

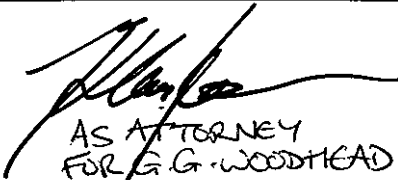
SEPARATOR SHEET

3055360



NETWORK TECHNOLOGY PLC




AS ATTORNEY
FOR G.G. WOODHEAD


K. BOLLMANN ⁵⁷


H. BOLLMANN


D. MOULDS

THIS DOCUMENT IS IMPORTANT: If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

If through the London Stock Exchange you have sold or otherwise transferred all or part of your holding of Existing Ordinary Shares in Network Technology PLC, on receipt of the Application Form, you should complete Box 8 and deliver the Application Form, together with this document, to the purchaser or transferee or to the stockbroker or other agent through whom the sale was effected, who will arrange for the Application Form to be split or transmitted to the purchaser(s) or transferee(s).

This document comprises a prospectus relating to Network Technology PLC prepared in accordance with the listing rules made pursuant to Section 142 of the Financial Services Act 1986 and a copy has been delivered for registration to the Registrar of Companies in England and Wales in accordance with Section 149 of that Act. ✓

The Directors of Network Technology PLC, whose names appear on page 3, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made for the Ordinary Shares and the New Ordinary Shares to be issued pursuant to the Placing and Open Offer to be admitted to the Official List of the London Stock Exchange. It is expected that dealings on the Official List in the Ordinary Shares and the New Ordinary Shares will commence on 28 August 1997. Until such date, the Ordinary Shares will continue to be traded on the Alternative Investment Market of the London Stock Exchange.

NETWORK TECHNOLOGY PLC

*(incorporated in England and Wales under the Companies Act 1985
with Registered Number 3055360)*

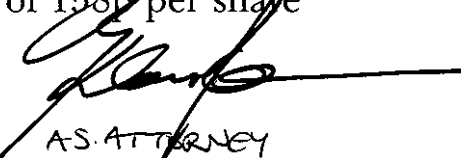
Placing and Open Offer by Singer & Friedlander Limited

of 3,481,000 New Ordinary Shares of 10p each at a price of 158p per share

and

Admission to the Official List


AS ATTORNEY
FOR F. KLENGENSMITH


AS ATTORNEY
FOR M. POLLINS

Share capital

Authorised		Present	Issued	
Number	Amount		Number	Amount
53,000,000	£5,300,000	Ordinary Shares of 10p each	32,176,666	£3,217,667
Immediately following the Placing and Open Offer				
53,000,000	£5,300,000	Ordinary Shares of 10p each	35,657,666	£3,565,767

The New Ordinary Shares to be issued pursuant to the Placing and Open Offer will, upon Admission, rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions thereafter declared, paid or made in respect of the ordinary share capital of the Company.

Singer & Friedlander Limited, which is regulated by the Securities and Futures Authority Limited, is acting exclusively for Network Technology PLC and no other person in connection with the Placing and Open Offer and will not be responsible other than to Network Technology PLC for providing the protection afforded to customers of Singer & Friedlander Limited or for providing advice in relation to the Placing and Open Offer.

Indebtedness

As at the close of business on 30 June 1997 the Group had outstanding indebtedness totalling £351,641 comprising secured bank loans of £149,613 and finance lease obligations of £202,028.

Save as disclosed above and apart from intra-group indebtedness, no member of the Group had outstanding at the close of business on 30 June 1997 any borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, loan capital (including term loans) outstanding or created but unissued, mortgages, charges, hire purchase commitments and obligations under finance leases or guarantees or any other contingent liabilities.

At the close of business on 30 June 1997 the Group had cash balances of £424,596.

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Timetable of principal events:

	1997
Record date for the Open Offer	29 July
Latest time and date for the splitting of Application Forms (to satisfy bona fide market claims only)	3.00 pm on 22 August
Latest time and date for receipt of completed Application Forms and payment in full under the Open Offer	3.00 pm on 27 August
Dealings in the New Ordinary Shares are expected to commence	8.30 am on 28 August
Despatch of definitive share certificates for New Ordinary Shares	1 September

Directors, Secretary and Advisers

NT

Directors

Graham Geoffrey Woodhead
Klaus Bollmann
David Frederick Mould
Lorraine Carole Richards ACA
Hannelore Erika Schlieker-Bollmann
Martin Pollins FCA ATII
Frederick Roy Klingensmith

non-executive Chairman
Managing Director
Technical Director
Finance Director
Commercial Director
non-executive Director
non-executive Director

all of
26 Victoria Way
Burgess Hill
West Sussex RH15 9NF

which is the registered office of the Company

Company Secretary

Hannelore Erika Schlieker-Bollmann

Financial adviser and sponsor

Singer & Friedlander Limited
21 New Street
Bishopsgate
London EC2M 4HR

Stockbroker

Burrough Johnstone Limited
24-25 Cliffe High Street
Lewes
East Sussex BN7 2AH

Auditors and reporting accountants

BDO Stoy Hayward
8 Baker Street
London W1M 1DA

Solicitors to the Company

Simmons & Simmons
21 Wilson Street
London EC2M 2TX

Donne Mileham & Haddock
38-42 High Street
Crawley
West Sussex RH10 1BW

Solicitors to the Placing and Open Offer

Denton Hall
Five Chancery Lane
Clifford's Inn
London EC4A 1BU

Principal Bankers

National Westminster Bank PLC
Market Place Branch
5 Market Place
Kingston upon Thames
Surrey KT1 1JX

Lloyds Bank Plc
36/38 Church Road
Burgess Hill
West Sussex RH15 9AH

Registrar and Receiving Agent

Exchange Registrars Limited
18 Park Place
Cardiff CF1 3PD

The following definitions apply throughout this document, unless the context requires otherwise:

"the Act"	the Companies Act 1985, as amended
"Admission"	the admission of the Ordinary Shares (including the New Ordinary Shares) to the Official List
"admission to AIM"	the admission of the Ordinary Shares to trading on AIM on 30 July 1996
"AIM"	the Alternative Investment Market of the London Stock Exchange
"Application Form"	the application form sent to Qualifying Shareholders with this document in connection with the Open Offer
"Burrough Johnstone"	Burrough Johnstone Limited, brokers to the Company, a member of the London Stock Exchange, and regulated by the Securities and Futures Authority Limited
"the Company" or "Network Technology"	Network Technology PLC
"the Directors" or "the Board"	the board of directors of the Company whose names appear on page 3 of this document
"Existing Ordinary Shares"	the 32,176,666 Ordinary Shares which are in issue at the date of this document
"the Group"	the Company and its subsidiary undertakings
"HBM"	H. Bollmann Manufacturers Limited, a wholly owned subsidiary of the Company
"HBM Pty"	H. Bollmann Manufacturers Pty Limited (now named Woodgate Leasing Pty Limited), a company registered in Australia
"the Issue Price"	158p per New Ordinary Share
"ITC"	International Technology Consultants Limited, a wholly owned non-trading subsidiary of the Company
"JRL"	JRL Systems Inc., a wholly owned subsidiary of the Company
"the London Stock Exchange"	London Stock Exchange Limited
"Maltrace"	Maltrace PLC, a Shareholder in Network Technology
"the New Ordinary Shares"	the 3,481,000 Ordinary Shares to be issued pursuant to the Placing and Open Offer
"N&R"	N&R Circuits UK Limited, a wholly owned subsidiary of the Company
"the Official List"	the Official List of the London Stock Exchange

"the Open Offer"	the conditional invitation by Singer & Friedlander on behalf of the Company to Qualifying Shareholders to offer subscriptions for New Ordinary Shares on the terms and conditions set out in Part Two of this document and in the Application Form
"Ordinary Shares"	ordinary shares of 10p each in the Company
"the Placing"	the placing of the New Ordinary Shares at the Issue Price as described in this document
"the Placing Agreement"	the placing agreement dated 5 August 1997 and made between Singer & Friedlander (1), Burrough Johnstone (2), the Directors (3) and the Company (4)
"Qualifying Shareholders"	holders of Ordinary Shares on the register of members at the Record Date (but excluding certain overseas shareholders as described in Part Two of this document)
"Record Date"	29 July 1997
"Rikei"	Rikei Corporation, the Japanese agent of HBM through which the Group distributes its products to OEMs in Japan
"Ringdale GmbH"	Ringdale Gesellschaft für Netzwerktechnik GmbH, a German venture in which the Company has a 25 per cent interest
"Ringdale Inc."	a US venture in which the Company has a right to acquire a 40 per cent interest and an option to acquire up to an additional 40 per cent interest
"Ringdale UK"	Ringdale UK Limited, a wholly owned subsidiary of the Company
"Shareholders"	holders of Ordinary Shares on the register of members at the Record Date
"Share Option Plan"	the Network Technology Company Share Option Plan adopted on 24 September 1996
"Share Option Scheme"	the Network Technology Savings-Related Share Option Scheme adopted on 24 September 1996
"Singer & Friedlander"	Singer & Friedlander Limited, a member of the London Stock Exchange, and regulated by the Securities and Futures Authority Limited
"The Woodgate Trust"	the executive pension scheme established by HBM, of which Pointon York Trustees Limited, H.E. Schlieker-Bollmann, K. Bollmann and D.F. Mould are the trustees

Bandwidth	The amount of data that can be transmitted or received through a particular communications medium in a given time.
CE	Conformité Européenne, now used by many manufacturers to signify that products conform to European Safety and Emission Standards.
Chip	Also known as an Integrated Circuit or IC. Most electronic devices are built from semiconductors which can be used to switch or amplify electrical signals. In order to make electronic circuits which can be used to compute complex algorithms, thousands of semiconductor devices are required. Miniaturisation today enables 30,000 or more semiconductors to be contained within a square millimetre. All of the Group's products, other than software, require such semiconductor chips.
Computer Network or Network	The infrastructure which permits two or more computers to be 'linked' together and networked with all peripheral devices (e.g. scanners, faxes and printers). This enables such items of equipment to communicate with each other. These can be set up so that any user may access information held centrally and send information to another user. It is now usual for an office computer system to be networked.
Ethernet	Ethernet is now the most popular LAN communications protocol used to connect PCs, workstations and File servers as well as peripheral devices such as printers in LAN environments. Currently 10base (10 Megabits per second) network cable is the most common type.
Fast Ethernet	A new standard for network communications, 100base (100 Megabits per second), was agreed in 1995 allowing a ten times higher Bandwidth than the traditional 10base.
FCC	Federal Communication Commission, the US agency responsible for regulating the use of the frequency spectrum and the standard with which office and computer equipment has to comply regarding radio frequency emissions.
File server	A computer on a Network, the function of which is to act as a repository of applications and/or data to which other computers linked to the Network have access.
Firmware	Programs that are held in read only memory which may be accessed very quickly and which are not erased when the host machine is switched off.
FX	Fibre optic cable
G-TEM	Gigahertz Transverse Electro Magnetic - a test chamber for verifying products compliance with FCC and CE standards
HUB	A HUB receives information from one source and transmits the same information to multiple destinations. It can receive information from one PC and transmit the data to many PCs. In a large office there will usually be several HUBs.
Internet	The Internet is a global Computer Network which provides an online source of information, including bulletin boards, discussion groups, electronic mail and up-to-date news information. Computers that form part of the Internet communicate using the Transmission Control Protocol/Internet Protocol (TCP/IP).
Intranet	A publishing and communications system which uses Internet protocols for intra-organisation use.

ISDN	Integrated Services Digital Network, a high-speed telephone connection utilising digital data communications to provide a range of services over the public telephone network.
LAN	Local Area Network. A Computer Network spanning a small geographical area such as a building, a floor or an office.
Node	A node is a device such as a workstation, PC, printer, computer, File server or other device directly connected to a Computer Network. In the future, telephones, videophones and even set-top boxes may become nodes, being directly connected to a Computer Network.
NPMP™	Network Peripheral Management Protocol was developed by HBM to enable peripheral devices to be managed remotely from workstations or PCs connected to a LAN. NPMP is a registered trade mark in the UK and may only be used by members of the NPTF (Network Peripheral Task Force).
OEM	Original Equipment Manufacturers. The Company's OEM customers include major manufacturers such as Epson, NEC, Canon, Konica, Sharp, Ricoh, Brother, Kyocera, Fujitsu, Mutoh, Texas Instruments, Xerox and Summagraphics.
PC	Personal Computer.
PCMCIA	Personal Computer Memory Card Industry Association.
Printserver	The equipment required to transform information from one source into information suitable to be understood or received by a printer. A Printserver can be a small circuit board installed inside the printer or an external device which connects directly to a Computer Network.
RISC	Reduced Instruction Set Core, a less complex micro processor instruction core.
SNMP	Simple Network Management Protocol, most commonly used in UNIX environments.
UNIX	An operating system developed by Bell Laboratories with the object of improving software portability.
WAN	Wide Area Network. A Computer Network spanning a wide geographical area. WANs may be used to network one building with another or one country with another. This may be by telephone leased-line modem links, ISDN or other WANs.
Web site	An Internet address which provides a visual advertisement. Sites typically provide information to a user (or site visitor) in either text, graphics, video and sound or a combination of each.

The following information should be read in conjunction with the full text of this document from which it is derived.

Summary of activities

The Group is engaged in the design, manufacture and marketing of hardware, Firmware, integrated circuits and software used to connect computer associated equipment in the modern business and domestic environment, (such as PCs, workstations, printers, scanners, fax and vending machines) to LANs, WANs and the Internet.

Printservers based on Ethernet technology currently constitute the Group's core products, representing approximately 84 per cent of the Group's sales in the six months to 31 March 1997, with the Group's recently developed products accounting for the remaining 16 per cent. In order to develop further its market position and to reduce dependence on its current core products, the Group continues to develop new networking products such as Printservers and HUBs using new, faster 100base Ethernet technology, network management software and technology licensing. The Directors believe that these new products should provide the Group with further opportunities for growth.

Key strengths

The Directors believe that the Group's key strengths are as follows:

- a successful track record in the computer networking and printing product market, including Printservers, together with a range of products for connecting printers to LANs, WANs and the Internet;
- close relationships with a strong customer base of the world's leading OEM printer manufacturers including in Japan: Epson, Canon, NEC, Ricoh, Brother, Kyocera, Fujitsu and Mutoh and in the USA: Texas Instruments, Xerox and Summagraphics;
- an experienced and committed management team with substantial industry expertise;
- in-house research and development, programming, design and production facilities which, combined with the management's specialist industry knowledge, allow the Group to exploit opportunities by developing and marketing products utilising new technology;
- the ability to achieve security of supply by in-house manufacture of many key components such as printed circuit boards, integrated circuits, hardware, Firmware and software; and
- not developing brand name products which would compete with the Group's main OEM customers.

Trading record

Network Technology was incorporated in May 1995 but its principal trading subsidiary, HBM, was founded in 1985. Accordingly, in order to provide comparative financial information the table below, which has been extracted from the Accountants' Report in Part Three and the Interim Results set out in Part Four, summarises the trading record of (a) HBM for the two years ended 30 September 1995 and (b) that of the Group for the period from 11 May 1995 to 30 September 1996, together with the unaudited results for the six months ended 31 March 1997. The Group's results for the period 11 May to 30 September 1995 include the results of HBM for the period from the date of its acquisition by the Company on 30 June 1995.

Key Information

NT

	HBM		Group		
	Year ended 30 September 1994	Year ended 30 September 1995	11 May to 30 September 1995	Year ended 30 September 1996	Six months ended 31 March 1997 (unaudited)
	£'000	£'000	£'000	£'000	£'000
Turnover	3,854	8,138	2,260	14,504	8,536
Operating profit	653	1,355	261	3,564	1,789
Profit before taxation	591	1,309	252	3,553	1,807
Profit after taxation	442	877	127	2,484	1,279
Earnings per share	1.87p	3.72p	0.54p	9.35p	4.04p

The Placing and Open Offer

The Company is raising approximately £4.75 million (net of expenses) by means of the Placing and Open Offer. The Placing and Open Offer, which has been fully underwritten by Singer & Friedlander, comprises 3,481,000 New Ordinary Shares at 158p per share. No shares are being placed on behalf of either the Directors or any other existing shareholders. The stockbrokers to the Placing and Open Offer are Burrough Johnstone.

Purpose of Fund Raising

The Directors intend to use the proceeds of the Placing and Open Offer to provide additional working capital which the Directors believe will enhance the ability of the Group to take advantage of opportunities for growth whilst retaining a strong balance sheet. In addition, the Directors believe that Admission will further raise the market profile and status of the Group, as well as facilitating potential expansion through acquisition.

Placing and Open Offer statistics

Issue Price	158p
Number of Ordinary Shares in issue following the Placing and Open Offer	35,657,666
Market Capitalisation at the Issue Price	£56.3 million
Gross proceeds of the Placing and Open Offer	£5.5 million
Number of New Ordinary Shares being issued by the Company	3,481,000
Percentage of the enlarged ordinary share capital being issued by the Company	9.8 per cent
Price earnings multiple at the Issue Price based on the earnings per Ordinary Share for the year ended 30 September 1996	16.9 times

The Business

The Group is engaged in the design, manufacture and marketing of hardware, Firmware, integrated circuits and software used to connect computer associated equipment in the modern business and domestic environment (such as PCs, workstations, printers, scanners, fax and vending machines) to LANs, WANs and the Internet.

Printservers based on Ethernet technology currently constitute the Group's core products, representing approximately 84 per cent of the Group's sales in the six months to 31 March 1997 with the Group's recently developed products accounting for the remaining 16 per cent. In order to develop further its market position and to reduce dependence on its current core products the Group continues to develop new networking products such as Printservers and HUBs using new, faster 100base Ethernet technology, network management software and technology licensing. The Directors believe that these new products should provide the Group with further opportunities for growth.

