straight-line method over the assets' estimated economic lives. Expenditures for additions, major renewals or betterments are capitalized and expenditures for repairs and maintenance are charged to earnings as incurred. When property and equipment are retired or otherwise disposed of, the cost thereof and the applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is reflected in earnings.

(f) Inventories: Inventories consist of photocopiers, facsimile equipment, other automated office equipment, and related parts and supplies, and are valued at the lower of cost (specific cost for equipment and first-in, first-out method for supplies and parts) or market value.

(g) Intangibles: Goodwill recognized in business combinations accounted for as purchases is amortized over thirty years on a straight-line basis, and is evaluated for recoverability whenever adverse effects or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments would be recognized if future undiscounted cash flows and earnings from operations were not sufficient to recover the goodwill and the carrying amount of the goodwill would be reduced by the estimated shortfall of the discounted cash flows. At March 31, 1997, the Company believes that there is no impairment of goodwill. Noncompete agreements are amortized over the lives of the agreements, generally three to seven years on a straight-line basis. Deferred financing costs incurred in connection with the issuance of the Convertible Subordinated Notes and other financings are charged as interest expense over the term of the related debt, and are included in other noncurrent assets.

(h) Foreign currencies: Foreign currency transactions are converted at the rate of exchange on the date of the transaction or translated at the year end rate in the case of transactions not then finalized. Assets and liabilities in currencies other than U.S. dollars are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated using the average rate of exchange for the period. Exchange differences arising in consolidation are recorded in shareholders' equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(i) Cash and cash equivalents: Cash and cash equivalents consist of cash on hand and commercial paper with original maturities of three months or less.

(j) Income taxes: Income taxes are provided in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes." Under Statement No. 109, full provision is made for all deferred tax liabilities. Deferred tax assets are recognized for deductible temporary differences and net operating losses, reduced by a valuation allowance if it is more likely than not that some portion or all of the benefit will not be recognized.

(k) Earnings per share: Earnings per American Depositary Share ("ADS") are based on net earnings and the weighted average number of ADSs outstanding during the year, as adjusted for shares issuable upon exercise of share options. The computation assumes the proceeds from the exercise of share options are used to repurchase the Company's ADSs at the average market price of the ADSs during the year. Earnings per ADS are based on the current ratio of four Ordinary Shares to one ADS.

(l) Concentrations of credit risk: Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. The Company's cash and cash equivalents are placed with high credit quality financial institutions, and are invested in short-term maturity, highly rated corporate and government debt securities. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many different industries and geographical areas. As of March 31, 1997, the Company had no significant concentrations of credit risk.

(m) Financial instruments: The Company enters into foreign exchange forward and option contracts to manage its exposure to fluctuations in foreign currency exchange rates. Gains and losses that hedge specific currency commitments are deferred and recognized in net earnings in the period in which the transaction is consummated. Premiums paid on option contracts that hedge specific currency commitments are amortized over the term of the option.

(n) Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

(o) Advertising costs: The Company expenses advertising costs as incurred, except production costs which are expensed the first time the advertising takes place.

2. Equipment on Operating Leases, net
Substantially all of the Company's operating leases are cancelable. Equipment on operating leases is depreciated over three to five years assuming a salvage value ranging from zero to ten percent and consists of the following at March 31, 1997 and 1996:

	1997 $000	1996 $000
Equipment on operating leases	399,296	109,589
Less accumulated depreciation	(88,227)	(36,286)
Equipment on operating leases, net	311,069	73,303

Depreciation expense for the years ended March 31, 1997, 1996 and 1995 approximated $59,985,000, $28,691,000, and $18,457,000, respectively.

