

XENON NETWORK SERVICES LIMITED

Report and Financial Statements

30 June 2000

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



REPORT AND FINANCIAL STATEMENTS 2000

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REPORT AND FINANCIAL STATEMENTS 2000

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
Caspian 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 2000.

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 2000 to be satisfactory. Future prospects are considered reasonable.

DIVIDENDS AND TRANSFERS FROM RESERVES

The directors do not propose to pay a dividend for the year (1999 - £Nil). The loss for the year of £15,826 (1999 - £1,106) has been transferred from reserves.

FIXED ASSETS

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

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:

	2000	1999
F Noon	200,000 options	200,000 options
D Southern	100,000 options	100,000 options
E Weremiuk	100,000 options	100,000 options
G Wragg	100,000 options	100,000 options

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 1985. 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.



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**Deloitte
& Touche**

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 pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. 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 United Kingdom 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 as at 30 June 2000 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

17 October 2000

PROFIT AND LOSS ACCOUNT
Year ended 30 June 2000

	Note	2000 £	1999 £
TURNOVER	2	6,271,171	7,167,473
Cost of sales		<u>(3,631,016)</u>	<u>(4,452,116)</u>
GROSS PROFIT		2,640,155	2,715,357
Administrative expenses		<u>(2,635,283)</u>	<u>(2,683,507)</u>
OPERATING PROFIT	5	4,872	31,850
Interest receivable and similar income	3	6,489	8,825
Interest payable and similar charges	4	<u>(18,892)</u>	<u>(27,245)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(7,531)	13,430
Taxation	7	<u>(8,295)</u>	<u>(14,536)</u>
RETAINED LOSS FOR THE YEAR	15	<u>(15,826)</u>	<u>(1,106)</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

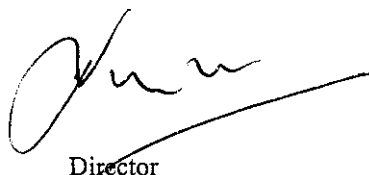
	2000 £	1999 £
Loss for the financial year	<u>(15,826)</u>	<u>(1,106)</u>
Net reduction to shareholders' funds	<u>(15,826)</u>	<u>(1,106)</u>
Opening shareholders' funds	<u>74,316</u>	<u>75,422</u>
Closing shareholders' funds	<u><u>58,490</u></u>	<u><u>74,316</u></u>

BALANCE SHEET
30 June 2000

	Note	2000 £	1999 £
FIXED ASSETS			
Tangible assets	8	<u>218,421</u>	<u>205,514</u>
CURRENT ASSETS			
Stock	9	8,138	22,341
Debtors	10	1,195,699	1,237,798
Cash at bank		<u>221,992</u>	<u>265,877</u>
		<u>1,425,829</u>	<u>1,526,016</u>
CREDITORS: amounts falling due within one year	11	<u>(1,585,760)</u>	<u>(1,648,927)</u>
NET CURRENT LIABILITIES		<u>(159,931)</u>	<u>(122,911)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		58,490	82,603
CREDITORS: amounts falling due after more than one year	12	<u>-</u>	<u>(8,287)</u>
		<u>58,490</u>	<u>74,316</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	<u>(349,226)</u>	<u>(333,400)</u>
EQUITY SHAREHOLDERS' FUNDS		<u>58,490</u>	<u>74,316</u>

These financial statements were approved by the Board of Directors on

Signed on behalf of the Board of Directors



Director

NOTES TO THE ACCOUNTS**Year ended 30 June 2000****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 depreciation would be wholly immaterial. 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.

Deferred income

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

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

1. ACCOUNTING POLICIES (continued)

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

	2000 £	1999 £
Bank interest	6,489	8,825

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2000 £	1999 £
Inter company loan interest	16,129	21,813
On hire purchase contracts and finance leases terminating within five years	2,763	3,252
Other interest	-	2,180
	<u>18,892</u>	<u>27,245</u>

5. OPERATING PROFIT

	2000 £	1999 £
Operating profit is stated after charging:		
Depreciation		
- owned fixed assets	115,449	125,282
- assets held under finance leases and hire purchase contracts	11,724	11,724
Operating lease rentals		
- plant and machinery	277,423	266,224
- land and buildings	126,700	126,718
Auditors' remuneration	10,300	10,000

