

XENON NETWORK SERVICES LIMITED

Report and Financial Statements

30 June 1999



**Deloitte & Touche
201 Deansgate
Manchester
M60 2AT**

REPORT AND FINANCIAL STATEMENTS 1999

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
<i>Statement of directors' responsibilities</i>	3
Auditors' report	4
Profit and loss account	5
Balance sheet	6
Notes to the accounts	7
Additional information	14
Detailed profit and loss account	15

REPORT AND FINANCIAL STATEMENTS 1999

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

B Tkachuk*
F Noon
M Ray*
D Southern
E Weremiuk
G Wragg

* B Tkachuk and M Ray are non-executive directors.

SECRETARY

D Southern

REGISTERED OFFICE

Anchorage Court
Casplan Road
Atlantic Office Park
Altrincham
Cheshire
WA14 5HH

BANKERS

National Westminster plc
Knightsbridge Corporate Business Centre
180 Brompton Road
Knightsbridge
London
SW3 1HL

SOLICITORS

Addleshaw Booth & Co
100 Barbirolli Square
Manchester
M2 3AB

AUDITORS

Deloitte & Touche
Chartered Accountants
201 Deansgate
Manchester
M60 2AT

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 1999.

ACTIVITIES

The principal activity of the company is the supply, maintenance and servicing of computer equipment.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The directors consider the performance in the year ended 30 June 1999 to be satisfactory. Future prospects are considered reasonable.

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not propose to pay a dividend for the year (1998: £Nil). The loss for the year of £1,106 (1998: £55,377) has been transferred from reserves.

FIXED ASSETS

The movements in fixed assets throughout the year is shown in note 8 to the accounts.

YEAR 2000

The directors believe that all critical equipment and software is, or will be, Year 2000 compliant in accordance with the BSI standard definition prior to the the next millenium.

DIRECTORS

The directors of the company who served throughout the year are shown on page 1.

None of the directors had any interest in the share capital of the company. B Tkachuk and M Ray's interests in the shares of the ultimate parent company, Viglen Technology plc, are disclosed in the accounts of that company. The other directors interest in the share capital of that company are as follows:

	1999	1998
F Noon	200,000 options	None
D Southern	1,400 shares 100,000 options	2,000 shares
E Weremiuk	100,000 options	None
G Wragg	100,000 options	None

AUDITORS

Deloitte & Touche served as auditors during the year. A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year 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
- 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Chartered Accountants

Deloitte & Touche
(P.O. Box 500)
201 Deansgate
Manchester M60 2AT

Telephone: National 0161 832 3555
International + 44 161 832 3555
Fax (Gp. 3): 0161 829 3800
DX 14324 – Manchester 1 Exchange

AUDITORS' REPORT TO THE MEMBERS OF

XENON NETWORK SERVICES LIMITED

We have audited the financial statements on pages 5 to 13 which have been prepared under the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3 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 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and Registered Auditors

31 October 1999

XENON NETWORK SERVICES LIMITED

PROFIT AND LOSS ACCOUNT Year ended 30 June 1999

	Note	Year ended 30 June 1999 £	6 months ended 30 June 1998 £
TURNOVER	2	7,167,473	3,549,680
Cost of sales		4,452,116	2,211,133
GROSS PROFIT		<u>2,715,357</u>	<u>1,338,547</u>
Administrative expenses		2,683,507	1,362,927
OPERATING PROFIT/(LOSS)	5	31,850	(24,380)
Interest receivable and similar income	3	8,825	3,204
Interest payable and similar charges	4	(27,245)	(34,201)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>13,430</u>	<u>(55,377)</u>
Taxation	7	(14,536)	-
RETAINED LOSS FOR THE YEAR	15	<u>(1,106)</u>	<u>(55,377)</u>

The results above relate to continuing activities.

There are no recognised gains and losses other than the result for the current year and prior period.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	30 June 1999 £	30 June 1998 £
Loss for the financial year/period	(1,106)	(55,377)
New share capital subscribed	-	399,200
Net (reduction)/addition to shareholders funds	<u>(1,106)</u>	<u>343,823</u>
Opening shareholders' funds/(deficit)	75,422	(268,401)
Closing shareholders' funds	<u>74,316</u>	<u>75,422</u>