3. Property and Equipment, net
Property and equipment, along with their useful lives, consist of the following at March 31, 1997 and 1996:

	1997 $000	1996 $000	Average useful life in years
Buildings	5,955	5,201	31
Office furniture, equipment and leasehold improvements	102,977	51,723	3-10
Transportation equipment	12,827	6,803	5-15
Land	1,648	2,309	--
Total cost	123,407	66,036	
Less accumulated depreciation			

and amortization	(35,639)	(23,241)
Property and equipment, net	87,768	42,795

Depreciation expense for the years ended March 31, 1997, 1996 and 1995 approximated $17,043,000, $9,858,000, and $7,125,000, respectively.

4. Debt

Debt consists of the following at March 31, 1997 and 1996:

	1997 $000	1996 $000
6.75% Convertible Subordinated Notes due April, 2002	200,000	200,000
Revolving line of credit (limited to $725.0 million) interest at LIBOR plus an applicable margin or the agent bank's reference rate (currently averaging 6.2%), matures December, 2002	329,565	--
Term loan (limited to $550.0 million) interest at LIBOR plus an applicable margin or the agent bank's reference rate (currently averaging 5.3%), matures December, 2002	532,200	--
Revolving line of credit (limited to $400.0 million) interest at IBOR plus an applicable margin or the agent bank's reference rate	--	109,887
Amounts payable to previous owners of acquired businesses	6,546	10,632
Various notes payable bearing interest from prime to 14.0%, maturing principally over the next 5 years	32,897	28,157
Total long-term debt and notes payable	1,101,208	348,676
Less current maturities of long-term debt and notes payable	(41,385)	(30,414)
Long-term debt, less current maturities	1,059,823	318,262

In December 1996, the Company entered into a $1.275 billion multicurrency credit agreement (the "Credit Agreement") with a group of banks. The Credit Agreement, which is secured, has a term of six years, requires scheduled payments of interest throughout the term of the loan, and the maintenance of certain financial ratios. The Company was in compliance with all terms of the Credit Agreement at March 31, 1997.

In December 1996, the Company used a portion of the Credit Agreement to repay debt outstanding under its previous $400.0 million credit facility. As a result, the Company recorded an extraordinary loss of approximately $578,000 ($0.01 per ADS) relating to the early extinguishment of debt, net of the income tax benefit of $349,000. The extraordinary loss consists of the write-off of unamortized deferred finance costs.

In March 1995, the Company issued $200.0 million of 6.75% Convertible Subordinated Notes (the "Notes") at par, in a private placement offering, due April 2002. The Notes are currently convertible into the Company's ADSs at a conversion rate of $29.125 per ADS, or into the Company's Ordinary Shares at a conversion rate of $7.281 per Ordinary Share (equivalent to approximately 34.335 ADSs or 137.339 Ordinary Shares for each $1,000 principal amount of Notes). Interest is payable semi-annually on April 1 and October 1. The Notes are not subject to sinking fund provisions.

Aggregate annual maturities of long-term debt and notes payable at March 31, 1997, are as follows:

Year ending March 31	$000
1998	41,385
1999	64,230
2000	76,520
2001	103,201
2002	150,122
Thereafter	665,750
	$1,101,208

5. Acquisitions Effective December 31, 1996, the Company acquired from Eastman Kodak Company ("Kodak") (i) the net assets related to the sales, marketing, distribution and services business of Kodak's Office Imaging and Customer Equipment Services business units and (ii) all of the issued and outstanding stock of certain subsidiaries of Kodak which constitute the facilities management services business known as Kodak Imaging Services (collectively, the

"Kodak Sales and Services Business"). This acquisition was accounted for as a purchase for which the Company paid net cash of $688.0 million. The consideration paid by the Company is subject to adjustment to the extent that the net book value of the Kodak Sales and Services Business on December 31, 1996 differs from $802.0 million. At March 31, 1997, the Company recorded a preliminary receivable from Kodak of approximately $86.0 million based on the December 31, 1996 balance sheet.