The Market

The Group operates within the market for computer networking products. This market has grown in recent years and such growth is expected by the Directors to be sustained into the foreseeable future. The Directors believe that a number of factors, including the following, have influenced, and will continue to influence such growth in the market for computer networking products:

- the increasing number of printers on data networks;
- the need of businesses and individuals to transmit increasing volumes of data; and
- the growth in sophistication of PCs and printers and in the sophistication and number of software applications which require larger amounts of bandwidth in order to transfer large amounts of data.

The Group's current customer base may be sub-divided into two types: major OEM printer manufacturers in Japan, the USA and the UK, and corporate and retail customers of its distribution subsidiary, Ringdale UK.

The main purchasers of the Group's Printserver and HUB products include Texas Instruments, Epson, Ricoh, Sharp, Brother and NEC.

Through Ringdale UK, the Directors intend to develop a corporate and retail catalogue business via overseas joint venture partnerships. In addition to Ringdale GmbH which was established in October 1996 in Germany, the Directors intend to investigate the possibility of establishing other overseas joint ventures such as the recently incorporated Ringdale Inc.

The market for JRL's products may be divided into two parts: standard channel distribution and controller technology for OEMs such as Mutoh, Selex and 3M.

History

HBM was co-founded by K. Bollmann and H.E. Schlieker-Bollmann in 1985 in order to develop and market emerging printer technology. By 1989, HBM had developed a new interface which enabled Wang users to benefit from the then modern laser printer technology.

In 1989, HBM acquired the freehold of 26 Victoria Way, Burgess Hill, West Sussex, which remains the Group's headquarters today. A combination of factors, including the general effects of the recession, left HBM with insufficient working capital by 1992 and a corporate restructuring was therefore required in that same year. The unsecured and preferential creditors of HBM agreed to a company voluntary arrangement (the "CVA") which was subject to HBM raising sufficient funds from an investor to ensure the company's recovery. At this time H.E. Schlieker-Bollmann, K. Bollmann and D.F. Mould were directors of HBM. HBM obtained the backing of JRL, a US technology company at that time unconnected with it which invested £125,000 enabling the CVA to commence.

Between 1992 and 1995 the directors of HBM were able to grow the turnover and profitability of that company. Accordingly, the CVA was completed in June 1995. The equity stake of JRL was bought out by the Company (which was incorporated specifically as the new holding company) in June 1995 with the assistance of financing from 3i Group plc.

In July 1996 the Company raised nearly £4.0 million net of expenses when the Ordinary Shares in the Company were admitted to trading on AIM.

In October 1996 the Company subscribed for a 25 per cent interest in a German venture, Ringdale GmbH, for DM 100,000. This was the first step towards expanding the Group's Ringdale network connectivity products distribution business through overseas joint ventures.

In December 1996, Network Technology acquired the entire share capital of JRL for \$1.8 million cash and the issue of 1,089,573 Ordinary Shares. The two key technologies of JRL, the production of printer controllers and ISDN router products, have been integrated into Network Technology's business. Ringdale UK has started selling the ISDN router technology in Europe.

In April 1997, the Company held an Extraordinary General Meeting to amend the Articles of Association and to obtain shareholders' approval for the allotment of shares on a non-pre-emptive basis. These steps were taken as part of the preparation for Admission.

On 25 July 1997 it was announced by Network Technology that JRL had signed non-binding heads of agreement to acquire the entire share capital of Nextus Inc., a US manufacturer based in Texas, for a consideration of \$625,000 to be satisfied by the issue of \$250,000 of Ordinary Shares (based on the traded price of such Ordinary Shares and the currency exchange rate on the fifth business day prior to the closing of the transaction) and \$375,000 in cash. Nextus Inc. contract manufactures and also manufactures plotters and controllers for, amongst others, JRL.

Products

The Group's principal products comprise:

Printservers

HBM manufactures hardware, Firmware and software to connect printers and printing systems to LANs, WANs and the Internet. Since October 1995, HBM has been producing approximately 130,000 units per annum. It primarily supplies Japan (through the Company's agent Rikei), Europe and the USA, dealing with most of the major Japanese, and a number of European and USA OEM printer manufacturers.

Fast Ethernet Printservers

As the demand for higher bandwidth on LANs increases with the need for document archiving, video conferencing via LANs, high resolution printers from Websites and telephone calls over the Network and the Internet, the corporate market is forced to use faster LAN technology. Fast Ethernet gives ten times the standard performance at almost the same cost. Competing technologies with a similar performance to Fast Ethernet are more expensive. In the Directors' view, Fast Ethernet will become the standard in the next five to seven years and the demand for Fast Ethernet Printservers will consequently increase.

Integrated Circuits for Fast Ethernet HUBs

The Group designed Fast Ethernet HUB Chips in order to lower the cost of the Group's devices and found that in Japan many of the Group's existing and new OEM customers were looking for technology suppliers to provide them with Fast Ethernet Chip technology. The Group is now selling these integrated circuits to two of those OEMs through the Company's agent, Rikei.

Printer/Plotter Controllers

JRL produces printer and plotter controllers, the devices which make the mechanics of a printer or the plotter engine understand the commands sent from a PC or host system describing how the paper or film should be marked to produce an image. The main market for JRL is the production of wide format plotters.

HUBs

HBM also produces HUBs for OEMs (either with or without management software) for Networks. HUBs are principally supplied to the cabling market to link electronically a number of PCs, printers and File servers together.

Network Management Software

Following on from the development of management software for printers, HUBs and other devices connected to Computer Networks, HBM has developed sophisticated software which enables supervisors of LANs and WANs to plan and monitor Network systems through Intranets and the Internet. For example, breakdowns or shortages of supplies can be identified anywhere on a local or worldwide Network. The Directors believe that a major new additional market for this technology is the market for equipment which monitors vending machines connected via a Network.

Design and logistics management of Chips

The Group has developed the following three Chip technologies.

- (a) 100base HUB Chip – for which the Group designed the silicon Chip and closely supervises the manufacturing process to enable the Chip to be manufactured at a cost lower than buying in;
- (b) Parallel processing 8-bit RISC – designed to be code-compatible with the existing processor used on the Group's printed circuit boards. Tests carried out by the Group indicate that this Chip performs on average ten times faster than previously available technology, making the Group's products more cost effective, providing higher performance and, potentially, a correspondingly longer technological life. The device has been designed in compliance with HBM's ISO 9001 quality procedures; and
- (c) Mac layer Chip – developed for use in both 10 and 100base Ethernet technology. This Chip will be used in all of the Group's Printservers, managed HUBs and PCMCIA cards for connecting to a Network. The Directors believe that this will be a high volume device enabling the Group, through its OEM customers, to achieve a share of the global market.

Other Products and Services

Group companies provide other products and services, as follows:

- N&R manufactures printed circuit boards primarily for use in the Group's own products;
- Ringdale UK is the distribution channel sales company selling HBM's products under the Ringdale brand, mainly to distributors abroad including Ringdale GmbH and to dealers and major customers in the UK;
- ITC has a G-TEM test chamber which is used to verify compliance of the Group's products with FCC and CE standards;
- HBM has developed new cabling products, in particular a 100base FX (fibre optic) system, now in testing and a 100base FX card. The 100base FX system is designed to be used for larger Network cabling runs of up to two kilometres. The 100base FX card is designed to be used in conjunction with 100base fibre optic Networks. HBM is expecting to market this product soon;
- HBM has developed a modular technology for all the Group's Printserver products. This modular technology, "ModuLAN™", enables users with a variety of PCMCIA cards to connect to any cable or wireless Networks for which PCMCIA cards are available. The ModuLAN™ technology can also convert a printer into a receive-only fax printer, increasing the flexibility of printer use within a Network; and

- HBM now also manufactures ISDN routers: devices that connect to an ISDN line on one side and a LAN on the other side. They are mainly used for the popular Internet connection via ISDN which gives ten times speed improvement over modems of 9.6 Kb/sec.

Research and Development

It is an essential part of the Group's marketing strategy to remain at the forefront of Computer Network and Internet technology. As a result, the Directors place considerable importance on continuing to provide the Group's customers with new products using advanced technology. Accordingly, the Company has, since the AIM flotation, further enlarged its research and development team.

The Directors believe that the Group has a customer driven approach, as a result of which it collaborates closely on new product development with its major OEM customers, the latter bearing a proportion of the Group's research and development costs.

Intellectual Property

The Directors regard the Group's intellectual property rights as important to its business and endeavour to protect them accordingly. The Group owns, licenses and has rights to use all intellectual property rights necessary for its business. With the exception of the recent application for a wave guide, the Group does not ordinarily apply for patents in connection with its products because the Directors do not believe that the benefits of patent protection outweigh the risks involved in publication of an invention or process.

The Group is the registered proprietor of the following trade marks in the UK: NPMP; CopyMan; CopyPatrol; CopyView; CopyAdmin; CopyClient; NetTalk; HBM; PeripheralVision; ModuLAN; Ringdale and ITC/MTOS.

K. Bollmann and D. Mould have previously enjoyed contractual rights to exploit inventions made and patents granted during the time of their employment with HBM. Prior to Admission, K. Bollmann and D. Mould entered into Deeds of Termination and Release whereby the agreements which granted such rights were terminated and the accrued rights were transferred to HBM.

Further details of the intellectual property owned by or licensed to the Group are set out in Part Five, paragraph 15 of this document.

Directors and Senior Management

Directors

The Board comprises:

Graham Woodhead – *non-executive Chairman (age 66)*

Graham Woodhead was appointed non-executive Chairman in August 1995. He is a graduate in mechanical and civil engineering with experience in Europe, USA and the Far East, working for UK, American and Japanese companies. He was previously a director of Bestobell Group which was acquired by Meggitt plc in 1986. Graham Woodhead was a main board director of Meggitt plc from 1991 until 1995 and is currently non-executive Chairman of four other medium-sized electronics-based companies.

Klaus Bollmann – *Managing Director (age 41)*

In 1985 Klaus Bollmann co-founded the business of the Group. He was Managing Director of HBM from May 1987 until May 1995 and he became the Managing Director of the Group when it was formed. Klaus Bollmann has been involved in the development of printing and networking products for many years. In 1982 he developed the hardware, Firmware and the wordprocessor for the Screentyper for CVB Mannheim, a company in Germany, which he founded in 1977. In 1984 he filed for bankruptcy in Germany, details of which are disclosed in Part Five, paragraph 6(m). In 1987, he developed the hardware and Firmware for a connectivity product to enable printers to be connected to Wang computers. Prior to the establishment of HBM, he worked in the United Kingdom, for OEM plc, implementing a screen add on to electronic typewriters, a product which he developed in Germany before moving to the United Kingdom in October 1983.

Hannelore Schlieker-Bollmann – Commercial Director (age 38)

Hannelore Schlieker-Bollmann co-founded the business of the Group and is currently responsible for developing and implementing the commercial strategy of the Group. She has been Commercial Director since March 1997. She was Finance Director of HBM from 1985 to May 1995 and of Network Technology from May 1995 until March 1997. From 1978 to 1983, she also worked for CVB Mannheim being responsible for management accounts and salaries.

David Mould – Technical Director (age 42)

David Mould began his career in electronics in 1976 in the research and development department of a military radio communications manufacturer. He commissioned the manufacturing and test facilities for a unit utilising his test programs. In Florida in 1982, he developed a low cost radio-facsimile for use by the yachting and pleasure boat community. Since joining the Group in September 1987, David Mould has been responsible for the development of HBM's Wang interfaces and latterly LAN products. He became Technical Director in September 1989.

Lorraine Richards – Finance Director (age 36)

Lorraine Richards qualified as a Chartered Accountant with BDO Binder Hamlyn in 1986. She joined consulting engineers Electrowatt Engineering Services (UK) Limited, a subsidiary of a major Swiss group, as Financial Controller and Company Secretary in 1991. She joined Network Technology in August 1996 as Financial Controller and was appointed to the Board as Finance Director in March 1997.

Martin Pollins – non-executive Director (age 58)

Martin Pollins is a Chartered Accountant and an associate of the Institute of Taxation. Mr Pollins is a director of several companies and is Chairman and Managing Director of Maltrace (see Part Five, paragraph 6(b)) and Chairman of Professional Enterprise Group PLC and Britton Price Limited. In private practice as a Chartered Accountant, Mr Pollins specialises in corporate finance and strategic management matters. Mr Pollins was a council member of the Institute of Chartered Accountants in England and Wales from 1987 to 1996 and has served on several committees including the Audit Committee, Ethics Committee and the Executive Committee of the Faculty of Finance and Management. Mr Pollins was appointed to the Board in September 1995.

Frederick Klingensmith – non-executive Director (age 52)

Frederick Klingensmith founded JRL Systems in 1985 and served as President and Chief Executive Officer of the company until November 1995. Prior to that, Mr Klingensmith co-founded KMW Systems Corporation in 1975 which developed, manufactured, marketed and supported electronic systems and equipment for the transmission and processing of computer generated graphic and other data. Mr Klingensmith joined the Board as non-executive Director in 1996 following the acquisition of JRL by the Group.

Senior Management

The Board is supported by a senior management team which includes:

Ralph Ehlers – Marketing Manager of HBM (age 34)

Ralph Ehlers graduated with a degree in Information Technology and Marketing at Munich University in 1988. In May 1993 he joined The Decisions Group (then part of American Express) as Marketing Executive, in which capacity he was responsible for the implementation of a new card registration and information department. Since joining HBM in May 1995, he has been responsible for product marketing and strategies as well as implementing new campaigns for sales and advertising promotions.

Larry Hall – President and Chief Executive Officer of JRL Systems Inc. (age 53)

Having worked for a US Government research and development contractor, Larry Hall joined Unitech Inc. as Communications and Products Manager. After this company was acquired he became an independent consultant for four years and then, in 1983, formed his own business,

Datagraf Inc., manufacturing networking equipment. In 1994 Datagraf Inc. was sold to JRL and he joined JRL as Chief Executive Officer.

Michael Hart – *Manufacturing Manager of HBM (age 45)*

Michael Hart commenced his career by spending 15 years with British Telecommunications Plc during which time he gained experience of electronics, mechanical engineering, personnel, sales and customer service. In 1983 he joined B&W Loudspeakers to establish a new electronics production facility and in 1985 he became responsible for all electronics manufacture within that group. During the next nine years he developed his level of manufacturing expertise with two other leading audio companies, K.E.F. Electronics Limited and Audio by Design Limited. In 1994 he joined a subsidiary of Bowthorpe plc as Manufacturing Manager, prior to joining the Group in September 1996.

Corporate Governance

The Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance (the "Cadbury Report") was published on 1 December 1992. The Directors are committed to the principles of openness, integrity and accountability set out in the Cadbury Report and are taking appropriate measures to ensure that the Company complies with it and with the recommendations of the Greenbury Study Group on Directors' Remuneration. For purposes of ensuring compliance with the Cadbury and Greenbury recommendations the Directors intend to recruit another independent non-executive Director as soon as is practicable after Admission and in any event no later than the next annual general meeting. The Company has established remuneration and audit committees with formally delegated duties and responsibilities. Martin Pollins is the current Chairman of each of these committees and will hand over the chairmanship of both committees to Graham Woodhead at the next annual general meeting. The membership of both committees comprises the non-executive Directors.

Controlling Shareholders

Klaus Bollmann and Hannelore Schlieker-Bollmann are controlling shareholders of the Company, who between them will be beneficially interested in 48.56 per cent of the issued share capital of the Company following the Placing and Open Offer (see Part Five, paragraph 6(a) and (b)). Neither of them has or will have any private interests or other duties which could conflict with their duties as Directors of the Company. The majority of the Board of Directors is independent of the controlling shareholders.

The Directors have undertaken, for so long as K. Bollmann and H.E. Schlieker-Bollmann are controlling shareholders of the Company, to procure that all significant decisions, where their interests as controlling shareholders potentially conflict with their interests as Directors, are taken by Directors of whom the majority are independent of the controlling shareholders.

Trading Record

Network Technology was incorporated in May 1995 but its principal trading subsidiary, HBM, was founded in 1985. Accordingly, in order to provide comparative information the table below, which has been extracted from the Accountants' Report set out in Part Three and the Interim Results in Part Four, summarises the trading record of (a) HBM for the two years ended 30 September 1995 and (b) that of the Group for the period from 11 May 1995 to 30 September 1996, together with the unaudited results for the six months ended 31 March 1997. The Group's results for the period 11 May to 30 September 1995 include the results of HBM for the period from the date of its acquisition on 30 June 1995.

	HBM		Group		
	Year ended 30 September 1994	Year ended 30 September 1995	11 May to 30 September 1995	Year ended 30 September 1996	Six months ended 31 March 1997 unaudited
	£'000	£'000	£'000	£'000	£'000
Turnover	3,854	8,138	2,260	14,504	8,536
Gross profit	1,712	2,991	913	6,791	— ⁽¹⁾
Operating profit	653	1,355	261	3,564	1,789
Profit before taxation	591	1,309	252	3,553	1,807
Profit after taxation	442	877	127	2,484	1,279
Earnings per share	1.87p	3.72p	0.54p	9.35p	4.04p

Note: (1) This figure was not disclosed in the unaudited interim accounts.

The period covered by the above table shows an increase in the level of turnover and profitability generated by the Group. Turnover increased from £8.1 million in 1995 to £14.5 million in 1996 and, with Group gross margins improving from 38 per cent to 47 per cent. Pre-tax profits increased by more than two and a half times in the year to 30 September 1996 (£3.55 million), exceeding the profit projection made in the Group's AIM admission prospectus.