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

6. STAFF COSTS AND DIRECTORS' EMOLUMENTS

	2000	1999
	£	£
Staff costs:		
Wages and salaries	1,764,775	1,725,795
Social security costs	194,084	181,527
Other pension costs	42,079	39,361
	<u>2,000,938</u>	<u>1,946,683</u>
	No.	No.
Average number of employees	<u>92</u>	<u>89</u>
	£	£
Directors emoluments	<u>263,013</u>	<u>257,697</u>
Emoluments of the highest paid director	<u>85,962</u>	<u>81,980</u>
Contributions to defined contribution pension scheme		
• total	<u>15,472</u>	<u>17,365</u>
• in respect of highest paid director	<u>7,000</u>	<u>7,000</u>
	No.	No.
Number of directors who are members of a money purchase scheme	<u>4</u>	<u>4</u>

7. TAXATION

	2000	1999
	£	£
United Kingdom Corporation Tax at 20% (1999 – 30.75%) based on the loss for the year	8,295	20,698
Adjustments in respect of prior years	-	(6,162)
	<u>8,295</u>	<u>14,536</u>

The tax charge for the year has been increased by £5,000 (1999 - £8,000) in respect of timing differences for which no deferred tax has been provided, and by £6,000 (1999 £10,000) in respect of items not allowable for corporation tax.

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

8. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Motor vehicles £	Fixtures, fittings and computer equipment £	Total £
Cost or valuation				
At 1 July 1999	35,000	71,207	1,146,553	1,252,760
Additions	-	-	143,363	143,363
Disposals	-	-	(536,828)	(536,828)
At 30 June 2000	35,000	71,207	753,088	859,295
Accumulated depreciation				
At 1 July 1999	-	37,210	1,010,036	1,047,246
Charge for the year	-	16,815	110,358	127,173
Disposals	-	-	(533,545)	(533,545)
At 30 June 2000	-	54,025	586,849	640,874
Net book value				
At 30 June 2000	35,000	17,182	166,239	218,421
At 30 June 1999	35,000	33,997	136,517	205,514

The net book value of tangible fixed assets includes an amount of £17,183 (1999 £28,907) in respect of assets held under hire purchase contracts.

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.

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

9. STOCKS

	2000 £	1999 £
Finished goods	8,138	22,341

10. DEBTORS

	2000 £	1999 £
Trade debtors	754,924	911,261
Amounts owed by parent undertaking	238,515	135,183
Other debtors	49,817	26,344
Prepayments and accrued income	152,443	165,010
	<u>1,195,699</u>	<u>1,237,798</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000 £	1999 £
Obligations under finance leases and hire purchase agreements	8,286	16,090
Trade creditors	455,290	475,349
Amounts owed to parent undertaking	159,164	271,210
Corporation tax payable	12,114	17,764
Other taxation and social security	183,377	163,058
Accruals	288,890	330,048
Deferred income	478,639	375,408
	<u>1,585,760</u>	<u>1,648,927</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2000 £	1999 £
Obligations under finance leases and hire purchase contracts	-	8,287

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

	2000 £	1999 £
Within 1 - 2 years	-	8,287
Within 2 - 5 years	-	-
	-	8,287

13. CALLED UP SHARE CAPITAL

	2000 £	1999 £
50,000 ordinary shares of £1 each authorised, allotted and fully paid	50,000	50,000

14. OPERATING LEASE COMMITMENTS

At 30 June 2000 the company was committed to making the following payments during the next year in respect of operating leases.

	Land and buildings £	Other £
Leases which expire:		
Within one year	13,308	37,018
Between one and five years	36,500	245,116
After five years	69,248	-
	119,056	282,134

NOTES TO THE ACCOUNTS
Year ended 30 June 2000

15. RESERVES

	Share premium account £	Revaluation reserve £	Profit and loss account £	Total £
At 1 July 1999	349,300	8,416	(333,400)	24,316
Retained loss for the year	-	-	(15,826)	(15,826)
At 30 June 2000	<u>349,300</u>	<u>8,416</u>	<u>(349,226)</u>	<u>8,490</u>

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 £42,079 for the year (1999 - £39,361).

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 2000 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.