In connection with this acquisition, the Company accrued approximately $33.0 million to cover anticipated costs of combining its existing business with the acquired business. At March 31, 1997, approximately $31.2 million of accrued costs remained, comprised of $20.0 million of workforce reductions in the acquired company (primarily sales and service personnel), $7.2 million for the closing of dupli-cate acquired facilities, and $4.0 million for other miscellaneous costs. The allocation of the purchase price has been recorded based on preliminary estimates of fair value, and may be adjusted as a result of the Company's continuing analysis of the December 31, 1996 balance sheet. Based on the preliminary recording of the acquisition, all of the purchase price was allocated to identifiable tangible assets. Management anticipates that the integration of the Kodak Sales and Services Business will be complete by the end of 1998.

In addition to the purchase of the Kodak Sales and Services Business, during the year ended March 31, 1997, the Company acquired the outstanding stock or assets of seven other unrelated businesses. These acquisitions were accounted for as purchases with consideration totaling approximately $66.8 million, of which approximately $10.7 million represented identifiable tangible assets, and the balance of approximately $56.1 million represented goodwill. The results of the acquired companies are included in the accompanying Consolidated Statement of Earnings since the effective date of each acquisition. The Company also issued 6,800,000 Ordinary Shares (1,700,000 ADS equivalents), for one separate acquisition which was accounted for as a pooling of interests. The accompanying consolidated financial statements have not been restated because the effect of this acquisition was not material. The issuance of the Ordinary Shares has been treated as an addition in the Consolidated Statement of Shareholders' Equity, and the results of the acquired company is included in the Consolidated Statement of Earnings since the effective date of the acquisition.

The following unaudited pro forma summary presents the consolidated results of operations as if the acquisitions had occurred at the beginning of the years ended March 31, 1997 and 1996, after giving effect to certain adjustments, including amortization of goodwill, interest expense on the debt incurred to fund the acquisitions and the related income tax effects:

	1997 $000	1996 $000
	(Except per ADS data)	
Total revenue	3,352,091	3,496,613
Net earnings	49,477	45,087
Net earnings per ADS	$0.86	$0.86

These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made as of those dates or of results which may occur in the future.

6. Foreign Operations

The following table indicates the relative amounts of revenue, earnings from operations and identifiable assets of the Company by geographic area, during the three years ended March 31, 1997:

	1997 $000	1996 $000	1995 $000
REVENUE:			
United States	1,377,101	938,622	702,565
Europe	555,555	246,145	65,917
Other international	168,391	55,537	33,714
Consolidated revenue	2,101,047	1,240,304	802,196
EARNINGS FROM OPERATIONS:			
United States	64,691	73,821	67,629

Europe	30,545	20,215	2,837
Other international	6,626	2,119	1,084
Consolidated earnings from operations	101,862	96,155	71,550
IDENTIFIABLE ASSETS:			
United States	1,461,218	612,428	535,104
Europe	817,089	434,122	61,682
Other international	180,783	44,371	27,748
	2,459,090	1,090,921	624,534
Corporate assets	269	635	10,780
Consolidated assets	2,459,359	1,091,556	635,314

Other international includes Canada, Latin America and Australasia. Corporate assets are those assets maintained for general purposes, principally cash and cash equivalents and short-term investments.

7. Income Taxes

Earnings before income taxes for U.S. based and non-U.S. based operations for the three years ended March 31, 1997 was as follows:

	1997 $000	1996 $000	1995 $000
U.S. based	(4,713)	43,501	50,386
Non-U.S. based	72,590	31,088	13,422
Total	67,877	74,589	63,808

The provision for income taxes for the three years ended March 31, 1997 was allocated as follows:

	1997 $000	1996 $000	1995 $000
Provision for income taxes before extra-ordinary item	25,522	28,241	24,761
Tax benefit from extraordinary loss on early extinguishment of debt	(349)	(691)	--
Total provision for income taxes	25,173	27,550	24,761

The provision for income taxes before the extraordinary item for the three years ended March 31, 1997 was as follows:

	1997 $000	1996 $000	1995 $000
U.S. INCOME TAX			
Current	(4,848)	13,345	10,841
Deferred	7,438	7,142	9,260
Total U.S. tax provision	2,590	20,487	20,101
EUROPE INCOME TAX			
Current	20,298	6,831	4,600
Deferred	40	485	(180)
Total Europe tax provision	20,338	7,316	4,420
OTHER INTERNATIONAL INCOME TAX			
Current	3,059	438	560
Deferred	(465)	--	(320)
Total other international tax provision	2,594	438	240
TOTAL PROVISION FOR INCOME TAXES BEFORE EXTRA-ORDINARY ITEM	25,522	28,241	24,761

A reconciliation of the U.K. statutory corporate rate to the effective rate is as follows:

	1997 $000	1996 $000	1995 $000

Tax charge at standard U.K. rate 33%	22,399	24,614	21,057
Profits taxed at other than standard U.K. rate	(2,962)	3,142	2,645
Goodwill amortization and other permanent differences	6,085	485	1,059
Provision for income taxes before extraordinary item	25,522	28,241	24,761

The tax effects of temporary differences that comprise the elements of deferred tax at March 31, 1997 and 1996 are as follows:

	1997 $000	1996 $000
DEFERRED TAX ASSETS:		
Accrued expenses not deducted for tax purposes	14,063	2,678
Reserves for inventory and accounts receivable not deducted for tax purposes	7,160	5,760
Restructuring charges not deducted for tax purposes	4,963	--
Inventory costs capitalized for tax purposes	8,755	3,110
Tax loss carryforwards	10,659	11,965
Other	382	--
Total gross deferred tax assets	45,982	23,513
Valuation allowance	(10,659)	(11,965)
Net deferred tax assets	35,323	11,548
DEFERRED TAX LIABILITIES:		
Leases	(65,970)	(37,487)
Depreciation	(221)	(3,718)
Total gross deferred tax liabilities	(66,191)	(41,205)
NET DEFERRED TAX LIABILITY	(30,868)	(29,657)

The valuation allowance is primarily attributable to net operating losses and deferred expenses in certain countries where tax losses presently exist. U.S. deferred taxation is not provided in respect of liabilities which might arise on the distribution of other unappropriated income of non-U.S. subsidiaries because there are no non-U.S. subsidiaries owned by U.S. companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Employee Benefits

Substantially all of the U.S. employees are entitled to participate in the Profit Sharing Plan (the "Plan") established under Section 401(k) of the U.S. Internal Revenue Code. Employees are eligible to contribute voluntarily to the Plan after one year of continued service and attaining age 21. At its discretion, the Company may contribute 100% of the first 3% and 50% of the next 3% of the employee contribution. Employees are always vested in their contributed balance and become fully vested in the Company's contributions after four years of service. The expenses related to contributions to the Plan for the years ended March 31, 1997, 1996 and 1995 were approximately $3,968,000, $2,362,000, and $2,035,000, respectively.

Certain non-U.S. employees participate in defined contribution plans with varying vesting and contribution provisions. The expenses related to these contributions for the year ended March 31, 1997 were approximately $2,100,000.

In connection with the acquisition of the Kodak Sales and Services Business, the Company acquired the pension obligations of certain non-U.S. employees from Kodak. The Company is currently remeasuring the acquired pension benefit obligation and the fair value of the plan assets as of December 31, 1996 to accurately record the pension obligation in the allocation of the purchase price.

In fiscal 1997, the Company established a Supplemental Executive Retirement Plan ("SERP") to provide additional income for certain of its U.S. executives upon retirement. Contributions to the SERP are at the discretion of the Company, and were $435,500 for the year ended March 31, 1997.