Dividend Policy

Since its AIM flotation, the Company has paid a final dividend in respect of the year ended 30 September 1996 of 0.5p per share. On 1 April 1997 and on 18 April 1997 the Directors declared an interim dividend in respect of the year ending 30 September 1997 of 0.5p per share which was paid on 2 July 1997. The Directors intend to pursue a progressive dividend policy, subject to the satisfactory trading and financial performance of the Group and the need to retain earnings for future investment.

The Placing and Open Offer

The Company is raising approximately £4.75 million (net of expenses) by means of the Placing and Open Offer. The Placing and Open Offer, which has been fully underwritten by Singer & Friedlander, comprises 3,481,000 New Ordinary Shares at 158p per share. No shares are being placed on behalf of either the Directors or any other existing shareholders. The stockbrokers to the Placing and Open Offer are Burrough Johnstone.

The Group intend to use the proceeds of the Placing and Open Offer to provide additional working capital which the Directors believe will enhance the ability of the Group to take advantage of opportunities for growth whilst retaining a strong balance sheet. In addition, the Directors believe that Admission will further raise the market profile and status of the Group, as well as facilitating potential expansion through acquisition.

Singer & Friedlander has conditionally agreed, as agent for the Company, to place firm 1,342,644 New Ordinary Shares of the total of 3,481,000 New Ordinary Shares being issued in connection with the Placing and Open Offer with institutional and other investors and to place the balance of 2,138,356 New Ordinary Shares subject to clawback to satisfy valid applications from Qualifying Shareholders under the Open Offer. To ensure that a sufficient number of Ordinary Shares are in public hands following the Placing and Open Offer, the Directors have undertaken not to take up any part of their entitlement to a maximum of 1,180,356 New Ordinary Shares under the Open Offer and these shares have been placed firm. Accordingly, the balance of 958,000 New Ordinary Shares will be available to the other Qualifying Shareholders under the Open Offer.

Those Qualifying Shareholders who wish to subscribe for New Ordinary Shares are being given the opportunity to do so through the Open Offer. **Accordingly, Qualifying Shareholders are invited to apply for New Ordinary Shares up to their pro rata entitlement on the following basis:**

1 New Ordinary Share for every 15.047385 Existing Ordinary Shares

held by them on the Record Date.

Fractional entitlements to apply for New Ordinary Shares will be rounded down to the nearest whole New Ordinary Share.

The New Ordinary Shares to be issued will be allotted fully paid up and will rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions thereafter declared, paid or made in respect of the ordinary share capital of the Company and will be issued free from all liens, charges and encumbrances.

Application has been made for admission of the Existing Ordinary Shares and the New Ordinary Shares to the Official List and dealings on the Official List in the Existing Ordinary Shares and the New Ordinary Shares are expected to commence on 28 August 1997.

The Placing and Open Offer is subject to certain conditions which are referred to on pages 19 to 24. If these conditions are not fulfilled or waived on or before 28 August 1997, or such later date not being later than 30 September 1997 as Singer & Friedlander and the Company may agree, application monies will be returned to applicants without interest.

An Application Form containing details of the entitlement to New Ordinary Shares under the Open Offer has been sent to Qualifying Shareholders. Further details of the Placing and Open Offer and the procedure for application and payment are set out in the letter from Singer & Friedlander in Part Two of this document.

Current Trading

In the six month period ended 31 March 1997 the Group's turnover rose by 26 per cent (compared to the same period in 1996) to £8.54 million and pre-tax profits advanced by 29 per cent (compared to the same period in 1996) to £1.81 million. These figures included a three month contribution from JRL, which was acquired in December 1996. Reflecting a policy of greater vertical integration and increased software sales, gross profit margins improved during the period.

The switch in the market place to Fast Ethernet products has been somewhat slower than anticipated. As a consequence, however, sales of standard Ethernet products have remained strong and, overall, Group sales in the first nine months of the current financial year were significantly ahead of the equivalent period last year.

Accordingly, the Directors believe that the year as a whole will be one of substantial progress for the Group.

Prospects

Since 1990, the Group has continued to develop and enhance the capability and range of its products and has increased its turnover and profitability. In the opinion of the Directors, the prospects for the Group are favourable.

The Directors believe that the Group's future performance will be influenced by the overall size and growth of the Network market, users of which fall into various categories: large corporate; small office; domestic users and Internet; telephony and multi-media users. The Directors also believe that over the next seven years the number of Networks will at least double for those users and in some categories such as telephony, multi-media and domestic users, the increase is likely to be even greater.

The Directors believe that the Group's products are well positioned to capitalise on the recently launched 100base Ethernet technology. This should benefit the sales of the Group's HUBs which operate on this new technology. The Group continues to develop new products in order to provide a broader base for

the business and to take advantage of the opportunities for further growth in the markets in which Network Technology operates.

As well as their continuing focus on the organic expansion of the Group's business, the Directors will also consider any suitable acquisitions in the networking products sector which might become available so long as such acquisitions are complementary to the existing business of the Group.

Risk Factors

Investors should be aware of the risks associated with an investment in the Company. In addition to the other information contained in this prospectus, the following factors should in particular be considered:

Type of investment

Investment in technology-based companies may be regarded as high risk. An investment in the Company may not be suitable for all recipients of this prospectus. Accordingly, before making any investment decision, investors are advised to consult with an investment adviser authorised under the Financial Services Act 1986 who specialises in advising on investments of this kind.

Technological obsolescence

The Group operates in a market which is subject to rapid technological advances. To remain competitive and to protect profit margins the Group must offer, on a timely basis, new products and services that keep pace with such developments and must respond to customer requirements. There can be no assurance that the Group will be able to do this.

Intellectual property

The Group's success depends to a certain extent upon its technological expertise and the software technology it has developed. The Group relies upon a combination of factors such as contractual protection, copyright, design right, trade mark and trade secrets laws to establish and protect its intellectual property rights. It may be possible for third parties to use or copy the Group's intellectual property without permission which might thereby damage the Group's business.

Key management

Loss of key management could have adverse consequences for the Group's strategic development. Whilst the Group has entered into employment arrangements with each of its key personnel with the aim of securing their services (as more fully described in Part Five, paragraph 7), the retention of their services cannot be guaranteed.

Regulatory risk

Changes in the regulatory environment in which the industry operates could affect the business and profitability of the Group. This might include the effects of legislation, directives or rulings from the UK Government, the European Union or the Monopolies and Mergers Commission, although the Directors are not aware of any proposals currently being considered by any of these bodies which might be expected to have a substantial adverse effect upon the Group.

Change in Distribution Arrangements

At present the Group distributes its products to its OEM customers in Japan exclusively through Rikei. If the current arrangements with Rikei were to end this could adversely affect the cash flow of the Group. As under all relevant contracts Rikei's main role is the collection of payments and liaison with Japanese customers, to continue maintaining its Japanese customers the Group would have to set up its own operation in Japan if the Rikei arrangements were terminated. The cost of this could be offset by the saved profits that Rikei would otherwise normally make. Network Technology does not intend to terminate the current arrangements and, so far as the Directors are aware, nor does Rikei.

Singer & Friedlander Limited



21 New Street
Bishopsgate
London
EC2M 4HR

Dear Shareholder

Proposed Placing and Open Offer

Details of the proposal to raise approximately £4.75 million, net of expenses, by means of the Placing and Open Offer are set out in Part One of this document. The proceeds of the Placing and Open Offer will be used to provide additional working capital for the Group.

Singer & Friedlander has conditionally agreed, as agent for the Company, to place firm 1,342,644 New Ordinary Shares of the total of 3,481,000 New Ordinary Shares being issued in connection with the Placing and Open Offer with institutional and other investors and to place the balance of 2,138,356 New Ordinary Shares subject to clawback to satisfy valid applications from Qualifying Shareholders under the Open Offer. To ensure that a sufficient number of Ordinary Shares are in public hands following the Placing and Open Offer, the Directors have undertaken not to take up any part of their entitlement to a maximum of 1,180,356 New Ordinary Shares under the Open Offer and these shares have been placed firm. Accordingly, the balance of 958,000 New Ordinary Shares will be available to the other Qualifying Shareholders under the Open Offer.

All of the New Ordinary Shares to be issued in connection with the Placing and Open Offer have been underwritten by Singer & Friedlander. The Placing and Open Offer are subject to the Placing Agreement becoming unconditional. The stockbrokers to the Placing and Open Offer are Burrough Johnstone.

The Open Offer

Subject to the terms and conditions set out in this letter and in the Application Form, Singer & Friedlander, as agent for Network Technology, hereby invites applications from Qualifying Shareholders to subscribe in aggregate for up to 2,138,356 New Ordinary Shares at a price of 158p per New Ordinary Share payable in full in cash on application, free from all commissions and expenses, on a basis pro rata to their existing holdings.

Qualifying Shareholders may apply for any whole number of New Ordinary Shares up to their pro rata entitlement on the following basis:

1 New Ordinary Share for every 15.047385 Existing Ordinary Shares

held by them on the Record Date.

Fractional entitlements to apply for New Ordinary Shares will be rounded down to the nearest whole New Ordinary Share.

You may apply to subscribe for less than your pro rata entitlement to New Ordinary Shares if you so wish. If you apply for New Ordinary Shares in excess of your pro rata entitlement you will be deemed to have applied only for your pro rata entitlement.

Qualifying Shareholders should be aware that the Open Offer is not a rights issue and that New Ordinary Shares not applied for under the Open Offer will not be sold in the market for the benefit of those who do not apply for them under the Open Offer. The Application Form is not a document of title and cannot be traded.

The Placing and Open Offer are subject, inter alia, to satisfaction of all the following conditions by not later than 28 August 1997 or such later date, not being later than 30 September 1997, as Singer & Friedlander and the Company may agree:

- (i) the Placing Agreement having become unconditional and not having been terminated; and
- (ii) Admission becoming effective.

Certain details of the Placing Agreement are set out in paragraph 13 of Part Five.

The New Ordinary Shares to be issued pursuant to the Placing and Open Offer will, when allotted, be fully paid, and form one class ranking *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions thereafter declared, paid or made in respect of the ordinary share capital of the Company. They will be issued free from all liens, charges and encumbrances.

Procedure for Application

The enclosed Application Form shows the number of Existing Ordinary Shares registered in your name on the Record Date and also shows the maximum number of New Ordinary Shares for which you may apply.

If you wish to take up your entitlement under the Open Offer, in whole or in part, your Application Form must be completed and returned in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, by post to Exchange Registrars Limited, 18 Park Place, Cardiff CF1 3PD, or by hand at New Garden House, 78 Hatton Garden, London EC1N 8JA, so as to arrive as soon as possible but in any case not later than 3.00 pm on 27 August 1997. A reply-paid envelope is provided. Please allow at least four working days for delivery.

If you do not wish to apply for any of the New Ordinary Shares you should not complete or return an Application Form.

Applications to subscribe for New Ordinary Shares may only be made on the enclosed Application Form which is personal to the shareholder named thereon and may not be assigned or transferred other than to satisfy bona fide market claims pursuant to the Rules of the London Stock Exchange. If you have recently sold all or part of your holding of Existing Ordinary Shares, you should consult your stockbroker, bank or other agent through whom the sale was effected as soon as possible. The invitation to subscribe for New Ordinary Shares under the Open Offer may represent a benefit which can be claimed from you by the purchaser under the Rules of the London Stock Exchange. In order to facilitate any such claim you are asked to follow the instructions printed on the Application Form, which is not a document of title and which cannot be traded. The instructions, notes and other terms set out in the Application Form form part of the terms of the Open Offer. The Company reserves the right, in its absolute discretion, to treat any application not strictly complying with the terms of the Open Offer as valid.

Your right to subscribe for New Ordinary Shares as set out in this letter shall lapse and no application to subscribe for New Ordinary Shares shall be considered in relation to that right unless the Application Form is submitted in accordance with the provisions of this letter and the provisions of the Application Form itself and is received by **Exchange Registrars Limited, 18 Park Place, Cardiff CF1 3PD** as aforesaid, or by **hand at New Garden House, 78 Hatton Garden, London EC1N 8JA** by no later than **3.00 pm on 27 August 1997.**

Procedure for Payment

Cheques or banker's drafts should be made payable to Exchange Registrars Limited, a/c Network Technology PLC and crossed "Account Payee" and must be drawn in sterling on a bank or building society in the United Kingdom, the Channel Islands or the Isle of Man which is either a settlement

member of the Cheque and Credit Clearing Company Limited or the CHAPS and Town Clearing Company Limited or a member of the Committee of Scottish or Belfast Clearing Houses or which has arranged for its cheques or bankers' drafts to be presented for payment through the clearing facilities provided for the members of any of those companies or committees and must bear the appropriate sort code number in the top right hand corner and must be for the full amount payable on application. The Company reserves the right to reject applications unless these requirements are fulfilled.

The right is reserved to present cheques and banker's drafts on receipt. If cheques or banker's drafts are presented for payment before the closing date of the Open Offer, the application monies will be kept in a separate bank account and any interest earned will be retained for the benefit of the Company. The Directors reserve the right to seek special clearance of cheques to enable the Company to obtain value for remittances at the earliest opportunity. **Qualifying Shareholders should note that applications will be irrevocable and that it is a term of the Open Offer that each applicant warrants that any cheque and banker's draft shall be honoured on first presentation. The Company may elect to treat as invalid any applications in respect of which a remittance is not so honoured.**

Money Laundering Provisions

The verification of identity requirement of the Money Laundering Regulations 1993 will apply to the Open Offer and verification of the identity of the person by whom or on whose behalf an Application Form is lodged may be required. Failure to provide the necessary evidence of identity may result in the application being treated as invalid or in delays in allotting New Ordinary Shares to an applicant. In order to avoid this, if the value (at the Issue Price) of the shares applied for is or exceeds £10,000 (or in the case of applications which are linked where the aggregate is or exceeds that amount), payment should be made by means of a cheque drawn by the person named on the Application Form (or one of such persons if they are joint holders). If this is not practicable and you use a cheque drawn by a third party, a building society cheque or banker's draft, you should:

- (a) write the full name and address of the person (or one of the joint holders) on the Application Form and on the back of the cheque, building society cheque or banker's draft and record the date of birth of that person;
- (b) if a building society cheque or banker's draft is used, ensure that the building society or bank endorses on the cheque or the draft the name and account number of the person whose building society or bank account is being debited; and
- (c) if you are making application as agent for one or more persons, indicate on the Application Form whether you are a UK or EC regulated person or institution (e.g. a bank or broker) and specify your status. If you are not a UK or EC regulated person or institution you should contact Exchange Registrars Limited, 18 Park Place, Cardiff CF1 3PD, or telephone 01222 371210.

If you personally deliver your Application Form by hand, you should ensure that you have with you evidence of identity bearing your photograph (e.g. your passport).

Applications submitted by agents should be accompanied by a letter confirming their regulatory body and membership number and that the necessary identification procedures as required by the Money Laundering Regulations 1993 have been fulfilled. Verification of identity details must be retained for at least 5 years and such details must be made available to Exchange Registrars Limited or the appropriate authorities upon demand.

Exchange Registrars Limited is entitled in its absolute discretion to determine whether verification of identity is required in respect of any applicant and whether such requirements have been satisfied and neither Exchange Registrars Limited nor the Company nor Singer & Friedlander will be liable to any person for any loss suffered or incurred as a result of the exercise of such discretion or as a result of rejection or scaling down of any application.

In any event, if it appears to Exchange Registrars Limited that an applicant is acting on behalf of some other person, further verification of the identity of any person on whose behalf the applicant appears to be acting may be required. In relation to any application in respect of which necessary verification of identity of the applicant or the person on whose behalf the applicant appears to be acting has not been received on or before the latest date for receipt of Application Forms and payment (or such later date as the Company may in its absolute discretion determine), the Company may, in its absolute discretion:

- (a) elect to treat the relevant application as invalid; and/or
- (b) delay the allotment of the New Ordinary Shares to the applicant until the necessary verification has been provided and neither Singer & Friedlander nor the Company nor Exchange Registrars Limited will be responsible or have any liability for loss or damage (whether actual or alleged) arising from such action.

Overseas Shareholders

- (a) No person receiving a copy of this document and/or an Application Form in any territory other than the UK may treat the same as constituting an invitation or offer to him, nor should he in any event use the Application Form unless, in the relevant territory, such an invitation or offer can lawfully be made to him or the Application Form could lawfully be used without contravention of any registration or other legal or regulatory requirements. Receipt of this document and/or any Application Form does not constitute an offer or invitation to overseas shareholders in the territories in which it would be unlawful to make an offer or invitation and in such circumstances this document and/or any Application Form are sent for information only. It is the responsibility of any person receiving a copy of this document and/or an Application Form outside the UK and wishing to make an application for New Ordinary Shares, to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant territory in connection therewith, including the obtaining of governmental or other consents which may be required and the compliance with other necessary formalities and payment of any issue, transfer or other taxes in any such territory. The Company reserves the right to treat as invalid any application or purported application to subscribe for New Ordinary Shares pursuant to the Open Offer, comprised in the Application Form, which appears to the Company or its agent to have been executed, effected or despatched in a manner which may involve a breach of the securities legislation of any jurisdiction or which does not include the warranties set out in the Application Form. Qualifying Shareholders resident in overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities.
- (b) The New Ordinary Shares and the Application Form have not been, nor will they be registered under the United States Securities Act of 1933, as amended ("the US Securities Act") or the securities laws of any state of the United States, nor have the relevant clearances been nor will they be obtained under the relevant securities laws of Canada or any province or territory thereof. Therefore, subject to certain exceptions, the New Ordinary Shares may not be offered or sold to any US Person (within the meaning of Regulation S of the US Securities Act) or for the account or benefit of any person who is a citizen or resident in Canada, a corporation, partnership or other entity created or organised in or under any laws of Canada or an estate or trust the income of which is subject to Canadian income taxation, regardless of its source. For the purposes of this document and the Application Form "United States" means the United States of America, each state thereof (including the District of Columbia), its territories, possessions and all areas subject to its jurisdiction.

