

VIGLEN LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 1998

Company No: 1208441



VIGLEN LIMITED

DIRECTORS & ADVISERS

FOR THE YEAR ENDED 30 JUNE 1998

Company registration number: 1208441

Registered office: Viglen House
Alperton Lane
Alperton
Middlesex
HA0 1DX

Directors: B Tkachuk
M E Ray
R Babaian
D Kazandjian
A Arbramian

Secretary: M E Ray

Bankers: Lloyds Bank Plc
72 Lombard Street
London EC3P 3BT

Auditors: Deloitte & Touche
Hill House
1 Little New Street
London EC4A 3TR

VIGLEN LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1998

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VIGLEN LIMITED
REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report and the audited financial statements for the year ended 30 June 1998.

Principal activities

The company is principally engaged in the manufacturing and marketing of computers, peripherals and software.

Business review

In common with the rest of the industry, Viglen has experienced a fall in the average selling price of PCs, which is calculated on a cost-plus basis.

Viglen expects to continue to grow in the next financial year by focusing on its added value sales particularly in the network solution division.

Results and dividends

The results for the year are set out on page 5. The profit for the year after taxation amounted to £5,273,800 (1997: £7,557,287). A final dividend of £4,000,000 (1997: £9,700,000) was paid on 8 September 1998.

Directors and directors' interests

On 31 October 1997 Mr A.G. Dean resigned as a director. On 20 February 1998 Mr A. Tanielian resigned as a director and Mr A. Abramian was appointed a director and on 30 June 1998, Mr R. Davis resigned as a director. No director has or had, during the year, any interest in the shares of the company. The interests held by Messers Tkachuk, Babaian and Ray in the shares and share options of the ultimate parent company are disclosed in the financial statement of Viglen Technology plc, and for other directors were as follows:

	Number of ordinary shares beneficially held		Number of share options beneficially held	
	30 June 1998	4 August 1997	30 June 1998	4 August 1997
D. Kazandjian	306,639	306,629	-	-
A. Abramian	29,230	-	43,861	-

Directors responsibilities for the financial statements

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

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

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

VIGLEN LIMITED

REPORT OF THE DIRECTORS

Payment policy

It is the company's normal practice to pay its suppliers within agreed terms provided that the suppliers meet their obligations. Trade creditors at the year end amounted to 32 days (1997: 41 days) of average supplies for the year.

Political and charitable donations

Charitable donations of £650 (1997: £nil) were made in the period. No political donations were made during the period.

Year 2000

The Group has recognised the potential issues arising from the year 2000. A working party has been established to identify and resolve issues relating to the year 2000. The extent of the total costs involved to ensure all relevant systems are year 2000 compliant has not yet been fully quantified but is not expected to be significant.

Research and development

The company carries out research and development as part of its day to day activities in relation to its products according to the market in which it operates.

Employee involvement

The company has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the company.

This is achieved through the notice boards and announcement of daily sales performance against targets.

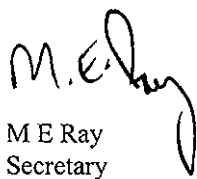
Employment of disabled persons

It is the policy of the company to give full and fair consideration to applications for employment from disabled persons, to continue wherever possible the employment of members of staff who may become disabled and to ensure that suitable training, career development and promotion is afforded to such persons.

Auditors

Deloitte & Touche have indicated that they are willing to continue in office and a resolution proposing their reappointment as auditors will be put to the Annual General Meeting.

Approved by the Board of Directors
and signed by order of the Board



M E Ray
Secretary

30 November 1998

REPORT OF THE AUDITORS TO THE MEMBERS OF

VIGLEN LIMITED

We have audited the financial statements on pages 4 to 13 which have been prepared under the accounting policies as set out on page 4.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 June 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LONDON
30 November 1998

VIGLEN LIMITED

PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards in the UK and under the historical cost convention except that certain freehold properties are shown at their revalued amounts. The principal accounting policies set out below have remained unchanged from the previous period.

Turnover

Turnover comprises the invoiced value of goods sold and services supplied by the company, excluding value added tax and trade discounts.

Depreciation

Depreciation is calculated to write down the cost or valuation less estimated residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful lives. The rates generally applicable are:

Leasehold improvements	- over life of lease
Freehold buildings	- 2% on cost or revalued amount
Motor vehicles	- 25% on cost
Fixtures and fittings	- 10% - 20% on cost

Investments

Investments are included at cost less amounts written off to reflect a permanent diminution in value.

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving stocks.

Research and development

Expenditure on research and development is charged against profits in the year in which it is incurred.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the profit and loss account.

Deferred taxation

Deferred tax is provided for under the liability method using the tax rates estimated to arise when the timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability.