9. Share Option Plans

In fiscal 1997, the Company established two new share option plans, The Danka 1996 Share Option Plan and The Danka 1996 Non-employee Directors Share Option Plan (the "Plans"). The Plans authorize the granting of both incentive and non-incentive share options for an aggregate of 22,500,000 Ordinary Shares (5,625,000 ADS equivalents). Under all existing Plans, options are granted at prices not less than market value on the date of grant, and the maximum term of an option may not exceed ten years. Share options generally become vested after a period of three years subsequent to the date of the grant. At March 31, 1997, a total of 3,975,639 options were vested under the old and new plans.

Transactions during the three years ended March 31, 1997 were as follows:

	Number of Ordinary Shares	Exercise price in pence
Balance outstanding at March 31, 1994	8,212,331	12.50 - 335.00
Granted	834,500	271.66 - 377.66
Exercised	(1,738,332)	12.50 - 46.17
Canceled	(249,000)	217.92 - 299.66
Balance outstanding at March 31, 1995	7,059,499	12.50 - 377.66
Granted	1,479,373	378.67 - 699.00
Exercised	(1,850,268)	12.50 - 74.25
Canceled	(90,500)	307.00 - 351.33
Balance outstanding at March 31, 1996	6,598,104	12.50 - 699.00
Granted	3,868,294	359.67 - 780.00
Exercised	(764,802)	12.50 - 439.67
Canceled	(271,500)	286.00 - 459.00
Balance outstanding at March 31, 1997	9,430,096	26.13 - 780.00

The Company accounts for these Plans under APB Opinion No. 25, under which no compensation cost has been recognized. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Had compensation cost for these Plans been determined consistent with Statement No. 123, the Company's net earnings and net earnings per ADS would have been reduced to the following unaudited pro forma amounts:

	1997 $000	1996 $000
	(Except per ADS data)	

Net earnings--as reported	41,777	45,215
Net earnings--pro forma	34,903	43,585
Net earnings per ADS--as reported	$ 0.72	$ 0.88
Net earnings per ADS--pro forma	$ 0.60	$ 0.85

The fair value of each option grant is estimated using the Black-Scholes option pricing model. The following assumptions were used in determining the fair value of each option grant: dividend yield of .42%; expected volatility of 113.7%; expected option life of 5 years; and the five-year risk-free rate at the time of each grant (5.3%-7.0%).

The effects of applying Statement No. 123 in this pro forma disclosure are not indicative of future amounts.

10. Commitments, Contingencies and Related Party Transactions

Leases: The Company is obligated under various noncancelable operating leases for its office facilities, office equipment and vehicles. Future noncancelable lease commitments as of March 31, 1997, are as follows:

Year ending March 31	$000
1998	76,310
1999	48,424
2000	35,077
2001	22,765
2002	15,296
Thereafter	20,202

Rental expense for fiscal years ended March 31, 1997, 1996 and 1995 was approximately $53,509,000, $22,993,000, and $14,237,000, respectively.

Kodak Commitments: In connection with the acquisition of the Kodak Sales and Services Business, Kodak and the Company entered into a number of agreements effective December 31, 1996 relating to the purchase, sale and service of electrophotographic equipment and related software, supplies, accessories and spare parts manufactured or remanufactured by Kodak. The most significant of these agreements require the Company to purchase from Kodak various levels of equipment and related parts and supplies over the next five years. In addition, the Company entered into an agreement to contribute a total of $175.0 million (plus an additional $30.0 million upon the achievement of identified milestones) to Kodak for their ongoing research and development for new electrophotographic products through December 31, 2002.