Certain institutions in the United States and Canada may participate in the Open Offer if they are able to satisfy the Company, in its sole discretion, prior to 3.00 pm on 27 August 1997 that they can properly accept the invitation comprised in the Open Offer without observance by the Company of any requirement which it (in its absolute discretion) regards as unduly burdensome.

- (c) Neither this document nor the Application Form nor the Existing Ordinary Shares or New Ordinary Shares will be lodged or registered with the Australian Securities Commission under Australia's Corporations Law and the New Ordinary Shares are not being offered for subscription or sale and may not be offered, sold or delivered in or into Australia or for the account or benefit of any person or corporation in Australia. No Application Form will be sent to any person or corporation in Australia, including any shareholder with a registered address in Australia. Payment under an Application Form will constitute a representation or warranty that the person entitled to the same has not received, sent or forwarded the Application Form or this document in or into Australia or to any person or corporation in Australia, and is not subscribing for any of the New Ordinary Shares for the account or benefit of any person or corporation in Australia or with a view to their offer, sale or delivery directly or indirectly in or into Australia or to or for the account of any person or corporation in Australia.
- (d) Shareholders resident in South Africa may require the approval of the South African exchange control authorities if they wish to take up their entitlements under the Open Offer.

United Kingdom Taxation

(a) Capital Gains Tax

It is understood that, on the basis of current law and Inland Revenue practice, the Inland Revenue will treat the issue of New Ordinary Shares by the Company to a Qualifying Shareholder up to and including his or her pro rata entitlement as a reorganisation of the Company's share capital for the purposes of United Kingdom taxation of capital gains. Accordingly, New Ordinary Shares issued pursuant to the Open Offer to a Qualifying Shareholder up to and including a Qualifying Shareholder's pro rata entitlement should be treated as the same asset as his or her holding of Existing Ordinary Shares and as if they had been acquired at the same time as the Existing Ordinary Shares (other than for indexation purposes). The subscription monies for such New Ordinary Shares which a Qualifying Shareholder takes up will be added to the acquisition cost of his or her holding of Existing Ordinary Shares.

(b) Stamp Duty and Stamp Duty Reserve Tax

The subscription for the New Ordinary Shares under the Open Offer will be free of stamp duty and stamp duty reserve tax unless the shares are acquired for the purposes of an arrangement for the provision of clearance services or the issue of depositary receipts. The Company will not be responsible for the payment of stamp duty or stamp duty reserve tax in this case.

The above statements are intended as a general guide to the current law and practice in the United Kingdom. They assume that the Qualifying Shareholder is resident in the United Kingdom for United Kingdom taxation purposes and is not a share dealer or charity or other person with special tax status. They are also based on United Kingdom legislation currently in force and current Inland Revenue practice. If you are in any doubt as to your tax position, you should consult your independent professional adviser immediately.

Settlement and Dealings

Application has been made to the London Stock Exchange for the Existing Ordinary Shares and the New Ordinary Shares to be admitted to the Official List. Subject to the satisfaction of the conditions in the Placing Agreement, it is expected that dealings will commence in the Existing Ordinary Shares and New Ordinary Shares on 28 August 1997. Definitive share certificates in respect of New Ordinary Shares are expected to be sent by first class post to Qualifying Shareholders, who have made valid applications, no later than 1 September 1997. No temporary documents of title will be issued and, pending the issue of definitive certificates, transfers will be certified against the register.

In the event that any of the conditions of the Placing Agreement is not satisfied by 28 August 1997, or such later date, not being later than 30 September 1997, as Singer & Friedlander and the Company may agree, the Placing and Open Offer will not proceed and any application monies will be returned without interest.

All documents or remittances sent by or to a Qualifying Shareholder, or as he or she may otherwise direct, will be sent through the post at such person's risk.

Any instructions with regard to payments or notices which have been recorded by the Company or its Registrars in respect of Existing Ordinary Shares held by a Qualifying Shareholder will apply to any New Ordinary Shares subscribed by such holders under the Open Offer.

Further Information

Your attention is drawn to the further information set out in Part One and Parts Three to Five of this document and the terms and conditions set out in the Application Form.

Yours faithfully
for and on behalf of
Singer & Friedlander Limited

Brendan J. Russell
Director

5 August 1997

The following is the full text of a report from BDO Stoy Hayward, Chartered Accountants and Registered Auditors.



BDO Stoy Hayward

5 August 1997

The Directors
Network Technology PLC
26 Victoria Way
Burgess Hill
West Sussex
RH15 9NF

and

The Directors
Singer & Friedlander Limited
21 New Street
Bishopsgate
London
EC2M 4HR

Dear Sirs

Network Technology PLC

Network Technology PLC ("the Company") was incorporated on 11 May 1995 under the name of Matlorill Limited. It changed its name to Network Technology Group Limited on 21 June 1996, re-registered as a public limited company on the same date and changed its name to Network Technology PLC on 3 July 1996.

On 30 June 1995 the Company acquired H. Bollmann Manufacturers Limited ("HBM") and International Technology Consultants Limited ("ITC"). At that date ITC had two wholly owned subsidiaries, N&R Circuits UK Limited ("N&R") and Ringdale UK Limited ("Ringdale"). Ringdale has a wholly owned non-trading subsidiary, Megaswitch Limited ("Megaswitch"). Both HBM and ITC were controlled by the same shareholders and the acquisitions were achieved by the Company paying cash and issuing shares in exchange for the issued shares in HBM and ITC.

On 31 August 1995 the Company set up H. Bollmann Manufacturers Inc. ("HBM Inc"), a company incorporated in the United States of America, which commenced trading on 15 September 1995.

On 25 November 1995 the Company incorporated A.B. Semicon (UK) Limited and on 8 January 1996 also incorporated AB Semicon Limited, a company incorporated in Ireland. Neither of these companies had commenced trading as at 30 September 1996.

As at 30 September 1996, the Company had the following wholly owned subsidiaries:

Company	Status	Country of Registration
AB Semicon Limited	Non-trading	Ireland
A.B. Semicon (UK) Limited	Non-trading	England
H. Bollmann Manufacturers Limited	Trading	England
H. Bollmann Manufacturers Inc.	Trading	USA
International Technology Consultants Limited	Non-trading subsidiary holding company	England
Megaswitch Limited	Non-trading	England
NCryption PLC	Non-trading	England
N&R Circuits UK Limited	Trading	England
Ringdale UK Limited	Trading	England

HBM was incorporated as H. Bollmann Limited on 15 November 1985 and, following a merger with H. Bollmann Marketing Limited, (a company incorporated on 17 June 1986), changed its name to H. Bollmann Manufacturers Limited on 14 December 1988. In November 1992 HBM entered into a Company Voluntary Arrangement, which was concluded in June 1995.

ITC was incorporated on 4 May 1990 as Burbur 7 Limited, changing its name to International Technology Consultants Limited on 3 October 1990. It has not traded since that date but does hold the intellectual property rights to the products designed by HBM.

N&R was incorporated on 14 September 1994 as Goalrun Limited, a wholly owned subsidiary of ITC, and on 16 September 1994 acquired the business and assets of N&R Circuits Limited (an unrelated company) from the Administrative Receivers of that company. On 20 September 1994 Goalrun Limited changed its name to N&R Circuits UK Limited.

Ringdale was incorporated on 2 December 1993 as Speed 3991 Limited, a wholly owned subsidiary of ITC. On 18 January 1994 Ringdale acquired the business and assets of Ringdale Limited (an unrelated company) from the Administrative Receivers of that company. On 21 January 1994 Speed 3991 Limited changed its name to Ringdale UK Limited.

Megaswitch was incorporated on 6 April 1989 as Millencopse Limited, changing its name to Megaswitch Limited on 4 May 1989. This company was acquired by Ringdale on 15 March 1994.

HBM Inc. was incorporated in Pennsylvania USA on 31 August 1995. It commenced trading on 15 September 1995 and has incurred losses to date of £204,000 which have been capitalised in the Group accounts as office set-up costs. No audited accounts have been produced due to the immateriality of the results.

Statutory accounts have been prepared for the following companies in respect of the period 1 October 1993 to 30 September 1996 (the "Period Under Review").

HBM	Accounts for the years ended 30 September 1994, 1995 and 1996
ITC	Accounts for the 16 months ended 30 September 1994 and the years ended 30 September 1995 and 1996
N&R	Accounts for the period 14 September 1994 to 30 September 1995 and the year ended 30 September 1996
Ringdale	Accounts for the 10 months ended 30 September 1994 and the years ended 30 September 1995 and 1996

Statutory accounts have been prepared for the Group for the period from 11 May 1995 to 30 September 1996. In order to provide a better understanding of these accounts, we have divided the accounts

between two periods: the period 11 May 1995 to 30 September 1995 and the year ended 30 September 1996. These reanalysed accounts have been audited for the purposes of this report and the audit report in respect of these analysed accounts was unqualified. The Group's results for the period 11 May to 30 September 1995 include the results of HBM for the period from the date of its acquisition by the Company on 30 June 1995.

The financial information set out below is based on the audited financial statements of HBM for the two years ended 30 September 1995, for the Group for the period 11 May 1995 to 30 September 1996 and the unaudited financial statements of HBM Inc. for the period since incorporation to 30 September 1996, together with such adjustments that we consider appropriate. We have examined the relevant audited financial statements for the Period Under Review.

Our work has been carried out in accordance with the Auditing Guideline: Prospectuses and the Reporting Accountant. No audited financial statements have been prepared by the Company or its subsidiaries subsequent to 30 September 1996.

PRB Martin Pollins, Chartered Accountants and Registered Auditors, were auditors to HBM and ITC and its subsidiaries during the Period Under Review for the financial periods up to 30 September 1994. BDO Stoy Hayward have acted as auditors of the Company and its subsidiaries since that date except HBM Inc. for which no audited accounts have yet been produced.

The audit reports in respect of the statutory accounts prepared during the Period Under Review were all unqualified. Additionally, there was no fundamental uncertainty in respect of these statutory accounts.

In order to provide further financial information about the trading performance of the Company's subsidiaries we have also included summaries of the audited financial statements of HBM, the Group's main trading subsidiary for the Period Under Review.

In our opinion, the financial information set out below gives, for the purposes of the Prospectus dated 5 August 1997, a true and fair view of the results, total recognised gains and cash flows of HBM for each of the years ended 30 September 1994 and 1995 and of the state of affairs at the end of each such period, and the results, total recognised gains and cash flows of the Group for the period 11 May 1995 to 30 September 1995 and the year ended 30 September 1996 and of the state of affairs at the end of each such period. We accept responsibility for this report accordingly.

1. ACCOUNTING POLICIES

Accounting Convention

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

Basis of Consolidation

The consolidated financial information incorporates the financial information of the Company and all its subsidiary undertakings ("the Group"). The acquisition method of accounting has been used to consolidate the results of the subsidiary undertakings in the Group's financial information.

Turnover

Turnover is the net amount receivable for goods, supplies and services provided, excluding VAT and trade discounts.

Depreciation

Depreciation is calculated to write down the cost of tangible fixed assets over their expected useful lives, using the reducing balance method (unless otherwise stated), at the following annual rates:

Freehold Improvements	2 per cent straight line
Freehold Buildings	2 per cent commencing from the date in use
Computer Software	20 per cent straight line
Motor Vehicles	25 per cent
Plant and Equipment	25 per cent
Computer Equipment	33.3 per cent straight line
Fixtures and Fittings	15 per cent

Stock and Work in Progress

Stock and work in progress is valued at the lower of cost and net realisable value. Cost includes direct costs of materials and parts but excludes any attributable labour element and is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling prices less additional costs to completion and disposal.

Deferred Taxation

Provision is made for deferred taxation to the extent that there is a reasonable probability of the tax falling due for payment in the foreseeable future. Material amounts of tax not provided for are disclosed as a contingent liability.

Foreign Currencies

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

Pension Scheme

Pension contributions are made for certain key executives in lieu of bonus entitlements and are charged to the profit and loss account in the accounting period in which they are paid. The contributions are administered by trustees in a fund independent from the Group's assets.

Goodwill

Goodwill arising on the acquisition of a subsidiary is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired.

Goodwill on consolidation is written off against a goodwill reserve. This accounting policy has been introduced in the current year and has been adopted in respect of the Group's interim accounts for the six months ended 31 March 1997. Goodwill on consolidation has in prior periods been amortised through the profit and loss account over 20 years, being the Directors' estimate of its useful economic life. The Group's financial statements for the period 11 May 1995 to 30 September 1995 and the year ended 30 September 1996 have been adjusted to reflect this change in policy.

Intellectual Property Costs

Intellectual property costs are amortised on a straight line basis over their estimated useful life of 3 years.

Warranties

The Group gives a warranty period of up to 13 months on its products. Warranty costs are written off to the profit and loss account as and when they are incurred.

Research and Development

Expenditure on pure and applied research is charged to the profit and loss account in the accounting period in which it is incurred.

Development costs are also charged to the profit and loss account in the accounting period of expenditure, unless individual projects satisfy all of the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs are expected to be exceeded by future sales; and
- adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward and amortised over a period not exceeding five years commencing in the accounting period in which the Group starts to benefit from expenditure.

Office Establishment Costs

The Group's strategy is to set up local offices in key markets. Set up costs are usually incurred in the first 12 months of trading and the Directors believe that these costs will be recovered in full, out of trading surpluses, in the 24 months following the initial period of set up. Hence office set up costs are amortised on a straight line basis over a period of two years, commencing 12 months after the expenditure is incurred.

Leased Assets

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 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 and represents a constant proportion of the balances of capital repayments outstanding. The capital part reduces the amount payable to the lessor. All other leases are treated as operating leases, the annual rentals of which are charged to the profit and loss account.

2. PROFIT AND LOSS ACCOUNTS

	Notes	HBM		Group	
		Year ended 30 September 1994 £000	Year ended 30 September 1995 £000	11 May to 30 September 1995 £000	Year ended 30 September 1996 £000
TURNOVER	5(a)	3,854	8,138	2,260	14,504
Cost of sales		(2,142)	(5,147)	(1,347)	(7,713)
GROSS PROFIT		1,712	2,991	913	6,791
Administrative expenses					
– continuing operations		(1,063)	(1,652)	(5)	(3,233)
– acquisitions		–	–	(649)	–
Other operating income		4	16	2	6
OPERATING PROFIT	5(d)	653	1,355	261	3,564
Interest receivable and similar income		–	5	2	26
Interest payable and similar charges	5(e)	(62)	(51)	(11)	(37)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		591	1,309	252	3,553
Taxation on profit on ordinary activities	5(f)	(149)	(432)	(125)	(1,069)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		442	877	127	2,484
Dividends					
– non equity	5(g)	–	–	–	(278)
– equity	5(g)	–	(25)	–	(237)
RETAINED PROFIT FOR THE PERIOD		442	852	127	1,969
Earnings per Ordinary Share (p)	5(h)	1.87p	3.72p	0.54p	9.35p
Headline earnings per Ordinary Share (p) 5(h)		1.85p	3.72p	0.54p	9.28p

The only amount relating to continuing operations in the period 11 May to 30 September 1995 is shown in administrative expenses. All other amounts related to acquired activities. All recognised gains and losses are included in the profit and loss account.

3. BALANCE SHEETS

		HBM		Group	
		As at 30 September 1994 £000	As at 30 September 1995 £000	As at 30 September 1995 £000	As at 30 September 1996 £000
	Notes				
FIXED ASSETS					
Intangible assets	5(i)	—	—	77	370
Tangible assets	5(j)	681	1,084	1,192	2,042
		681	1,084	1,269	2,412
CURRENT ASSETS					
Stock	5(k)	584	1,469	1,601	1,924
Debtors	5(l)	819	1,955	1,427	2,768
Cash at bank and in hand		117	58	63	1,899
		1,520	3,482	3,091	6,591
CREDITORS					
Amounts falling due within one year	5(m)	(1,288)	(2,651)	(3,009)	(4,046)
NET CURRENT ASSETS					
		232	831	82	2,545
TOTAL ASSETS LESS CURRENT LIABILITIES					
		913	1,915	1,351	4,957
CREDITORS					
Amounts falling due after more than one year	5(m)	(400)	(550)	(552)	(215)
NET ASSETS					
		513	1,365	799	4,742
CAPITAL AND RESERVES					
Share capital	5(n), 5(o)				
– equity		—	—	2,500	3,109
– non equity		—	—	1,375	—
Share premium account	5(o)	249	249	1,145	3,885
Capital redemption reserve	5(o)	—	—	12	12
Goodwill		—	—	(4,348)	(4,348)
Profit and loss account	5(o)	264	1,116	115	2,084
SHAREHOLDERS' FUNDS					
		513	1,365	799	4,742

4. CASH FLOW STATEMENTS

	Notes	HBM		Group	
		Year ended 30 September 1994 £000	Year ended 30 September 1995 £000	11 May to 30 September 1995 £000	Year ended 30 September 1996 £000
Net cash inflow/(outflow) from operating activities	5(q)	337	171	(143)	2,884
Returns on investments and servicing of finance					
Interest received		—	4	1	26
Interest paid		(50)	(31)	(4)	(37)
Interest element of hire purchase payments		(9)	(10)	(7)	—
Dividends		—	(25)	—	(348)
Net cash outflow from returns on investments and servicing of finance		(59)	(62)	(10)	(359)
Taxation					
Corporation tax paid		(2)	(90)	(90)	(540)
Investing activities					
Cost of establishing overseas office		—	—	—	(204)
Payments to acquire tangible fixed assets		(228)	(323)	(187)	(1,559)
Payments to acquire intangible fixed assets		—	—	(61)	(132)
Receipts from sales of fixed assets		3	8	8	444
Payments to acquire subsidiary undertakings	5(u)	—	—	(2,613)	—
Net cash outflow from investing activities		(225)	(315)	(2,853)	(1,451)
Net cash inflow/(outflow) before financing		51	(296)	(3,096)	534
Financing					
Capital element of hire purchase repayment	5(r)	(31)	(18)	(10)	(56)
Repayment of bank loan	5(r)	(50)	—	—	(409)
New bank loan	5(r)	—	—	—	110
Issue of share capital	5(r)	—	—	2,975	5,648
Redemption of share capital	5(r)	—	—	(12)	(3,219)
Expenses set against share premium account	5(r)	—	—	(229)	(469)
Net cash inflow/(outflow) from financing		(81)	(18)	2,724	1,605
(Decrease)/Increase in cash and cash equivalents	5(s)	(30)	(314)	(372)	2,139

5. NOTES TO THE FINANCIAL STATEMENTS

(a) Segmental information

The turnover and profit before taxation are attributable to the Group's principal activity. The analysis of turnover by geographical market is as follows:

	HBM		Group	
	Year ended 30 September	Year ended 30 September	11 May to 30 September	Year ended 30 September
	1994	1995	1995	1996
	£000	£000	£000	£000
United Kingdom	1,977	2,805	488	2,034
Other EC countries	1,039	1,391	226	1,253
United States of America	365	777	449	701
Japan	212	2,994	991	10,177
Rest of the World	261	171	106	339
	<u>3,854</u>	<u>8,138</u>	<u>2,260</u>	<u>14,504</u>

(b) Staff costs

	HBM		Group	
	Year ended 30 September	Year ended 30 September	11 May to 30 September	Year ended 30 September
	1994	1995	1995	1996
	£000	£000	£000	£000
Salaries and wages	759	1,155	824	2,400
Social security costs	75	108	40	218
Other pension costs	—	120	25	97
	<u>834</u>	<u>1,383</u>	<u>889</u>	<u>2,715</u>
	<u>No.</u>	<u>No.</u>	<u>No.</u>	<u>No.</u>
Average monthly number of employees	41	71	106	139

Other pension costs represent the contributions paid by HBM and the Company to The Woodgate Trust.