Warranty

Warranty revenues are released to profit in the year of sale. Provision is made in the same period for the expected future cost of providing the warranty.

Exemption from preparing group accounts

The financial statements contain information about Viglen Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under Section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it was a wholly owned subsidiary of Viglen Technology plc (see note 23).

Contributions to pension funds

The company operates a defined contribution pension scheme in respect of certain directors and pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

Leased assets

All current leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

VIGLEN LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 30 JUNE 1998**

	Note	Year ended 30 June 1998 £	Year ended 30 June 1997 £
Turnover	1	91,564,670	100,877,191
Operating costs	2	<u>(88,080,088)</u>	<u>(90,761,112)</u>
Operating profit		3,484,582	10,116,079
Exceptional profit on sale of fixed assets	3	<u>2,288,509</u>	<u>-</u>
Profit on ordinary activities before interest		5,773,091	10,116,079
Net interest	5	<u>900,709</u>	<u>893,964</u>
Profit on ordinary activities before taxation	6	6,673,800	11,010,043
Tax on profit on ordinary activities	7	<u>(1,400,000)</u>	<u>(3,452,756)</u>
Profit on ordinary activities after taxation		5,273,800	7,557,287
Equity dividends	8	<u>(4,000,000)</u>	<u>(9,700,000)</u>
Retained profit/(loss) for the year transferred to/from reserves	16	<u>1,273,800</u>	<u>(2,142,713)</u>

There were no recognised gains or losses other than the profit for the financial year.

All results are derived from continuing operations.

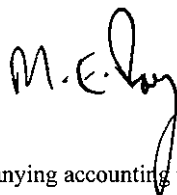
The accompanying accounting policies and notes form an integral part of the financial statements.

VIGLEN LIMITED
BALANCE SHEET AT 30 JUNE 1998

	Note	£	At 30 June 1998 £	£	At 30 June 1997 £
Fixed assets					
Tangible assets	9		<u>2,315,890</u>		<u>4,718,127</u>
Current assets					
Stocks	10	7,270,401		9,918,523	
Debtors	11	14,583,136		15,669,109	
Cash at bank and in hand		<u>19,415,026</u>		<u>6,445,146</u>	
		41,268,563		32,032,778	
Creditors: amounts falling due within one year	12	<u>(22,278,288)</u>		<u>(17,068,660)</u>	
Net current assets			<u>18,990,275</u>		<u>14,964,118</u>
Total assets less current liabilities			21,306,165		19,628,245
Provisions for liabilities and charges					
Other provisions	13		<u>(1,793,607)</u>		<u>(1,443,487)</u>
			<u>19,512,558</u>		<u>18,238,758</u>
Capital and reserves					
Called up share capital	15		10,067		10,067
Profit and loss account	16		<u>19,502,491</u>		<u>18,228,691</u>
Shareholders' funds			<u>19,512,558</u>		<u>18,238,758</u>
Equity shareholders' funds			19,502,558		18,228,758
Non equity shareholders' funds			<u>10,000</u>		<u>10,000</u>
			<u>19,512,558</u>		<u>18,238,758</u>

The financial statements were approved by the Board of Directors on 30 November 1998.

M E Ray



Director

The accompanying accounting policies and notes form an integral part of these financial statements.

VIGLEN LIMITED**CASH FLOW STATEMENT**

FOR THE YEAR ENDED 30 JUNE 1998

	Note	Year ended At 30 June 1998	Year ended At 30 June 1997
		£	£
Net cash inflow from operating activities	18	10,090,323	7,322,066
Return on investments and servicing of finance			
Interest received		905,971	902,319
Interest paid		<u>(5,262)</u>	<u>(8,355)</u>
Net cash inflow from returns on investments and servicing of finance		900,709	893,964
Taxation			
Corporation tax paid		(1,167,639)	(320,271)
Group relief		<u>(474,144)</u>	<u>(4,146,112)</u>
		(1,641,783)	(4,466,383)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(396,418)	(502,683)
Sale of tangible fixed assets		<u>4,017,049</u>	<u>57,900</u>
Net cash inflow/(outflow) from capital expenditure and financial investment		3,620,631	(444,783)
Equity dividends paid		-	<u>(11,700,000)</u>
Increase/(decrease) in cash	19	<u>12,969,880</u>	<u>(8,395,136)</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

VIGLEN LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 1998

1 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Turnover and profit on ordinary activities before taxation are attributable to the manufacturing and marketing of computers, peripherals and software. The company operates in one class of business activity. Turnover and operations arise predominantly in the UK.