Lease Commitments: Subsequent to March 31, 1997, Danka Holding Company ("DHC"), a U.S. subsidiary of the Company, extended the operating lease agreement (the "Agreement"), to December 2002. The Agreement provides for DHC to lease certain real property in the U.S. The Agreement generally provides for DHC to pay property taxes, maintenance, insurance, and certain other operating costs of the leased properties. The leases covered by the Agreement provide for a residual guarantee by DHC at the end of the initial lease term, which has not been included in the table of future noncancelable lease commitments. The Agreement also includes purchase and renewal options at fair market values. DHC has the right to exercise a purchase option on the properties at the end of the lease term, or the properties can be sold to third parties. DHC expects the fair market value of the properties, subject to the purchase option or sale to third parties, to substantially reduce or eliminate DHC's payment under the residual value guarantee. DHC is obligated to pay the difference between the maximum amount of the residual guarantee and the fair market value at the termination of each lease under the Agreement. The maximum residual guarantee relative to the properties covered by the Agreement is equal to the total cost of the properties leased under the Agreement, which was approximately $26.9 million at March 31, 1997.

Related Party Transactions: The Company remains contingently liable for the repayment of $958,000 of Industrial Revenue Bonds used to finance the construction of its corporate office in St. Petersburg, Florida. The obligation was assumed by a company controlled by the Chief Executive when it acquired the corporate office building. The Company leases its corporate office and three other offices owned by companies in which the Chief Executive has a significant interest. The above arrangements were entered into prior to the acquisition agreement dated December 1986 whereby Danka Business Systems PLC purchased Danka Industries, Inc. ("Danka"). For the years ended March 31, 1997, 1996 and 1995, Danka was charged $748,000, $689,000 and $768,000, respectively, for rent due under these leases. The leases expire at various dates, with the last lease expiring in December 2003.

Litigation: The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. Management believes that the resolution of such matters will not have a material effect upon the Company's financial position or future results of operations.

11. Restructuring Charges

In the third quarter of fiscal 1997, the Company finalized a plan to integrate the acquisition of the Kodak Sales and Services Business and the Company's related transition to the Market Based Approach in North America. The restructuring consists of a series of planned actions, including a reduction in the number of employees, consolidation of offices and facilities, and the write-off of certain leasehold improvements and other fixed assets. Charges related to the integration of the Kodak Sales and Service Business consist mainly of costs associated with the planned closure of certain of the Company's facilities which are duplicative of some acquired facilities. In connection with these actions, the Company recorded a restructuring charge of $35,000,000 in the third quarter of fiscal 1997. These charges reduced net earnings by approximately $21,840,000 or $0.38 per ADS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The restructuring charge reflects $8,615,000 for severance and other termination benefits, $18,858,000 for lease settlement costs associated with the consolidation of duplicate facilities, and $7,527,000 for the write-off of leasehold improvements and other fixed assets. Of the initial restructuring charges, at March 31, 1997, $23,120,000 remained in accrued liabilities, comprised of $4,193,000 for the remaining reduction of the workforce, $17,235,000 for the closing of duplicate facilities, and $1,692,000 for the write-off of leasehold improvements and other fixed assets. Management anticipates that the remaining restructuring actions will be completed by the third quarter of fiscal 1998.

For the year ended March 31, 1996, the Company recorded a similar charge of $8,500,000 which was fully utilized.

12. Financial Instruments

Fair Value of Financial Instruments: At March 31, 1997, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and other notes payable approximated fair value due to the short-term maturities of these assets and liabilities. The estimated fair market value of the Company's $200.0 million 6.75% Convertible Subordinated Notes at March 31, 1997 was approximately $242.0 million, based on the quoted market price of the Notes. The estimated fair market value at March 31, 1997 of the Company's Credit Agreement approximated the carrying amount of the debt, due to the short-term maturities of the individual components of the debt.

Foreign Currency Instruments: From time to time, the Company enters into forward and option contracts to manage its exposure to fluctuations in foreign currency exchange rates on specific transactions. Foreign exchange forward contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date. The fair value of foreign exchange forward contracts is estimated by obtaining quotes for futures contracts with similar terms, adjusted where necessary for maturity differences. To hedge its foreign currency exposure, the Company also purchases foreign exchange options which permit, but do not require, the Company to exchange foreign currencies at a future date with another party at a contracted exchange rate. The fair value of foreign exchange options is estimated using active exchange quotations. At March 31, 1997, there were no outstanding forward contracts or option contracts to buy or sell foreign currency. For the year ended March 31, 1997, gains and losses realized on forward contracts and option contracts were not material.