(c) Directors' remuneration

	HBM		Group	
	Year ended 30 September 1994 £000	Year ended 30 September 1995 £000	11 May to 30 September 1995 £000	Year ended 30 September 1996 £000
Management remuneration	245	237	84	597
Fees	—	100	2	15
	<u>245</u>	<u>337</u>	<u>86</u>	<u>612</u>

In the period from 11 May 1995 to 30 September 1996 £651,000 of the Directors' remuneration was charged to the profit and loss account and £47,000 was capitalised since it related to research and development works.

Details of individual remuneration (excluding pension contributions) are as follows:

	HBM		Group	
	Year ended 30 September 1994 £000	Year ended 30 September 1995 £000	11 May to 30 September 1995 £000	Year ended 30 September 1996 £000
Chairman	111	105	1	5
Highest paid Director	<u>111</u>	<u>105</u>	<u>26</u>	<u>254</u>

In the years ended 30 September 1994 and 1995 the Chairman was the highest paid Director.

	HBM		Group	
	Year ended 30 September 1994 Number	Year ended 30 September 1995 Number	11 May to 30 September 1995 Number	Year ended 30 September 1996 Number
Other Directors' emoluments (excluding pension contributions) fell within the following ranges:				
£Nil – £5,000	2	1	1	—
£5,001 – £15,000	—	—	1	1
£20,001 – £25,000	1	1	—	—
£25,001 – £30,000	—	—	1	—
£35,001 – £40,000	—	—	—	1
£85,001 – £90,000	1	—	—	—
£100,001 – £105,000	—	1	—	—
£235,001 – £240,000	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>

(d) Operating profit

The operating profit is stated after charging/(crediting):

	HBM		Group	
	Year ended 30 September 1994 £000	Year ended 30 September 1995 £000	11 May to 30 September 1995 £000	Year ended 30 September 1996 £000
Depreciation of tangible assets				
– Owned assets	85	143	56	241
– Assets held under hire purchase contracts	–	–	10	72
Amortisation of intangible assets	–	–	28	43
Profit on sale of fixed assets	(4)	–	–	(17)
Directors' remuneration	245	337	86	565
Auditors' remuneration	6	11	13	18
Hire of plant and equipment	5	12	6	28

In addition, the auditors received remuneration of £104,449 relating to non-audit services to the Group for the period 11 May 1995 to 30 September 1996. No remuneration was received by the auditors in respect of non-audit services for the year ended 30 September 1995. The auditors to HBM for the year ended 30 September 1994, PRB Martin Pollins, received remuneration of £10,511 relating to non-audit services to that company.

(e) Interest payable and similar charges

	HBM		Group	
	Year ended 30 September 1994 £000	Year ended 30 September 1995 £000	11 May to 30 September 1995 £000	Year ended 30 September 1996 £000
Interest payable on:				
Bank loan	40	41	8	24
Hire purchase agreements	9	10	3	12
Other	13	–	–	1
	<u>62</u>	<u>51</u>	<u>11</u>	<u>37</u>

(f) Taxation

	HBM		Group	
	Year ended 30 September 1994 £000	Year ended 30 September 1995 £000	11 May to 30 September 1995 £000	Year ended 30 September 1996 £000
Corporation tax	139	402	125	1,069
Underprovision in prior year	10	30	–	–
	<u>149</u>	<u>432</u>	<u>125</u>	<u>1,069</u>

(g) Dividends

	HBM		Group	
	Year ended 30 September 1994 £000	Year ended 30 September 1995 £000	11 May to 30 September 1995 £000	Year ended 30 September 1996 £000
Before admission to AIM				
Final dividend paid (£67.93 per Ordinary Share)	—	25	—	—
Preference dividends paid:				
'A' Preference Shares (non equity)	—	—	—	222
'B' Preference Shares (non equity)	—	—	—	56
Ordinary dividend paid:				
'A' Ordinary Shares (of 9p per share per annum pro rata)	—	—	—	82
	—	25	—	360
After admission to AIM				
Ordinary dividend proposed:				
Ordinary Shares (of 0.5p per share)	—	—	—	155
	—	25	—	515

(h) Earnings per Ordinary Share

Earnings per Ordinary Share have been calculated using the weighted average number of Ordinary Shares in issue during the period 11 May 1995 to 30 September 1996. The weighted average number of equity shares in issue was 23,593,902, and the earnings, being profit after tax, and preference dividends, are £127,000 and £2,206,000 in respect of the period 11 May 1995 to 30 September 1995 and the year ended 30 September 1996 respectively. The earnings per share calculations for HBM for the years ended 30 September 1994 and 1995 have been made using the above number of equity shares in issue in order to provide comparability. The earnings for 1994 and 1995 were £442,000 and £877,000 respectively.

The headline earnings per Ordinary Share have been calculated in accordance with the Institute of Investment Management and Research's definition. This is earnings excluding profits or losses on the disposal of fixed assets. The Directors believe this gives a better view of ongoing maintainable earnings.

	HBM		Group	
	Year ended 30 September 1994 P	Year ended 30 September 1995 P	11 May to 30 September 1995 P	Year ended 30 September 1996 P
Earnings per Ordinary Share	1.87	3.72	0.54	9.35
Profit on disposal of fixed assets	(0.02)	—	—	(0.07)
Headline earnings per Ordinary Share	1.85	3.72	0.54	9.28

(i) Intangible fixed assets

	Group	
	As at 30 September 1995 £000	As at 30 September 1996 £000
Cost		
Office set up costs	–	204
Purchased goodwill	24	24
Intellectual property	81	62
Research and development	–	151
	<u>105</u>	<u>441</u>
Amortisation		
Office set up costs	–	–
Purchased goodwill	5	9
Intellectual property	23	37
Research and development	–	25
	<u>28</u>	<u>71</u>
Net book value		
Office set up costs	–	204
Purchased goodwill	19	15
Intellectual property	58	25
Research and development	–	126
	<u>77</u>	<u>370</u>

All movements occurred during the period 11 May 1995 to 30 September 1996.

(j) Tangible fixed assets

HBM 1995

	Freehold Property £000	Plant & Equipment £000	Motor Vehicles £000	Fixtures & Fittings £000	Total £000
Cost or Valuation					
At 1 October 1994	400	425	99	104	1,028
Additions in year	8	546	—	—	554
Disposals in year	—	—	(41)	—	(41)
At 30 September 1995	<u>408</u>	<u>971</u>	<u>58</u>	<u>104</u>	<u>1,541</u>
Depreciation					
At 1 October 1994	—	208	71	68	347
Disposals	—	—	(33)	—	(33)
Charge for year	—	133	5	5	143
At 30 September 1995	<u>—</u>	<u>341</u>	<u>43</u>	<u>73</u>	<u>457</u>
Net Book Value					
At 30 September 1995	<u>408</u>	<u>630</u>	<u>15</u>	<u>31</u>	<u>1,084</u>
At 30 September 1994	<u>400</u>	<u>217</u>	<u>28</u>	<u>36</u>	<u>681</u>

Group 1995

	Freehold Property £000	Plant & Equipment £000	Motor Vehicles £000	Fixtures & Fittings £000	Total £000
Cost or Valuation					
At 30 June 1995 (see note 5(t))	408	586	19	32	1,045
Additions in period	—	221	—	—	221
Disposals in period	—	(8)	—	—	(8)
At 30 September 1995	<u>408</u>	<u>799</u>	<u>19</u>	<u>32</u>	<u>1,258</u>
Depreciation					
At 30 June 1995 (see note 5(t))	—	—	—	—	—
Disposals	—	—	—	—	—
Charge for period	—	63	2	1	66
At 30 September 1995	<u>—</u>	<u>63</u>	<u>2</u>	<u>1</u>	<u>66</u>
Net Book Value					
At 30 September 1995	<u>408</u>	<u>736</u>	<u>17</u>	<u>31</u>	<u>1,192</u>

1996

	Freehold Property Improvements £000	Freehold Property £000	Plant and Equipment £000	Computer Software £000	Motor Vehicles £000	Fixtures and Fittings £000	Total £000
Cost or Valuation							
At 1 October 1995	–	408	799	–	19	32	1,258
Additions in year	21	200	988	373	–	8	1,590
Disposals in year	–	(408)	(19)	–	–	–	(427)
At 30 September 1996	<u>21</u>	<u>200</u>	<u>1,768</u>	<u>373</u>	<u>19</u>	<u>40</u>	<u>2,421</u>
Depreciation							
At 1 October 1995	–	–	63	–	2	1	66
Charge for year	–	–	304	–	4	5	313
At 30 September 1996	<u>–</u>	<u>–</u>	<u>367</u>	<u>–</u>	<u>6</u>	<u>6</u>	<u>379</u>
Net Book Value							
At 30 September 1996	<u>21</u>	<u>200</u>	<u>1,401</u>	<u>373</u>	<u>13</u>	<u>34</u>	<u>2,042</u>

The net book value of tangible fixed assets at 30 September 1996 includes an amount of £217,283 in respect of assets held under hire purchase agreements. The related depreciation charge for the period 11 May 1995 to 30 September 1996 was £82,072.

Neither the freehold property nor the computer software above had been brought into use during the year to 30 September 1996 and consequently have not been depreciated.

(k) Stock

	HBM		Group	
	As at 30 September 1994 £000	As at 30 September 1995 £000	As at 30 September 1995 £000	As at 30 September 1996 £000
Raw materials	451	742	766	959
Work in progress	133	727	748	430
Finished goods	–	–	87	535
	<u>584</u>	<u>1,469</u>	<u>1,601</u>	<u>1,924</u>

The Directors consider that the replacement cost of stock was not materially different from the amounts included above.

(l) Debtors

	HBM		Group	
	As at 30 September 1994 £000	As at 30 September 1995 £000	As at 30 September 1995 £000	As at 30 September 1996 £000
Amounts falling due within one year				
Trade debtors	557	977	1,187	2,333
Amounts owed by group undertakings	150	816	—	—
Amounts owed by related undertakings (see note 5(x))	75	93	136	154
Other debtors	7	6	17	70
Prepayments	—	5	—	66
Value added tax	30	58	87	145
	<u>819</u>	<u>1,955</u>	<u>1,427</u>	<u>2,768</u>

(m) Creditors

	HBM		Group	
	As at 30 September 1994 £000	As at 30 September 1995 £000	As at 30 September 1995 £000	As at 30 September 1996 £000
Amounts falling due within one year				
Bank overdraft	125	380	435	132
Directors' loan accounts	28	—	—	—
Trade creditors	775	1,406	1,609	2,084
Obligations under finance leases and hire purchase contracts	—	63	64	77
Corporation tax	139	480	480	1,008
Taxation and social security	41	65	97	145
Other creditors	—	—	54	72
Proposed dividend	—	—	—	155
Accruals	180	257	270	373
	<u>1,288</u>	<u>2,651</u>	<u>3,009</u>	<u>4,046</u>
Amounts falling due after more than one year				
Bank loan account	400	400	400	101
Hire purchase creditors	—	150	152	114
	<u>400</u>	<u>550</u>	<u>552</u>	<u>215</u>
Obligations under finance leases and hire purchase contracts are due as follows:				
Within one to two years	—	76	76	77
Within two to five years	—	74	76	37
	<u>—</u>	<u>150</u>	<u>152</u>	<u>114</u>

The bank overdraft and loan are secured by a floating charge over debtor balances. The bank loan is repayable in full in 2001.

(n) Called up share capital

HBM

	As at 30 September	
	1994	1995
	£	£
Authorised		
50,000 Ordinary Shares of £1 each	50,000	50,000
Allotted, issued & fully paid		
368 Ordinary Shares of £1 each	368	368

Group

	As at 30 September	
	1995	1996
	£000	£000
Authorised		
53,000,000 Ordinary Shares of 10p each	—	5,300
1,700,000 Ordinary Shares of £1 each	1,700	—
1,200,000 'A' Ordinary Shares of £1 each	1,200	—
3,262,500 'A' Preference Shares of 50p each	1,631	—
600,000 'B' Preference Shares of 50p each	300	—
	4,831	5,300
Allotted, issued and fully paid		
31,087,093 Ordinary Shares of 10p each	—	3,109
1,700,000 Ordinary Shares of £1 each	1,700	—
800,000 'A' Ordinary Shares of £1 each	800	—
2,175,000 'A' Preference Shares of 50p each	1,088	—
575,000 'B' Preference Shares of 50p each	287	—
	3,875	3,109

On 11 May 1995 2 Ordinary Shares of £1 each were allotted.

On 30 June 1995 the Company issued 1,699,998 Ordinary Shares of £1 each and 800,000 'A' Ordinary Shares of £1 each at par. On the same date, the Company issued 2,175,000 'A' Preference Shares of 50p each and 600,000 'B' Preference Shares of 50p each, both at a premium of 50p per share.

On 11 August 1995 25,000 'B' Preference Shares of 50p each were redeemed at a premium of 50p per share (see note 5(o)).

On 17 May 1996 the Company issued a further 168,067 'A' Ordinary Shares of £1 each at par, and 456,933 'A' Preference Shares of 50p each at a premium of 50p per share.

On 24 July 1996, the Company converted the 968,067 'A' Ordinary Shares of £1 each and the 1,700,000 Ordinary Shares of £1 each into 9,680,670 and 17,000,000 Ordinary Shares of 10p each respectively. On the same date, the Company issued a further 4,406,423 Ordinary Shares of 10p each at a premium of £1.04 per share. The proceeds of the issue were used to redeem the Preference Shares on 30 July 1996 and to provide working capital for the Group. On 30 July 1996 the Company redeemed 2,631,933 'A' Preference Shares of 50p each and 575,000 'B' Preference Shares of 50p each, both at a premium of 50p per share.

(o) Reconciliation of movements in shareholders' funds

HBM

	Year ended 30 September 1994 £000	Year ended 30 September 1995 £000
Opening shareholders' funds	71	513
Profit for the period	442	852
Closing shareholders' funds	<u>513</u>	<u>1,365</u>

Group

	Share capital £000	Share premium £000	Capital redemption £000	Goodwill £000	Profit and loss account £000	Total £000
At 11 May 1995	—	—	—	—	—	—
Issue of:						
Ordinary Shares of £1 each	1,700	—	—	—	—	1,700
'A' Ordinary Shares of £1 each	800	—	—	—	—	800
'A' Preference Shares of 50p each	1,087	1,088	—	—	—	2,175
'B' Preference Shares of 50p each	300	300	—	—	—	600
Cost of issue of shares	—	(230)	—	—	—	(230)
Redemption of:						
'B' Preference Shares of 50p each	(12)	(13)	12	—	(12)	(25)
Retained profit for the period	—	—	—	—	127	127
Goodwill written off on acquisition	—	—	—	(4,348)	—	(4,348)
At 30 September 1995	<u>3,875</u>	<u>1,145</u>	<u>12</u>	<u>(4,348)</u>	<u>115</u>	<u>799</u>
Issue of:						
'A' Ordinary Shares of £1 each	168	—	—	—	—	168
'A' Preference Shares of 50p each	229	229	—	—	—	458
Ordinary Shares of 10p each	441	4,582	—	—	—	5,023
Cost of issue of shares	—	(467)	—	—	—	(467)
Redemption of:						
'A' Preference Shares of 50p each	(1,316)	(1,317)	—	—	—	(2,633)
'B' Preference Shares of 50p each	(288)	(287)	—	—	—	(575)
Retained profit for the period	—	—	—	—	1,969	1,969
At 30 September 1996	<u>3,109</u>	<u>3,885</u>	<u>12</u>	<u>(4,348)</u>	<u>2,084</u>	<u>4,742</u>

The Capital redemption reserve arose on the redemption of 25,000 'B' Preference Shares of 50p each on 11 August 1995 (see note 5(n)). To enable redemption out of retained profits, a dividend was paid from a subsidiary to Network Technology PLC.