2 OPERATING COSTS

	Year ended 30 June 1998 £	Year ended 30 June 1997 £
Other operating income	(661,665)	(59,361)
Changes in work in progress and finished goods	1,625,616	(228,583)
Raw material and consumables	71,469,722	76,441,252
Other external charges	6,498,753	6,539,444
Staff costs	7,311,334	6,320,025
Depreciation	1,067,826	966,506
Loss on sale of fixed assets	2,289	9,427
Other operating charges	766,213	772,402
	<u>88,080,088</u>	<u>90,761,112</u>

3 EXCEPTIONAL ITEMS

The profit on sale of fixed assets relates to the profit on disposal of Viglen House to Viglen Technology plc for £4 million on 30 June 1998.

4 STAFF COSTS

Staff costs during the year were as follows:

	Year ended 30 June 1998 £	Year ended 30 June 1997 £
Wages and salaries	6,602,319	5,716,831
Social security costs	679,015	563,194
Pension costs	30,000	40,000
	<u>7,311,334</u>	<u>6,320,025</u>

The average number of employees of the company during the year was 347 (1997: 292).

VIGLEN LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 1998

4 STAFF COSTS (continued)

Remuneration in respect of directors was as follows:

	Year ended 30 June 1998 £	Year ended 30 June 1997 £
Management remuneration	457,860	444,138
Pension contributions	30,000	40,000
	<u>487,860</u>	<u>484,138</u>

The amounts set out above include remuneration in respect of the highest paid director as follows:

£	£
<u>164,008</u>	<u>147,114</u>

5 NET INTEREST

	Year ended 30 June 1998 £	Year ended 30 June 1997 £
Interest receivable	905,971	902,319
Interest payable on borrowings wholly repayable within five years	(5,262)	(8,355)
	<u>900,709</u>	<u>893,964</u>

6 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is after charging:

	Year ended 30 June 1998 £	Year ended 30 June 1997 £
Write off of fixed asset investments	-	32,813
Auditors remuneration:		
- Audit services	33,500	32,000
- Non audit services	19,700	12,500
- Operating lease payments - land and buildings	311,400	311,400

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 30 June 1998 £	Year ended 30 June 1997 £
United Kingdom corporation tax @ 31.0% (1997:32.5%)	1,400,000	3,680,515
Adjustments in respect of prior year	-	(227,759)
Corporation tax	<u>1,400,000</u>	<u>3,452,756</u>

The tax charge is low due to the inclusion of non-taxable income in the profit and loss account.

VIGLEN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1998

8 DIVIDENDS

	Year ended 30 June 1998 £	Year ended 30 June 1997 £
Ordinary \$0.01 shares - interim dividend of £nil per share (1997: £170)	-	1,700,000
Ordinary \$0.01 shares - final dividend of £400 per share (1997: £800)	4,000,000	8,000,000
	<u>4,000,000</u>	<u>9,700,000</u>

9 TANGIBLE FIXED ASSETS

	Freehold property £	Leasehold improvements £	Fixtures, fittings & equipment £	Motor vehicles £	Total £
Cost or valuation					
At 1 July 1997	1,879,218	680,361	4,286,154	409,934	7,255,667
Additions	-	61,841	160,508	174,069	396,418
Disposals	(1,879,218)	-	(3,049)	(23,355)	(1,905,622)
At 30 June 1998	<u>-</u>	<u>742,202</u>	<u>4,443,613</u>	<u>560,648</u>	<u>5,746,463</u>
Depreciation					
At 1 July 1997	146,510	290,016	1,968,016	132,998	2,537,540
Disposals	(167,727)	-	(254)	(6,812)	(174,793)
Charged in the year	21,217	145,876	777,720	123,013	1,067,826
At 30 June 1998	<u>-</u>	<u>435,892</u>	<u>2,745,482</u>	<u>249,199</u>	<u>3,430,573</u>
Net book amount at 30 June 1998	<u>-</u>	<u>306,310</u>	<u>1,698,131</u>	<u>311,449</u>	<u>2,315,890</u>
Net book amount at 30 June 1997	<u>1,732,708</u>	<u>390,345</u>	<u>2,318,138</u>	<u>276,936</u>	<u>4,718,127</u>

10 STOCKS

	30 June 1998 £	30 June 1997 £
Raw materials, consumables and bought in products	5,832,800	8,292,907
Work in progress and finished goods	1,437,601	1,625,616
	<u>7,270,401</u>	<u>9,918,523</u>

VIGLEN LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 1998

11 DEBTORS

	30 June 1998	30 June 1997
	£	£
Trade debtors	12,936,971	13,699,170
Other debtors	165	1,182
Prepayments and accrued income	265,939	689,818
ACT recoverable	812,242	801,729
Amounts owed by group undertakings	567,819	477,210
	<u>14,583,136</u>	<u>15,669,109</u>