Under the Company's Credit Agreement, it is required to enter into arrangements that provide protection from the volatility of variable interest rates for a portion of the outstanding principle balance on the Credit Agreement. To fulfill this obligation, the Company has utilized interest rate swap agreements to eliminate the impact of interest rate changes on certain variable rate principle balances outstanding under the Credit Agreement. The Company entered into interest rate swap agreements with three financial institutions in March 1997, effectively converting two variable rate principle balances to fixed rates for a period of two years. Therefore, at March 31, 1997, the Company maintained interest rate swaps on principal/notional amounts of DEM85.0 million ($51.0 million) and NLG95.3 million ($50.8 million), with weighted average fixed rates of approximately 4.4%.

The Company's financial instruments involve, to varying degrees, elements of exchange risk in excess of the amounts which would be recognized in the Consolidated Balance Sheet. Exposure to foreign currency contracts results from fluctuations in currency rates during the periods in which the contracts are outstanding. Additionally, these contracts contain an element of credit risk to the extent of nonperformance by the counterparties. The Company minimizes such risk by limiting the counterparties to a group of major international banks, and does not expect to record any losses as a result of nonperformance by these counterparties.

13. Quarterly Financial Data (unaudited)
The following table presents selected quarterly financial data for the periods indicated:

	June 30 $000	September 30 $000 (Except per ADS data)	December 31 $000	March 31 $000
Fiscal 1997				
Revenue	401,955	420,528	441,146	837,418
Gross profit	159,079	168,038	172,822	319,464
Net earnings (loss)	14,331	14,397	(5,916)(a)(b)	18,965
Net earnings (loss) per ADS	$ 0.25	$ 0.25	$ (0.10)(a)(b)	$ 0.33
Fiscal 1996				
Revenue	249,014	273,813	333,841	383,636
Gross profit	99,818	112,198	132,829	151,804
Net earnings	10,857	12,447	7,949(c)	13,962(d)
Net earnings per ADS	$ 0.22	$ 0.25	$ 0.16(c)	$ 0.26(d)

(a) Includes the effect of a restructuring charge of $35.0 million or $0.38 per ADS.
(b) Includes the effect of an extraordinary loss of $0.6 million or $0.01 per ADS due to the early extinguishment of debt.
(c) Includes the effect of a restructuring charge of $8.5 million or $0.10 per ADS.
(d) Includes the effect of an extraordinary loss of $1.1 million or $0.02 per ADS due to the early extinguishment of debt.

INDEPENDENT AUDITORS' REPORT

To the Members of Danka Business Systems PLC

We have audited the consolidated balance sheets of Danka Business Systems PLC and subsidiaries as of March 31, 1997 and 1996, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 1997. These consolidated financial statements are the responsibility of the group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United Kingdom and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned consolidated financial statements present fairly in all material respects the financial position of Danka Business Systems PLC and subsidiaries as of March 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 1997 in conformity with generally accepted accounting principles in the United States.

KPMG Audit Plc
Chartered Accountants
Registered Auditors
London, England May 12, 1997

DIRECTORS & OFFICERS

Executive Directors

Mark A. Vaughan-Lee
Chairman

Dan M. Doyle
Chief Executive

David C. Snell
Chief Operating Officer and Finance Director

Non-Executive Directors

Pierson M. Grieve(2)(3)
Pierson Grieve was appointed a non-executive director in 1996. He previously served as Chairman and Chief Executive Officer of Ecolab Inc. until December 1995. He also serves as a director of US West, Inc., Norwest Corporation, St. Paul Companies, Inc., and Meredith Corporation.