(p) Deferred taxation

HBM

	As at 30 September 1994		As at 30 September 1995	
	Provided in accounts £000	Unprovided in accounts £000	Provided in accounts £000	Unprovided in accounts £000
Accelerated capital allowances	—	23	—	25

Group

	As at 30 September 1995 and 1996	
	Provided in accounts £000	Unprovided in accounts £000
Accelerated capital allowances	—	85

(q) Reconciliation of operating profit to net cash flow from operating activities

	HBM		Group	
	Year ended 30 September 1994 £000	Year ended 30 September 1995 £000	11 May to 30 September 1995 £000	Year ended 30 September 1996 £000
Operating profit	653	1,355	261	3,564
Depreciation charges	85	143	94	356
(Profit) on sale of fixed assets	(4)	—	—	(17)
(Increase) in stock	(142)	(885)	(489)	(323)
(Increase)/decrease in debtors	(486)	(1,136)	526	(1,341)
Increase in creditors	231	694	(535)	645
Net cash inflow/(outflow) from operating activities	337	171	(143)	2,884

(r) Analysis of changes in financing

HBM

	Hire purchase agreements and loans Year ended 30 September	
	1994 £000	1995 £000
At 1 October	481	400
Cash outflow from financing	(81)	(18)
Inception of hire purchase agreements	—	231
At 30 September	400	613

Group

Notes	11 May to 30 September 1995		Year ended 30 September 1996	
	Share capital including premium £000	Loans and finance lease obligations £000	Share capital including premium £000	Loans and finance lease obligations £000
At start of period	-	-	5,033	616
Inception of hire purchase agreements	-	35	-	31
New bank loan	-	-	-	110
Bank loan acquired	-	400	-	-
Repayment of bank loan acquired	-	-	-	(400)
Repayment of bank loan taken out in year	-	-	-	(9)
Hire purchase agreements acquired	-	191	-	-
Capital element of hire purchase payments	-	(10)	-	(56)
Issue of share capital	2,975	-	5,648	-
Redemption of share capital	(12)	-	(3,219)	-
Expenses set against share premium account	(230)	-	(468)	-
Shares issued in satisfaction of acquisition of subsidiary	2,300	-	-	-
At end of period	<u>5,033</u>	<u>616</u>	<u>6,994</u>	<u>292</u>

(s) Analysis of the balances of cash and cash equivalents as shown in the balance sheet

	HBM		Group	
	As at 30 September 1994 £000	As at 30 September 1995 £000	As at 30 September 1995 £000	As at 30 September 1996 £000
Cash at bank and in hand	117	58	63	1,899
Bank overdraft	(125)	(380)	(435)	(132)
Net cash and cash equivalents	<u>(8)</u>	<u>(322)</u>	<u>(372)</u>	<u>1,767</u>

(t) Acquisitions

On 30 June 1995 the Company acquired the entire share capital of HBM and ITC and its subsidiary undertakings for £5,449,606 satisfied by the issue of Ordinary Shares of £1 each, Preference Shares and cash. Following the acquisition, K. Bollmann, H.E. Schlieker-Bollmann and D.F. Mould, (directors of HBM) joined the Board. In calculating the goodwill arising on acquisition, the fair value of net assets of the companies acquired has been assessed and no adjustments from book value were deemed necessary. The book value acquired by the Company is summarised in the following table:

Part Three: Accountants' Report

NT

Book and fair value to the Group	£000
Fixed assets	
Intangible	44
Tangible	1,045
	<u>1,089</u>
Current assets	
Stock	1,113
Debtors	1,951
Cash	557
	<u>3,621</u>
Total assets	<u>4,710</u>
Liabilities	
Creditors	(3,188)
Bank overdraft	(20)
Bank loan	(400)
	<u>1,102</u>
Net assets	<u>1,102</u>
Consideration	
Cash	3,150
Shares	2,300
Net assets acquired	<u>(1,102)</u>
Goodwill arising on acquisition (see note 5(o))	<u>4,348</u>

The results of the acquired subsidiaries prior to acquisition were as follows:

	9 months ended
	30 June
	1995
	£000
Profit and loss account	
Turnover	<u>6,662</u>
Operating profit	931
Net interest	<u>(51)</u>
Profit on ordinary activities before taxation	880
Taxation on profit from ordinary activities	<u>(306)</u>
Profit for the period	<u>574</u>

All recognised gains and losses are included above. The combined profit after tax of the acquired subsidiaries for the year ended 30 September 1994 was £456,391.

(u) Net inflows of cash and cash equivalents arising from acquisitions

	11 May to	Year ended
	30 September	30 September
	1995	1996
	£000	£000
Cash consideration (see note 5(t))	3,150	—
Cash acquired (see note 5(t))	(557)	—
Overdraft acquired (see note 5(t))	<u>20</u>	<u>—</u>
Net outflow of cash and cash equivalents in respect of the acquisition of HBM and ITC	<u>2,613</u>	<u>—</u>

(v) Cash flows relating to acquired undertakings for the period since acquisition

	11 May 1995 to 30 September 1996 £000
Operating cash flows	2,729
Returns on investments and servicing of finance	(25)
Taxation	(633)
Investing activities	(1,149)
Financing	(365)
Net cash inflow for the period from acquisition of HBM and ITC	<u>557</u>

(w) Commitments under operating leases

As at 30 September 1996, the Group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings £000
Operating leases which expire after 5 years	<u>95</u>

(x) Related Party transactions

HBM

Following the appointment of M. Pollins as a Director on 8 September 1995, PRB Martin Pollins is considered to be a related party. The balance of fees outstanding at 30 September 1995 was £5,946 (1994 £2,809), (1993 £NIL) in respect of accounting services provided by PRB Martin Pollins.

During the year ended 30 September 1995, K. Bollmann acquired a 45 per cent interest in Messe and Weberservice GmbH, a company registered in Germany. During the year ended 30 September 1995, a prepayment of £5,050 was made to this company for exhibition stands. Messe and Weberservice GmbH subsequently invoiced HBM in the six months ended 31 March 1996.

Group

The Woodgate Trust, an independent pension scheme, is considered to be a related party as K. Bollmann, H.E. Schlieker-Bollmann and D.F. Mould are amongst its beneficiaries. During the period 11 May 1995 to 30 September 1996 the Group made payments of £122,000 to The Woodgate Trust, in respect of pension contributions made on behalf of certain executives. On 18 October 1995, The Woodgate Trust purchased HBM's freehold property at 26 Victoria Way, Burgess Hill, West Sussex RH15 9NF (net book value £408,216) for £425,000. Following the acquisition The Woodgate Trust entered into a lease with HBM and subsequently received rent of £42,000 per annum. In April 1996, The Woodgate Trust purchased the Lancing factory at 3 Commerce Way, Lancing, West Sussex, BN15 8TA from an unconnected third party vendor and leased it to N&R.

H. Bollmann Manufacturers Pty Limited ("HBM Pty"), a company registered in Australia, is considered to be a related party as it was controlled by H.E. Schlieker-Bollmann. During the period 11 May 1995 to 30 September 1996, sales of HBM products amounting to £67,370 were made to HBM Pty. The balance outstanding to the Group at the end of the period was £154,335. Network Technology has retrieved stock held by HBM Pty since it ceased trading and the net balance outstanding is approximately £38,000. On 14 July 1997 H.E. Schlieker-Bollmann signed documentation to transfer the whole of her interest in HBM Pty (now named Woodgate Leasing Pty Limited) to an unconnected third party and the company is no longer trading.

Messe and Weberservice GmbH, a company registered in Germany, is considered to be a related party as K. Bollmann has a 45 per cent interest in its share capital. During the period 11 May 1995 to 30 September 1996, sales of HBM products amounting to £5,460 were made to Messe and Weberservice GmbH. During the period 11 May 1995 to 30 September 1996, exhibition stands were purchased for £16,405 from this company. No monies were outstanding as at 30 September 1996.

PRB Martin Pollins, Chartered Accountants, is considered to be a related party as it is controlled by M. Pollins who is a non-executive Director of the Company. During the period 11 May 1995 to 30 September 1996, £144,447 was paid in respect of professional fees relating to the management buyout in July 1995, the admission to AIM in 1996 and accountancy services. At 30 September 1996, £567 was outstanding to PRB Martin Pollins.

Maltrace is considered to be a related party as M. Pollins is a director of Maltrace. Maltrace was incorporated on 18 July 1995, in order to provide additional finance for the Company shortly after the equity interests in HBM and ITC held by JRL were acquired by the Company with the assistance of £2.98 million of funding provided by 3i plc.

M. Pollins and K. Bollmann set up Maltrace (M. Pollins is Chairman and managing director of Maltrace) and commissioned the preparation and issue of a Prospectus. Maltrace raised circa £650,000 most of which was loaned to HBM until May 1996 when 168,067 "A" Ordinary Shares of £1 each and 467,933 "A" Preference Shares of 50p each in Network Technology were issued to Maltrace. On the Company's admission to AIM, the "A" Ordinary Shares of £1 each were converted to Ordinary Shares and the "A" Preference Shares of 50p each were redeemed and the proceeds contemporaneously invested in Ordinary Shares. At the balance sheet date an amount of £22,247 included in other creditors was payable by the Company principally in respect of interest and dividends prior to admission to AIM.

(y) Post balance sheet events

On 14 December 1996 the Group acquired the entire share capital of JRL for a total consideration of £2,932,458 (\$4,838,556). JRL is involved in the development, manufacturing and marketing of graphic controllers.

The latest audited accounts for the year ended 30 September 1996 show that JRL's turnover amounted to £4,136,701 (\$6,825,556), profit on continuing operations before income taxes was £210,778 (\$347,783) and profit on continuing operations after income taxes amounted to £134,726 (\$222,298). The results further included a gain on sale of discontinued operations of £270,473 (\$446,280), resulting in retained profits of £405,199 (\$668,578). JRL's net assets as at 30 September 1996, as per the latest audited accounts, amounted to £1,930,208 (\$3,184,844).

The total consideration of £2,932,458 was settled by payment of £1,174,882 in cash and the balance by the issue of 1,089,573 Ordinary Shares.

JRL is a company incorporated and registered in Texas, USA.

On 25 July 1997 it was announced by Network Technology that JRL had signed non-binding heads of agreement to acquire the entire share capital of Nextus Inc., a US manufacturer based in Texas, for a consideration of \$625,000 to be satisfied by the issue of \$250,000 of Ordinary Shares (based on the traded price of such Ordinary Shares and the currency exchange rate on the fifth business day prior to the closing of the transaction) and \$375,000 in cash. Nextus Inc. contract manufactures and also manufactures plotters and controllers, for, amongst others, JRL.

Yours faithfully

BDO Stoy Hayward
Chartered Accountants and Registered Auditors

The following is the full text of the interim statement for the six month period ended 31 March 1997.

"Chairman's Statement

The Group has made an excellent start to the year, in line with our expectations. Turnover for the half year ended 31 March 1997 has risen by 26 per cent to £8.54 million and pretax profits have advanced by 29 per cent to £1.81m. These figures include a three month contribution from JRL Systems Inc. which was acquired in December 1996. Reflecting our policy of greater vertical integration and increased software sales, our gross profit margins improved from 46 per cent to 50 per cent.

In the light of these results, the Board has declared an interim dividend of 0.5p per Ordinary Share. The dividend will be paid on 2 July 1997 to shareholders on the register on 2 May 1997.

We currently generate around 90 per cent of our turnover supplying Printservers to most of the world's leading printer manufacturers who, between them, supply about 40 per cent of the world's printer market. These customers are mostly major Japanese firms, therefore around 60 per cent of our current turnover is earned in Japan. At the start of the year the only major players not on our client list were Hewlett Packard, who have about 50 per cent of the world market, and Canon. I am delighted to report that Canon has since become a client. This development will further enhance our OEM product range and our market position over the coming years.

One of the most notable aspects of our business is our changing product mix. Current Ethernet 10base Printservers still account for 83 per cent of our turnover, whilst our 100base Fast Ethernet Printservers contributed 1 per cent and our 100base HUBs 2 per cent of the first half's turnover. We expect these new, faster Printservers and HUBs to account for an increasing proportion of the Group's turnover in the future. In addition, our new earnings streams, technology licensing and software sales, have made useful progress in the first half year. The acquisition of JRL adds printer controllers and ISDN router technology to our product mix and, given some restructuring we have undertaken at JRL as well as the benefits of combining the products with our own range, we foresee significant growth in this area.

During the period, we further strengthened our team of C-programmers, invested significant sums into reducing our packaging costs and appointed Mrs Lorraine Richards as our Finance Director.

There have been four main product developments: the third updated version of PeripheralVision™, which enables any device on intranets or the Internet to be managed from any location within those systems; an Internet Printing System, a potential replacement for fax machines; a new AB Semicon PCI chip; and a PCI Bus – compatible custom chip based Printserver (the lowest cost of its kind on the market). The addition of our new technology range into Ringdale's distribution business now enables Ringdale to pursue franchise and joint venture operations. This coincided with the startup of our first joint venture, Ringdale GmbH in Germany. There are many other developments in the pipeline and the Board is confident that your company will enjoy another full year of excellent growth.



Graham Woodhead
Chairman

6 May 1997



Review Report by the auditors to Network Technology PLC

We have reviewed the interim financial information for the six months ended 31 March 1997 set out on pages 50 to 53, which is the responsibility of, and has been approved by, the Directors. Our responsibility is to report on the results of our review.

Our review was carried out having regard to the Bulletin 'Review of Interim Financial Information' issued by the Auditing Practices Board. This review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied and making enquiries of Group management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and verification of assets and liabilities, and was therefore substantially less in scope than an audit performed in accordance with Auditing Standards. Accordingly we do not express an audit opinion on the interim financial information.

On the basis of our review:

- in our opinion the interim financial information has been prepared using accounting policies consistent with those adopted by Network Technology PLC in its financial statements for the period ended 30 September 1996, except for the change in accounting policy referred to in the notes on pages 52 to 53; and
- we are not aware of any material modifications that should be made to the interim financial information as presented.

BDO STOY HAYWARD

**Chartered Accountants and Registered Auditors
London**

6 May 1997

Consolidated Profit & Loss Account (unaudited)

	6 months ended 31 March 1997 £000	6 months ended 31 March 1996 £000 (restated)
TURNOVER	8,536	6,779
Operating costs	(6,747)	(5,370)
OPERATING PROFIT	1,789	1,409
Interest	18	(8)
PROFIT BEFORE TAXATION	1,807	1,401
Taxation	(528)	(430)
PROFIT FOR THE PERIOD	1,279	971
Dividends – equity	(161)	(53)
– non equity	–	(188)
RETAINED PROFIT FOR THE PERIOD	1,118	730
Earnings per share	4.04p	3.13p

Note

Turnover and operating profit for the 6 months to 31 March 1997 includes £843,000 and £42,000 respectively relating to JRL Systems Inc. which was acquired on 14 December 1996.

Consolidated Balance Sheet (unaudited)

	31 March 1997 £000	31 March 1996 £000 (restated)
FIXED ASSETS		
Intangible assets	668	164
Tangible assets	2,659	1,335
	3,327	1,499
CURRENT ASSETS		
Stocks	3,161	1,701
Debtors	3,864	2,500
Cash at bank and in hand	1,121	321
	8,146	4,522
Creditors: amounts falling due within one year	(4,968)	(4,352)
NET CURRENT ASSETS	3,178	170
TOTAL ASSETS LESS CURRENT LIABILITIES	6,505	1,669
Creditors: amounts falling due after more than one year	(190)	(152)
NET ASSETS	6,315	1,517
CAPITAL AND RESERVES		
Called up share capital – equity	3,218	2,500
– non equity	–	1,375
Share premium account	5,244	1,146
Capital redemption reserve	12	12
Goodwill	(5,360)	(4,348)
Profit and loss account	3,201	832
SHAREHOLDERS' FUNDS	6,315	1,517

Part Four: Interim Results for the Six Month Period ended 31 March 1997

NT

Consolidated Cash Flow Statement (unaudited)

	6 months ended 31 March 1997 £000	6 months ended 31 March 1996 £000 (restated)
Operating profit	1,789	1,409
Depreciation and Amortisation	372	169
Working capital movements	(729)	(569)
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,432	1,009
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received/ (paid)	18	(8)
Preference dividends paid	—	(100)
TAXATION	(131)	(57)
CAPITAL EXPENDITURE	(962)	(302)
ACQUISITIONS AND DISPOSALS	(474)	—
EQUITY DIVIDENDS PAID	—	(36)
Cash (outflow) /inflow before financing	(117)	506
FINANCING	(639)	(370)
(DECREASE)/INCREASE IN CASH IN PERIOD	(756)	136
RECONCILIATION OF NET CASH FLOW		
(Decrease) /increase in cash for the period	(756)	136
Net funds at beginning of period	1,767	(372)
Net funds at end of period	1,011	(236)

Reconciliation of Movements in Shareholders' Funds (unaudited)

	6 months ended 31 March 1997 £000	6 months ended 31 March 1996 £000 (restated)
Opening Shareholders' funds	8,817	5,093
Prior year adjustment	—	—
Goodwill on consolidation written off to goodwill reserve	(4,075)	(4,294)
As restated	4,742	799
Shares issued	109	—
Retained profit	1,118	730
Movement on share premium account – net of expenses	1,359	(12)
Goodwill on acquisition of JRL	(1,012)	—
Increase in shareholders' funds	1,574	718
Closing shareholders' funds	6,315	1,517

Notes to the Interim Results

Basis of preparation

The interim accounts have been prepared in accordance with the accounting policies as set out in the Annual Report and Accounts for the period ended 30 September 1996, with the exception of the accounting policy regarding goodwill arising on consolidation.