XENON NETWORK SERVICES LIMITED

BALANCE SHEET 30 June 1999

	Note	30 June 1999 £	30 June 1998 £
FIXED ASSETS			
Tangible assets	8	205,514	270,961
CURRENT ASSETS			
Stock	9	22,341	53,247
Debtors	10	1,237,798	1,609,650
Cash at bank		265,877	171,025
		<u>1,526,016</u>	<u>1,833,922</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	(1,648,927)	(2,005,084)
NET CURRENT LIABILITIES		<u>(122,911)</u>	<u>(171,162)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		82,603	99,799
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	12	(8,287)	(24,377)
		<u>74,316</u>	<u>75,422</u>
CAPITAL AND RESERVES			
Called up share capital	13	50,000	50,000
Share premium account	15	349,300	349,300
Revaluation reserve	15	8,416	8,416
Profit and loss account	15	(333,400)	(332,294)
EQUITY SHAREHOLDERS' FUNDS		<u>74,316</u>	<u>75,422</u>

These financial statements were approved by the Board of Directors on

22nd October 1999

Signed on behalf of the Board of Directors



Director

NOTES TO THE ACCOUNTS

Year ended 30 June 1999

1. ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, and are in accordance with applicable accounting standards. The following accounting policies, which have not changed in the period, have been applied:

Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax.

Depreciation

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all fixed assets, except freehold land and buildings, over their expected useful lives. It is calculated at the following rates:

Computer equipment	-	33% p.a.
Fixtures and fittings	-	10% p.a.
Motor vehicles	-	25% p.a.

No depreciation is provided on freehold buildings since it is the company's practice to maintain such properties in a continual state of sound repair and any depreciation would not be material. Provision will be made should any permanent diminution in value of these properties occur, such provision being based on the prices prevailing at the time of their acquisition or subsequent valuation.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that it is probable that a liability or asset will crystallise.

Leases and hire purchase contracts

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease. The capital part reduces the amounts payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Hire purchase contracts are treated identically to finance leases.

Pension costs

Contributions to the company's defined contribution pension scheme and employee personal pension schemes are charged to the profit and loss account in the period in which they become payable.

NOTES TO THE ACCOUNTS

Year ended 30 June 1999

1. ACCOUNTING POLICIES (continued)

Deferred income

Deferred income represents services invoiced in advance, generally for maintenance, which are apportioned over the period of the contracts.

Basis of preparation

The directors have received confirmation from Viglen Technology plc that continued financial support will be provided for at least 12 months from the date of approval of these financial statements. As a result the directors believe that the company can continue in operational existence and the accounts have therefore been prepared on the going concern basis.

2. TURNOVER

The turnover and profit before taxation is wholly attributable to one activity, the supply of computer equipment and services. The company's markets are located primarily in the United Kingdom.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 30 June 1999 £	6 months ended 30 June 1998 £
Bank interest	8,825	3,204

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 30 June 1999 £	6 months ended 30 June 1998 £
On bank overdraft	-	6,046
Inter company loan interest	21,813	23,137
On hire purchase contracts and finance leases terminating within five years	3,252	1,713
Other interest	2,180	3,305
	<u>27,245</u>	<u>34,201</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 1999

5. OPERATING PROFIT/(LOSS)

	Year ended 30 June 1999 £	6 months ended 30 June 1998 £
Operating profit/(loss) is stated after charging:		
Depreciation		
- owned fixed assets	125,282	70,795
- assets held under finance leases and hire purchase contracts	11,724	11,825
Operating lease rentals		
- plant and machinery	266,224	125,196
- land and buildings	126,718	67,224
Auditors' remuneration	10,000	8,000
	<u> </u>	<u> </u>

6. STAFF COSTS AND DIRECTORS' EMOLUMENTS

	Year ended 30 June 1999 £	6 months ended 30 June 1998 £
Staff costs:		
Wages and salaries	1,725,795	855,146
Social security costs	181,527	90,619
Other pension costs	39,361	22,705
	<u> </u>	<u> </u>
	1,946,683	968,470
	<u> </u>	<u> </u>
	No.	No.
Average number of employees	89	87
	<u> </u>	<u> </u>
	Year ended 30 June 1999 £	6 months ended 30 June 1998 £
Directors emoluments	257,697	167,740
	<u> </u>	<u> </u>
Emoluments of the highest paid director	81,980	40,000
	<u> </u>	<u> </u>
Contributions to defined contribution pension scheme		
• total	17,365	10,147
	<u> </u>	<u> </u>
• in respect of highest paid director	7,000	3,217
	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS

Year ended 30 June 1999

6. STAFF COSTS AND DIRECTOR'S EMOLUMENTS (continued)

	Year ended 30 June 1999 No.	6 months ended 30 June 1998 No.
Number of directors		
who are members of a money purchase scheme	4	4

7. TAXATION

	30 June 1999 £	30 June 1998 £
United Kingdom Corporation Tax at 30.75% (1998-33%) based on the profit for the year	20,698	-
Adjustments in respect of prior years	(6,162)	-
	14,536	-

The tax charge for the year has been increased by £8,000 (1998 – reduced by £8,000) in respect of timing differences for which no deferred tax has been provided, and by £10,000 (1998 £9,000) in respect of items not allowable for corporation tax.

8. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Motor vehicles £	Fixtures, fittings and computer equipment £	Total £
Cost or valuation				
At 1 July 1998	35,000	91,490	1,071,498	1,197,988
Additions	-	-	75,055	75,055
Disposals	-	(20,283)	-	(20,283)
At 30 June 1999	35,000	71,207	1,146,553	1,252,760
Accumulated depreciation				
At 1 July 1998	-	33,228	893,799	927,027
Charge for the year	-	20,769	116,237	137,006
Disposals	-	(16,787)	-	(16,787)
At 30 June 1999	-	37,210	1,010,036	1,047,246
Net book value				
At 30 June 1999	35,000	33,997	136,517	205,514
At 30 June 1998	35,000	58,262	177,699	270,961

The net book value of tangible fixed assets includes an amount of £28,907 (1998 £58,263) in respect of assets held under hire purchase contracts.

NOTES TO THE ACCOUNTS

Year ended 30 June 1999

8. TANGIBLE FIXED ASSETS (continued)

The freehold land and buildings were professionally revalued at open market value by Chesterton, independent property consultant surveyors and valuers, in August 1993. The directors are of the opinion that this value has not materially changed. The original cost of the property was £26,584. All other assets are stated at cost.

9. STOCKS

	30 June 1999 £	30 June 1998 £
Finished goods	22,341	53,247

10. DEBTORS

	30 June 1999 £	30 June 1998 £
Trade debtors	911,261	1,326,470
Amounts owed by parent undertaking	135,183	71,057
Corporation tax recoverable	-	560
Other debtors	26,344	6,298
Prepayments and accrued income	165,010	205,265
	<u>1,237,798</u>	<u>1,609,650</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 June 1999 £	30 June 1998 £
Obligations under finance leases and hire purchase agreements	16,090	26,472
Trade creditors	475,349	646,028
Amounts owed to parent undertaking	271,210	-
Corporation tax payable	17,764	-
Other taxation and social security	163,058	178,207
Accruals	330,048	367,026
Deferred income	375,408	415,594
	<u>1,648,927</u>	<u>2,005,084</u>

NOTES TO THE ACCOUNTS
Year ended 30 June 1999

12. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	30 June 1999 £	30 June 1998 £
Obligations under finance leases and hire purchase contracts	8,287	24,377

Obligations under finance leases and hire purchase contracts are due as follows:

	30 June 1999 £	30 June 1998 £
Within 1 - 2 years	8,287	16,090
Within 2 - 5 years	-	8,287
	<u>8,287</u>	<u>24,377</u>

13. CALLED UP SHARE CAPITAL

	30 June 1999 £	30 June 1998 £
50,000 ordinary shares of £1 each authorised, allotted and fully paid	50,000	50,000

14. OPERATING LEASE COMMITMENTS

At 30 June 1999 the company was committed to making the following payments during the next year in respect of operating leases.

	30 June 1999	
	Land and buildings £	Other £
Leases which expire:		
Within one year	10,719	31,990
Between one and five years	36,980	177,226
After five years	68,998	-
	<u>116,697</u>	<u>209,216</u>

NOTES TO THE ACCOUNTS
Year ended 30 June 1999

15. RESERVES

	Share premium account £	Revaluation reserve £	Profit and loss account £	Total £
At 1 July 1998	349,300	8,416	(332,294)	25,422
Retained loss for the year	-	-	(1,106)	(1,106)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 1999	349,300	8,416	(333,400)	24,316
	<hr/>	<hr/>	<hr/>	<hr/>

16. PENSION SCHEME

The company operates a defined contribution pension scheme and also contributes to employee personal pension schemes. The assets of these schemes are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable to the funds, and amounted to £39,361 for the period (1998 - £22,705).

17. CASH FLOW STATEMENT

Under Financial Reporting Standard 1 (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary undertaking of a company registered in England which includes a cash flow statement in its accounts.

18. ULTIMATE PARENT COMPANY

At 30 June 1999 the company's ultimate parent company was Viglen Technology plc, a company registered in England.

19. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption available in FRS8 "Related Party Transactions" in not disclosing transactions with group companies.