David S. Hooker(1)(2)(3)
David Hooker was appointed a non-executive director in 1985. He is the Chairman of Goshawk Insurance Holdings PLC and is also a non-executive director of Oceaneering International, Inc. He was Managing Director of Aberdeen Petroleum PLC until June 1993 and Chairman of Bakyrchik Gold PLC until December 1995.

David W. Kendall(1)(2)(3)
David Kendall was appointed a non-executive director in 1993. He is Chairman of Whitecroft PLC, Ruberoid PLC, Blagden Industries PLC, Celtic Energy Ltd. and Wagon Industrial Holdings PLC and a non-executive director of Gowrings PLC.

Keith J. Merrifield(1)(2)(3)
Keith Merrifield was appointed a non-executive director in January 1997. He previously served as Group Marketing Director and Director of International Operations at Wellcome plc until June 1995. He also currently serves as a director of British Biotech plc and Coats Viyella plc.

James F. White, Jr.(1)(3)
James White was appointed a non-executive director in 1994. He serves as counsel to the law firm of Shumaker, Loop & Kendrick, Toledo, Ohio and is currently a director of Arbor Health Care Company and a non-executive director of numerous private companies. He was previously an executive director of Checkers Drive-in Restaurants, Inc.

Officers

Mark A. Vaughan-Lee
Chairman

Dan M. Doyle
Chief Executive

David C. Snell
Chief Operating Officer and Finance Director

Paul G. Dumond
Corporate Secretary

William T. Freeman
Chief Financial Officer

Paul T. Kattman
President, Wholesale Operations

Edward J. Marino
President, Danka Imaging Services

Peter G. Meier
President, Danka Office Imaging

Paul M. Natale
Vice President, Corporate Integration

Martin G. St. Quinton
Chief Executive, Danka International

R. Paul Umberg
President, North American Retail Operations

(1)Member of the Audit Committee
(2)Member of the Human Resources Committee
(3)Member of the Nominations Committee

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Exhibit 21

DANKA BUSINESS SYSTEMS PLC
LIST OF CURRENT SUBSIDIARIES OF THE COMPANY

SUBSIDIARY NAME	STATE/COUNTRY OF INCORPORATION
Newcourt Natural Resources Oil and Gas Company	England
Dankalux Sarl	Luxembourg
Danka Business Finance Ltd.	Canada
Danka Holding Company	Nevada
Danka Business Systems, Inc.	Florida
Danka Corporation	Nevada
Omnidex Corporation	Nevada
Danka Wholesale Inc.	Florida
Danka Office Imaging Company	Delaware
KIS Imaging Services, Inc.	Delaware
Danka Europe B.V.	Holland
Danka SpA	Italy
Danka France Holding Sarl	France
Danka Benelux NV/SA	Belgium
Danka Deutschland Holding GmbH	Germany
Danka Denmark A/S Holding	Denmark
Danka Holdings Sweden AB	Sweden
Danka Holding Iberia SA	Spain
Danka Holdings SA	Switzerland
Danka Australasia Pty. Ltd.	Australia
Danka Holdings Mexico S. de R.L. de C.V.	Mexico
Danka Participacoes Ltda.	Brazil
Danka Europe Ltd.	England
Danka U.K. Holdings Ltd.	England

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EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

To the Members of Danka Business Systems PLC:

We consent to incorporation by reference in the registration statements (Nos. 33-75468, 33-75474 and 33-18615) on Form S-8, and (Nos. 33-95898, 33-94596 and 333-8455) on Form S-3 of Danka Business Systems PLC of our report dated May 12, 1997, relating to the consolidated balance sheets of Danka Business Systems PLC and subsidiaries as of March 31, 1997 and 1996, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 1997, and related schedules, which report appears in the March 31, 1997 annual report on Form 10-K of Danka Business Systems PLC.

KPMG Audit Plc
Chartered Accountants
Registered Auditors
London, England

May 12, 1997
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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE 1997 FORM
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<F1>Includes $35,000 restructuring charge.
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