Goodwill on consolidation is now written off directly to a goodwill reserve whereas previously it was amortised through the profit and loss account over twenty years. The Directors are of the opinion that a direct charge to reserves is a more appropriate policy as it reflects the income stream of the Group without distortion arising from acquisitions.

This change in accounting policy has resulted in a prior year adjustment, the effects of which are as follows:

	6 months to 31 March ended 1996 £000
Increase in profit	109
Decrease in net assets	4,185

Had the change in accounting policy not been implemented, profits for the six months ended 31 March 1997 would have been lower by £122,000 and net assets greater by £4,967,000.

The effect of the prior year adjustment on the profit and loss account is as shown below:

	31 March ended 1997 £000	31 March ended 1996 £000
Retained profit brought forward at beginning of period:		
As previously stated	1,811	47
Write back of amortisation of goodwill on consolidation	272	55
As restated	<u>2,083</u>	<u>102</u>

Comparative figures for the 17 month period to 30 September 1996 have not been provided. The full accounts covering that period (on which the auditors gave an unqualified report) have been delivered to the Registrar of Companies. The comparative figures for 31 March 1996 have been abridged from the audited financial information, including in the Prospectus dated 10 July 1996, issued in connection with the Company's application for admission to the Alternative Investment Market of the London Stock Exchange. The results for the period to 31 March 1997 are unaudited.

Interim dividend

The Directors have declared an interim dividend of 0.5p per share which will be paid on 2 July 1997 to shareholders on the register on 2 May 1997.

Taxation

The tax charge for the six months ended 31 March 1997 has been calculated by reference to the anticipated tax rate for the full year ending 30 September 1997.

Earnings per share

Earnings per share have been calculated on profits after taxation of £1,279,000 (1996: £971,000) and 31,625,896 Ordinary Shares (1996: 25,000,000 Ordinary Shares) being the weighted average number of shares in issue during the six months to 31 March 1997.

The potential dilution arising from options granted under the Company's Share Option Schemes is not material.

Acquisitions

On 14 December 1996 the Group acquired the entire share capital of JRL Systems Inc. for a total consideration of circa \$4.8 million, of which \$1.8 million was paid in cash and the balance by the issue to the vendors of 1,089,573 Ordinary Shares in the Company."

1. Corporate History

- (a) The Company was incorporated and registered in England and Wales under the Act on 11 May 1995 as a private company limited by shares under the name of Matlorill Limited with company registration number 3055360. The Company operates under the Act. Pursuant to a special resolution passed on 20 June 1996, the Company was re-registered as a public limited company under the Act. The name of the Company was changed to Network Technology Group PLC on 21 June 1996 and to Network Technology PLC on 3 July 1996.
- (b) The liability of the members of the Company is limited.
- (c) The Company's principal activity is that of a holding company.

2. Subsidiary Undertakings and other Group Interests

The subsidiary undertakings of the Group are:

Company	Field of Activity	Proportion of Share Capital held (per cent)	Registered Office
A B Components Limited	Non-trading	100	26 Victoria Way Burgess Hill West Sussex RH15 9NF
AB Semicon Inc. (incorporated in Texas, USA)	Design and production management of Chips (non-trading)	100	8305 Highway 71 West Austin Texas 78735 USA
AB Semicon Limited (incorporated in Ireland)	Design and production management of Chips (non-trading)	100	57 Dame Street Dublin 2 Ireland
A.B. Semicon (UK) Limited	Design and production management of Chips (non-trading)	100	26 Victoria Way as above
HBM Datagraf, Inc. (incorporated in Texas, USA)	Non-trading	100	8305 Highway 71 West as above
H. Bollmann Manufacturers Limited	Design, manufacture and marketing of computer hardware and software	100	26 Victoria Way as above
H. Bollmann Manufacturers Inc. (incorporated in Pennsylvania, USA)	Distributor of Network Technology products	100	1635 Market Street Philadelphia PA 19103 USA
International Technology Consultants Limited	Intermediate holding company (non-trading)	100	26 Victoria Way as above
JRL Systems Inc. (incorporated in Texas, USA)	Design, manufacture and marketing of	100	8305 Highway 71 West as above

Company	Field of Activity	Proportion of Share Capital held (per cent)	Registered Office
Megaswitch Limited	Non-trading	100	26 Victoria Way as above
NCryption Plc	Non-trading	100	26 Victoria Way as above
N&R Circuits UK Limited	Manufacturer of printed circuit boards	100	26 Victoria Way as above
PC Card Technology Plc	Non-trading	100	26 Victoria Way as above
Ringdale UK Limited	Catalogue sales company	100	56 Victoria Road Burgess Hill West Sussex RH15 9LR

In addition to the above, the Group also has the following participating interests in undertakings which are not subsidiary undertakings:

Company	Field of Activity	Proportion of Share Capital held (per cent)	Registered Office
Ringdale GmbH	Sales and distribution of Network Technology products	25	Am Kronberger Hang 2 65824 Schwalbach/Ts Germany

Messe and Weberservice GmbH, a company registered in Germany, is considered to be a related party as K. Bollmann, who is a Director of the Company, has a substantial interest in it. During the period 11 May 1995 to 30 September 1996, sales amounting to £5,460 were made to Messe and Weberservice GmbH. During such period, purchases of £16,405 were made from this company. No monies are currently outstanding. All trading between the Group and Messe and Weberservice GmbH is at arm's length on normal commercial terms.

3. Share Capital and Authority to Allot Shares

- The authorised share capital of the Company on incorporation on 11 May 1995 was £100, divided into 100 Ordinary Shares of £1 each of which two were allotted on that date.
- By a special resolution passed on 30 June 1995, the authorised share capital of the Company was increased to £4,831,250 divided into 3,262,500 'A' Preference Shares of 50p each, 600,000 'B' Preference Shares of 50p each, 1,200,000 'A' Ordinary Shares of £1 each and 1,700,000 Ordinary Shares of £1 each.
- On 30th June 1995, the following were allotted:

Type of share	No. of shares
'A' Ordinary Shares of £1 each	800,000
Ordinary Shares of £1 each	1,699,998
'A' Preference Shares of 50p each	2,175,000
'B' Preference Shares of 50p each	600,000

- On 11 August 1995, 25,000 'B' Preference Shares of 50p each were redeemed at £1 each.

- (e) On 17 May 1996, 168,067 'A' Ordinary Shares of nominal value of £1 were issued at £1 and 456,933 'A' Preference Shares of 50p each were also issued at £1.
- (f) By a special resolution passed on 9 July 1996, the authorised share capital of the Company was increased to £5,300,000 by the creation of 4,687,500 Ordinary Shares of 10p each.
- (g) Pursuant to a special resolution passed on 9 July 1996 (which was conditional upon admission to AIM):
 - (i) each of the unissued 630,567 'A' Preference Shares of 50p in the capital of the Company was subdivided into 5 shares of 10p each and each such resulting 10p share was converted into 1 Ordinary Share of 10p;
 - (ii) each of the redeemed and unissued 25,000 'B' Preference Shares of 50p each in the capital of the Company was subdivided into 5 shares of 10p each and each such resulting 10p share was converted into 1 Ordinary Share of 10p;
 - (iii) each of the unissued 231,933 'A' Ordinary Shares of £1 each in the capital of the Company was subdivided into 10 shares of 10p each and each such resulting 10p share was converted into 1 Ordinary Share of 10p;
 - (iv) each of the 968,067 issued 'A' Ordinary Shares of £1 in the capital of the Company was subdivided into 10 shares of 10p each and each such resulting 10p share was converted into 1 Ordinary Share of 10p;
 - (v) each of the 1,700,000 issued Ordinary Shares of £1 each was subdivided into 10 Ordinary Shares of 10p;
 - (vi) on redemption of the issued 2,631,933 'A' Preference Shares of 50p each, each such share was subdivided into 5 shares of 10p each and each such resulting share was converted into 1 Ordinary Share of 10p and was available for re-issue as such; and
 - (vii) on redemption of the issued 575,000 'B' Preference Shares of 50p each, each such share was subdivided into 5 shares of 10p each and each such resulting share was converted into 1 Ordinary Share of 10p and was available for re-issue as such.
- (h) On 24 July 1996 4,406,423 Ordinary Shares of nominal value 10p were allotted at 114p.
- (i) On 30 July 1996 the Ordinary Shares were admitted to trading on AIM.
- (j) On 30 July 1996 the following shares were redeemed by the Company:-

Type of share	No. of shares
'A' Preference Shares of 50p each	2,631,933
'B' Preference Shares of 50p each	575,000

and each such share was sub-divided into Ordinary Shares of 50p each and the resultant shares were converted into 5 Ordinary Shares of 10p each available for re-issue as such pursuant to the Special Resolution passed 9 July 1996.

- (k) On 1 January 1997, 1,089,573 Ordinary Shares were allotted to the shareholders of JRL as partial consideration for the acquisition of the share capital of that company.

- (l) Pursuant to an ordinary and a special resolution each passed on 3 February 1997:
- (i) the Directors were generally and unconditionally authorised in accordance with section 80 of the Act to allot relevant securities (as defined in that section) to an aggregate nominal amount of £155,435, such authority to expire on the date of the 1998 Annual General Meeting of the Company save that the Company may, before expiry of the authority, make any offer or agreement which would or might require shares to be allotted or right to subscribe for or to convert any security into shares to be granted after the expiry of the authority;
 - (ii) the Directors were empowered (pursuant to section 95 of the Act) to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply in respect thereof up to an aggregate nominal amount of £155,435, such authority to expire on the date of the 1998 Annual General Meeting, save that the Company may, before such expiry of the authority, make any offer or agreement which would or might require equity securities to be allotted after such expiry date and accordingly the Directors may allot equity securities pursuant to any such offer or agreement as if such authority had not expired.
- (m) Pursuant to an ordinary and a special resolution each passed on 28 April 1997:
- (i) the Directors were generally and unconditionally authorised in accordance with section 80 of the Act to allot relevant securities (as defined in that section) to an aggregate nominal amount of £280,000, in addition to their existing authority such authority to expire on the date of the 1998 Annual General Meeting of the Company save that the Company may, before expiry of the authority, make any offer or agreement which would or might require shares to be allotted or right to subscribe for or to convert any security into shares to be granted after the expiry of the authority. Provided that such authority is confined to allotments of equity securities in connection with an application for listing of the Company's entire share capital, issued and to be issued pursuant to this authority, on the Official List of the London Stock Exchange;
 - (ii) the Directors were empowered (pursuant to section 95 of the Act) to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply in respect thereof up to an aggregate nominal amount of £280,000, such authority to expire on the date of the 1998 Annual General Meeting, save that the Company may, before such expiry of the authority, make any offer or agreement which would or might require equity securities to be allotted after such expiry date and accordingly the Directors may allot equity securities pursuant to any such offer or agreement as if such authority had not expired. Provided that such authority is confined to allotments of equity securities in connection with an application for listing of the Company's entire share capital, issued and to be issued pursuant to this authority, on the Official List of the London Stock Exchange.
- (n) The Company has granted and there remain outstanding options to employees in respect of 33,348 Ordinary Shares under the Network Technology Share Option Plan at £1.635 per share, granted on 29 November 1996, 28,402 Ordinary Shares at £1.725 per share, granted on 5 December 1996 and 46,150 Ordinary Shares at £2.16 per share, granted on 14 April 1997. 18,348 options lapsed when a former employee left the employment of the Company on 2 May 1997. The Company has granted and there remain outstanding options in respect of a further 32,331 Ordinary Shares to 35 employees under the Network Technology Savings Related Share Option Scheme at £1.92 per share, granted on 28 February 1997.

An option granted under the Share Option Plan may generally only be exercised within the period of three to ten years from the date of grant. An option granted under the Share Option Scheme may generally only be exercised within the period of six months after the bonus date, which is the end of the relevant save-as-you-earn contract applicable to the option. Further details of the Share Option Plan and the Share Option Scheme are set out in paragraph 8 below.

- (o) Except as set out in paragraphs 3(l) and (m), the provisions of section 89(1) of the Act (which confers on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be paid up in cash) will apply to the authorised but unissued share capital of the Company.
- (p) Except as disclosed above, no share or loan capital of the Company or its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.
- (q) All the Ordinary Shares in the Company in issue and now being issued are in registered form.

4. Market Quotation

The following table shows the closing middle market quotation for the Ordinary Shares on AIM as derived from the Daily Official List at the close of the first dealing day of each of the six months prior to the date of this document and for 4 August 1997 (being the latest practicable date prior to the publication of this document):

Date	Price (p)
3 February 1997	239.5
3 March 1997	205.0
1 April 1997	216.5
1 May 1997	219.5
2 June 1997	212.5
1 July 1997	207.5
1 August 1997	164.5
4 August 1997	162.5

5. Memorandum and Articles of Association

The memorandum of association of the Company provides that the Company's objects are, inter alia, "to carry on the business of a holding company in all its branches, and to acquire ... other property and rights and interests in property as the Company shall deem fit ...".

The objects of the Company are set out fully in Clause 3 of the memorandum of association.

The articles of association of the Company ("the Articles") which were adopted by the Company on 30 July 1996 pursuant to a Special Resolution passed on 9 July 1996 and subsequently amended on 3 February 1997 and 28 April 1997, contain provisions, inter alia, to the following effect:-

(a) Voting Rights

Subject to the rights or restrictions attached to any shares, on a show of hands every member who is present in person or being a corporation is represented by a duly authorised representative or by a proxy and is entitled to vote shall have one vote and upon a poll every member present in person or by proxy and entitled to vote shall have one vote for every share held by him.

No holder of a share shall, unless the Directors otherwise determine, be entitled (save as proxy for another member) to be present at or vote at a general meeting either in person or by proxy if he or any other person who appears to be interested in that share has been duly served pursuant to section 212(1) of the Act or any other statutory provision concerning the disclosure of interests in voting shares with a notice requiring the provision to the Company of information regarding that share, and is in default in complying with such notice.

No member shall be entitled to be counted in the quorum or to vote (whether on a poll or a show of hands or by proxy) at a general meeting unless he holds one or more shares giving the right to attend that meeting upon which all calls or other monies due and payable have been paid.

(b) **Variation of Class Rights and Changes in Capital**

Whenever the share capital is divided into different classes of shares all or any of the rights attached to any class may (unless otherwise provided by the terms of issue of the shares of that class) be modified, varied, extended, or surrendered either in such a manner (if any) as may be provided by such rights or (in the absence of any such provision) with the written consent of the holders of at least three quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of such shares and then only subject to the provisions of section 127 of the Act. To every such separate general meeting the provisions of the Articles relating to general meetings shall *mutatis mutandis* apply except that:

- (i) the necessary quorum shall be not less than two persons present in person and holding or representing by proxy or as the duly appointed representative of a corporation which is a member, at least one third of the capital paid up on the issued shares of the class in question;
- (ii) if any such separate general meeting shall be adjourned by reason of there being no quorum present and at the adjourned meeting a quorum as defined above shall not be present within fifteen minutes after the time appointed for such a meeting, one holder of shares of the class in question present in person or by proxy shall be a quorum;
- (iii) any holder of shares of that class in question who is present in person or by proxy and entitled to vote may demand a poll;
- (iv) on a poll every holder of shares of the class in question who is present in person or by proxy shall have one vote for every share of that class held by him; and
- (v) the rights attached to a class of shares shall not be deemed to be varied by the creation or issue of further shares ranking *pari passu* with or subsequent to them unless otherwise expressly provided by the Articles or by the rights attached to the shares of that class.

The Company may by ordinary resolution increase its share capital, consolidate all or any of its share capital into shares of a larger amount, subdivide shares into shares of smaller amounts and cancel any shares which have not been taken or agreed to be taken by any person.

Subject to the provisions of the Act, the Company may by special resolution reduce its share capital, capital redemption reserve or share premium account.

Subject to the provisions of the Act and to the authority of the Company in general meeting, the Company may purchase its own shares.

(c) **Dividends**

Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends out of the profits of the Company available for distribution, but no dividend shall be payable in excess of the amount recommended by the Directors.

Subject to any preferential or other special rights attached to any shares issued by the Company, the profits of the Company available for distribution and which the Company shall so determine to distribute by way of dividend shall be apportioned and paid to the members entitled thereto proportionately to the amount paid up on the shares.

The Directors may withhold any dividend payable on or in respect of a share on which the Company has a lien or (except in the circumstances specified in the Articles) if:

- (i) a notice has been duly served in respect of that share pursuant to section 212 of the Act or any other statutory provision or provision of the Articles for the time being in force enabling the Company by notice in writing to require any person to give any information regarding that share;
- (ii) the share or shares which are the subject of that notice represent in aggregate at least 0.25 per cent of that class of shares; and
- (iii) the notice has not been complied with within 14 days.

Further, the Board may (subject to Article 42), in its absolute discretion, withhold the payment of any dividend to a Member in respect of any share held by him in relation to which he or any other person has been duly served with a notice under section 212 of the Act (or under any other statutory provision or provisions of the Articles for the time being in force) enabling the Company by notice in writing to require any person to give any information regarding that share.

Any dividend remaining unclaimed after a period of twelve years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

(d) Distribution of Assets on Winding-up

A liquidator of the Company may, with the sanction of an extraordinary resolution and subject to any provision sanctioned in accordance with section 719 of the Act, divide among the members in specie or in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for such purpose set such values as he deems fair upon any assets to be so divided and may determine how such division shall be carried out as between members or different classes of members.

(e) Transfer

A transfer of the shares shall be effected by transfer in writing in the usual common form or any other form approved by the Directors. The transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered into the Register of Members in respect thereof.