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 June 1998	30 June 1997
	£	£
Payments received on account	562,680	243,831
Trade creditors	6,558,202	9,336,367
Amounts owed to group undertakings	4,858,540	755,323
Corporation tax	1,399,838	3,532,161
Group relief	2,270,261	-
ACT payable	-	369,208
Other taxes and social security costs	1,552,064	1,651,325
Other creditors	190,425	-
Dividends	4,000,000	-
Accruals and deferred income	886,278	1,180,445
	<u>22,278,288</u>	<u>17,068,660</u>

13 PROVISIONS FOR LIABILITIES AND CHARGES

	£
Other provision at 1 July 1997	1,443,487
Provided during the year	350,120
At 30 June 1998	<u>1,793,607</u>

These provisions relate to the expected future cost of providing warranty support.

14 DEFERRED TAXATION

	Amount provided		Amount unprovided	
	30 June 1998	30 June 1997	30 June 1998	30 June 1997
	£	£	£	£
Accelerated capital allowances	-	-	(119,087)	258,436
Other timing differences	-	-	(296,115)	(471,426)
	<u>-</u>	<u>-</u>	<u>(415,202)</u>	<u>(212,990)</u>

VIGLEN LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 1998

15 SHARE CAPITAL

	30 June 1998 £	30 June 1997 £
Authorised, allotted, called up and fully paid		
10,000 deferred shares of £1 each	10,000	10,000
10,000 ordinary shares of \$0.01 each	67	67
	<u>10,067</u>	<u>10,067</u>

The deferred shares do not have voting rights attached to them and are not entitled to receive a dividend.

16 PROFIT AND LOSS ACCOUNT

	Year ended 30 June 1998 £	Year ended 30 June 1997 £
At 1 July	18,228,691	20,371,404
Retained profit/(loss) for the year	1,273,800	(2,142,713)
At 30 June	<u>19,502,491</u>	<u>18,228,691</u>

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 30 June 1998 £	Year ended 30 June 1997 £
Profit/(loss) for the financial year	5,273,800	7,557,287
Dividends	(4,000,000)	(9,700,000)
Net increase/(decrease) in shareholders' funds	1,273,800	(2,142,713)
Shareholders' funds at 1 July	18,238,758	20,381,471
Shareholders' funds at 30 June	<u>19,512,558</u>	<u>18,238,758</u>

18 NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year ended 30 June 1998 £	Year ended 30 June 1997 £
Operating profit	3,484,582	10,116,079
Depreciation	1,067,826	966,506
(Profit)/loss on sale of fixed assets	2,289	9,427
Write off of fixed asset investments	-	32,813
Decrease in stocks	2,648,122	675,139
Decrease/(increase) in debtors	1,096,486	(2,661,087)
Increase/(decrease) in creditors	1,440,898	(2,391,447)
Increase in provisions	350,120	574,636
Net cash inflow from continuing operating activities	<u>10,090,323</u>	<u>7,322,066</u>

VIGLEN LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 1998

19 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Year ended 30 June 1998 £	Year ended 30 June 1997 £
At 1 July	6,445,146	14,840,282
Change in net funds resulting from cash flows	12,969,880	(8,395,136)
At 30 June	<u>19,415,026</u>	<u>6,445,146</u>

20 ANALYSIS OF CHANGES IN NET FUNDS

	30 June 1998 £	Cash flow £	30 June 1997 £
Cash in bank and in hand	<u>19,415,026</u>	<u>12,969,880</u>	<u>6,445,146</u>

21 CONTINGENT LIABILITIES

There were no contingent liabilities at 30 June 1998.

22 LEASING COMMITMENTS

At 30 June 1998 the company had an annual operating lease commitment of £695,400 (1997:£311,400). The operating leases to which these amounts relate expire as follows:

	1998 Land and buildings £	1997 Land and buildings £
In one year or less	3,000	3,000
Between one and five years	<u>692,400</u>	<u>308,400</u>
	<u>695,400</u>	<u>311,400</u>

23 CAPITAL COMMITMENTS

	1998 £	1997 £
Authorised but not contracted for	-	41,600
Contracted for but not provided in the financial statements	<u>-</u>	<u>54,000</u>
	<u>-</u>	<u>95,600</u>

24 CONTROLLING RELATED PARTY

The directors consider that the ultimate parent undertaking and controlling related party of this company is Viglen Technology plc.

The company has undertaken advantage of the exemptions conferred by Financial Reporting Standard Number 8, Related Party Transactions, in respect of transactions with group undertakings.

The largest group of undertakings for which group accounts have been drawn up is that headed by Viglen Technology plc. Copies of the group accounts are available from Viglen House, Alperton Lane, Alperton, Middlesex, HA0 1DX.