The Board may, in its absolute discretion and without assigning any reason, refuse to register a transfer of any share:-

- (i) (not being a share which is fully paid up) to a person of whom it does not approve provided that, where any such shares are admitted to the Official List, such discretion may not be exercised in such a way as to prevent dealings in the shares from taking place on an open and proper basis; or
- (ii) to more than four joint holders; or
- (iii) (not being a share which is fully paid up) on which the company has a lien provided that, where any such shares are admitted to the Official List, such discretion may not be exercised in such a way as to prevent dealings in the shares from taking place on an open and proper basis; or
- (iv) if made in favour of an infant, or a person in respect of whom a receiving order or adjudication order in bankruptcy has been made which remains undischarged or a person of unsound mind; or
- (v) in respect of which a section 212 notice has been served and not complied with unless the transfer is an excepted transfer, the member is not himself in default in supplying the information required by the section 212 notice and the member proves to the satisfaction of

the Board that no person in default in supplying information required is interested in any of the shares subject of the transfer.

Save as aforesaid, the Articles contain no restrictions as to the free transferability of the fully paid Ordinary Shares.

(f) Directors' Interests

- (i) A Director who is in any way, directly or indirectly, interested in a transaction or arrangement with the Company shall, at a meeting of the Directors, declare in accordance with the Act the nature of his interest.
- (ii) Provided that he has declared his interest in accordance with paragraph (i) no Director shall be disqualified by his office from contracting with the Company nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company in which any Director shall be in any way interested be liable to be avoided nor shall any such Director be liable to account to the Company for any profit realised by reason of such Director holding that office or of the fiduciary relationship thereby established.
- (iii) Any Director may act by himself or for his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director provided that nothing herein contained shall authorise a Director or his firm to act as auditor or auditors of the Company.
- (iv) A Director shall not vote or be counted in the quorum at a meeting in relation to any resolution in respect of any contract or arrangement or any other proposal whatsoever in which he or any person connected with him (within the meaning of section 346 of the Act) has any interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company or in respect of which he has any duty which conflicts with his duty to the Company.

A Director shall be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters:

- (a) the giving of any guarantee, security or indemnity to him in respect of money lent or obligations incurred by him or via any other person at the request or for the benefit of the Company or any of its subsidiary undertakings;
- (b) the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (c) any proposal concerning an offer of shares or debentures or other securities for or by the Company or any of its subsidiary undertakings for subscription or purchase in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the Director is to participate;
- (d) any proposal concerning any other company in which he is interested directly or indirectly and whether as an officer or shareholder or otherwise provided that the shares in which he is interested do not represent 1 per cent or more of any class of the equity share capital of such a company or of the voting rights available to members of the relevant company;

- (e) any arrangement for the benefit of employees of the Group which does not award to any Director any privilege or benefit not generally awarded to the employees to which such arrangements relate; and
 - (f) any proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of the Directors or for the benefit of persons including Directors.
 - (v) Where proposals are under consideration concerning the appointment of two or more Directors to offices or employments with the Company or any company in which the Company is interested such proposals may be divided and considered in relation to each Director separately and in such cases each of the Directors concerned shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.
- (g) **Remuneration of Directors**
- (i) The ordinary remuneration of the Directors (other than a Director holding executive office) shall be such sum as the Board may determine provided that the aggregate fees of the Directors shall not exceed £100,000 per annum or such greater sum as may from time to time be determined by the Company by ordinary resolution to be divided among such Directors in such proportion and manner as the Board may determine. Directors shall also be entitled to be repaid all travelling, hotel and other expenses properly incurred by them in and about the performance of their duties as Directors including their expenses of travelling to and from Board or Committee or general meetings.
 - (ii) The Board may grant special remuneration to any member of the Board who, being called upon, shall render any special or extra services to the Company such special remuneration may be made payable to such a Director in addition to or in substitution for his ordinary remuneration (if any) as a Director, and may be payable by way of lump sum, participation in profits or otherwise as the Board shall determine.
 - (iii) A Director holding any executive office shall receive such remuneration, whether in addition to or substitution for, his ordinary remuneration as a Director and whether by way of salary, commission, participation in profits or otherwise, as the Board or the Remuneration Committee of the Board may determine.
- (h) Subject to the provisions of section 293 of the Act every Director shall retire at the first annual general meeting after the date of his seventieth birthday, but shall then be eligible for re-election for the period from that annual general meeting until the end of the next following annual general meeting when again he shall retire. Any such Director shall be eligible for re-election for a subsequent term or terms, but on each occasion only until the end of the next following annual general meeting after the date of his re-election.

(i) **Borrowing Powers**

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future including uncalled capital and subject to the provisions of the Act issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure that the aggregate principal amount (including any premium payable on final repayment) for the time being remaining undischarged of all monies borrowed by the Group shall not at any

time without the previous sanction of an ordinary resolution exceed the sum equal to two times the adjusted total of the share capital and consolidated reserves (as defined in Article 111.3).

(j) Board Meetings

The quorum for meetings of the Directors is four, unless otherwise determined, two of whom shall be directors with day-to-day executive responsibility and two of whom shall be Directors not having day-to-day executive functions.

6. Directors' and Other Interests

- (a) As at 4 August 1997 (the latest practicable date prior to publication of this document) the interests of the Directors and their immediate families in the share capital of the Company, all of which are beneficial unless otherwise stated, which (i) have been notified to the Company pursuant to section 324 or 328 of the Act, or (ii) are required pursuant to section 325 of the Act to be entered in the register referred to therein or (iii) are the interests of a connected person of a Director which would, if the connected person were a Director, be required to be disclosed under (i) or (ii) above, and the existence of which is known to or could with reasonable diligence be ascertained by that Director, are and will be immediately following the Placing and Open Offer as set out below in paragraphs 6(a) (b) and (c):

Director	At present		Following the Placing and Open Offer	
	Number of Ordinary Shares	Percentage of issued Ordinary Share capital	Number of Ordinary Shares	Percentage of issued Ordinary Share capital
G.G. Woodhead ⁽¹⁾	17,500	0.05	17,500	0.05
K. Bollmann ⁽²⁾	17,314,329	53.81	17,314,329	48.56
H.E. Schlieker-Bollmann	17,314,329	53.81	17,314,329	48.56
L.C. Richards	—	—	—	—
F.R. Klingensmith	318,331	0.99	318,331	0.89
D.F. Mould	111,110	0.34	111,110	0.31
M. Pollins	—	—	—	—

(1) All of the 17,500 Ordinary Shares in which G.G. Woodhead is interested are registered in the name of his wife, K. Woodhead. None of G.G. Woodhead's interests indicated are beneficial interests.

(2) All of the 17,314,329 Ordinary Shares in which K. Bollmann is interested are registered in the name of his wife, H.E. Schlieker-Bollmann. None of K. Bollmann's interests indicated above are beneficial interests.

- (b) Maltrace owns 1,756,488 Ordinary Shares representing 5.46 per cent of the issued share capital of the Company.

Maltrace was incorporated on 18 July 1995, in order to provide additional finance for the Company shortly after the equity interests in HBM and ITC held by JRL were acquired by the Company with the assistance of £2.98 million of funding provided by 3i plc.

M. Pollins and K. Bollmann set up Maltrace (and M. Pollins is Chairman and Managing Director of Maltrace) and commissioned the preparation and issue of a Prospectus. Maltrace raised approximately £650,000, most of which was loaned to HBM until May 1996 when 168,067 "A" Ordinary Shares of £1 each and 467,933 "A" Preference Shares of 50p each in Network Technology were issued to Maltrace in place of that debt. On the Company's admission to AIM, the "A" Ordinary Shares of £1 each were converted to Ordinary Shares and the "A" Preference Shares of 50p each were redeemed and the proceeds contemporaneously invested in Ordinary Shares.

The shareholders of Maltrace are:

	No. of shares in Maltrace	Percentage holding in Maltrace
D.R. Brown and P.H. Brown	247,550	50.72
W. Rindlaub and B. Rindlaub	173,303	35.51
G.G. Woodhead	20,000	4.10
H.E. Schlieker-Bollmann	36,941	7.57
K. Bollmann	998	0.20
H.R. Schlieker	2,067	0.42
M. Pollins	7,225	1.48

As a result of their shareholdings in Maltrace, K. Bollmann, H.E. Schlieker-Bollmann, G.G. Woodhead and M. Pollins in addition to their interests referred to in paragraph 6(a) are all deemed to be interested in the 1,756,488 (5.46 per cent) Ordinary Shares held by Maltrace in the Company.

- (c) L.C. Richards has options over 718 Ordinary Shares in Network Technology which were granted on 24 September 1996 and are exercisable on 31 March 2002 at a price of £1.92p per share pursuant to the Share Option Scheme.
- (d) So far as is known to the Company as at 4 August 1997, (the latest practicable date prior to publication of this document), the Company had been notified of the following persons (other than referred to in paragraphs 6(a), (b) and (c), who are and will, following the Placing and Open Offer, be interested directly or indirectly, (within the meaning of Part VI of the Act), or jointly or severally, in 3 per cent. or more of the issued Ordinary Share capital of the Company.

Shareholder	Number of Ordinary Shares	Percentage of issued Ordinary Share capital prior to the Placing and Open Offer	Percentage of issued Ordinary Share capital following the Placing and Open Offer ⁽³⁾
Maltrace	1,756,488	5.46	4.93
3i Group plc	5,605,000	17.42	15.72
D. Brown ⁽¹⁾	1,756,488	5.46	4.93
W. Rindlaub ⁽²⁾	1,756,488	5.46	4.93

(1) D. Brown is a major shareholder as a result of his interest in Maltrace.

(2) W. Rindlaub is a major shareholder as a result of his interest in Maltrace.

(3) Assuming no New Ordinary Shares are applied for under the Open Offer.

- (e) Save as mentioned in paragraphs 6(a), (b), (c) and (d) above, as at 4 August 1997 (the latest practicable date prior to publication of this document), the Company had not been notified of any interest in 3 per cent. or more of the Existing Ordinary Shares nor, so far as the Company is aware, (other than as mentioned in paragraph 6(a) above), are there any persons who, directly, or indirectly, jointly or severally, exercise or could exercise control over the Company.
- (f) So far as is known to the Company, K. Bollmann and H.E. Schlieker-Bollmann who following the Placing and Open Offer will hold 48.56 per cent of the issued Ordinary Shares, are the only persons who directly or indirectly, jointly or severally, could exercise control over the Company (see paragraph 13(k) below).
- (g) Save as disclosed above, none of the Directors nor any member of their immediate families holds, or is beneficially or non-beneficially interested, directly or indirectly, in any shares or options in the Company.
- (h) Save as referred to in paragraph 7, there are no existing or proposed service contracts between any Director and any member of the Group and there will be no variation in the total emoluments receivable by the Directors as a result of the Placing and Open Offer and Admission.

- (i) Save for the Placing and Open Offer, and the transactions referred to in paragraphs 6 (j) and (k) below, none of the Directors has had an interest in any transaction effected by the Company, which is or was unusual in its nature or conditions or significant to the business of the Company and which was effected during the current or immediately preceding financial year or during an earlier financial year and remains in any respect outstanding or unperformed.
- (j) The Woodgate Trust, an independent pension scheme, is considered to be a related party as K. Bollmann, H.E. Schlieker-Bollmann and D.F. Mould are amongst its beneficiaries. During the period 11 May 1995 to 30 September 1996 the Group made payments of £122,000 to The Woodgate Trust, in respect of pension contributions made on behalf of certain executives. On 18 October 1995 the Woodgate Trust purchased HBM's freehold property at 26 Victoria Way, Burgess Hill, West Sussex RH15 9NF for £425,000. Following the acquisition The Woodgate Trust entered into a lease with HBM and has subsequently received rent of £42,000 per annum. In April 1996, The Woodgate Trust purchased the Lancing factory at 3 Commerce Way, Lancing, West Sussex BN15 8TA from Target Holdings Limited and leased it to N&R for a rent of £28,000 per annum.
- (k) HBM Pty, a company registered in Australia, was considered to be a related party as it was controlled by H.E. Schlieker-Bollmann. During the period 11 May 1995 to 30 September 1996, sales of HBM products amounting to £67,370 were made to HBM Pty. The balance outstanding to the Group at the end of the period was £154,335. Network Technology has retrieved stock held by HBM Pty since it ceased trading and the net balance outstanding is approximately £38,000. On 14 July 1997 H.E. Schlieker-Bollmann signed documentation to transfer the whole of her interest in HBM Pty (now named Woodgate Leasing Pty Limited) to an unconnected third party and the company is no longer trading.
- (l) No company in the Group has granted any loans to, or guarantees for the benefit of, any of the Directors.
- (m) K. Bollmann filed bankruptcy proceedings in Germany voluntarily in or about July 1984, at which time he was a sole trader and personally liable for the debts of his business. The business was a brokerage firm involved in integrated circuits. He became involved in a very costly legal dispute when a supplier to his business provided a poor quality product and he refused to pay for the product.

Although the legal action was ultimately successful for K. Bollmann, the legal costs, together with increasing non-payment by some of the business' debtors, led to financial difficulties. K. Bollmann came to arrangements with some of his creditors but some creditors nevertheless insisted on full payment, leading to bankruptcy. K. Bollmann did, however, pay some of the creditors voluntarily after the bankruptcy. No public record of this matter can be found in Germany.

7. Directors' Service Agreements and Emoluments

7.1 The following service agreements have been entered into between the Company and the Directors:

7.1.1 an agreement dated 5 August 1997 between (1) the Company, and (2) K. Bollmann, whereby he is employed as a Director of the Company for three years terminable after two years on twelve months notice. The agreement is subject to and conditional upon Admission. K. Bollmann is entitled to remuneration of £115,000, use of a company car, out of pocket expenses, a contribution of an amount equivalent to 20 per cent of his basic salary into a pension scheme on his behalf and thirty working days holiday each year (or, at the discretion of the Directors, payment in respect of any holiday not taken). K. Bollmann is entitled to an annual bonus not exceeding £360,000 for the financial year ending 30 September 1997 or £450,000 for subsequent years and in each case it is payable only in the event of real growth in earnings per share. These bonus arrangements are to be determined by the Remuneration Committee;

7.1.2 an agreement dated 5 August 1997 between (1) the Company, and (2) D.F. Mould, whereby he is employed as a Director of the Company for three years terminable after two years on twelve months notice. The agreement is subject to and conditional upon Admission. D.F. Mould is entitled to remuneration of £75,000, use of a company car, out of pocket expenses, a contribution of an amount equivalent to 20 per cent of his basic salary into a pension scheme on his behalf and thirty working days holiday each year (or, at the discretion of the Directors, payment in respect of any holiday not taken). He is entitled to an annual bonus not exceeding £300,000 for the financial year ending 30 September 1997 or £375,000 for subsequent years and in each case it is payable only in the event of real growth in earnings per share. These bonus arrangements are to be determined by the Remuneration Committee;

7.1.3 an agreement dated 5 August 1997 between (1) the Company, and (2) H.E. Schlieker-Bollmann, whereby she is employed as a Director of the Company for three years terminable after two years on twelve months notice. The agreement is subject to and conditional upon Admission. H.E. Schlieker-Bollmann is entitled to remuneration of £60,000, use of a company car, out of pocket expenses and thirty working days holiday each year (or, at the discretion of the Directors, payment in respect of any holiday not taken). H.E. Schlieker-Bollmann is not entitled to a bonus;

7.1.4 an agreement dated 5 August 1997 between (1) the Company, and (2) L.C. Richards, whereby she is employed as a Director of the Company. The agreement is subject to and conditional upon Admission. The agreement is terminable on one month's notice by either party to the other. L.C. Richards is entitled to remuneration of £45,000 per annum, out of pocket expenses and 21 working days holiday per year (or, at the discretion of the Directors, payment in respect of any holiday not taken). L.C. Richards is not entitled to a bonus; and

7.1.5 each of the non-executive Directors, G.G. Woodhead, M. Pollins and F.R. Klingensmith has an agreement with the Company in relation to his appointment. These agreements terminate in the event that the non-executive ceases to be a Director, and are otherwise terminable on three months notice by either party. Under these agreements, Messrs Woodhead, Pollins and Klingensmith are entitled to annual fees of £21,000, £20,000 (plus fees according to time spent) and £17,000 respectively.

7.2 The aggregate remuneration paid and benefits in kind granted to the Directors by any member of the Group for the year ended 30 September 1996 amounted to £698,186 and the aggregate remuneration and benefits in kind to be paid to the Directors under the arrangements in force at the date of this document for the financial year ending 30 September 1997 are estimated to be £263,000 excluding the bonus entitlements of K. Bollmann and D.F. Mould.

8. Share Option Schemes

The following is a summary of the Network Technology Share Option Plan and the Network Technology Savings Related Share Option Scheme both adopted on 24 September 1996.

8.1 *Network Technology Share Option Plan (the "Plan")*

The Plan was adopted on 24 September 1996. On 5 November 1996 the Board passed a resolution appointing a committee of directors to deal with any future amendments to the rules of the Plan. The Plan was approved by the Savings and Investments Division of the Inland Revenue on 18 November 1996 under paragraph 1 Schedule 9 of the Income and Corporation Taxes Act 1988. The Company has granted and there remain outstanding options in respect of 33,348 Ordinary Shares at £1.635 each granted on 29 November 1996 and 28,402 Ordinary Shares at £1.725 each granted on 5 December 1996.

Generally an option granted under this Plan may only be exercised within the period of three to ten years from the date of grant, except in the circumstances referred to below, after which it will lapse.

An option is exercisable within a limited period if the participant ceases to be employed by the Company or any participating company by reason of disability, injury, redundancy or retirement. The personal representatives of an option holder may exercise an option within 12 months of the death of the option holder.

Options are exercisable within a limited period in the event of a take-over of the Company and will in certain circumstances lapse if not so exercised, but may, with the agreement of the acquiring company, be exchanged for options over the acquiring company's shares.

Options are also exercisable within a limited period on a reconstruction, amalgamation or voluntary winding-up of the Company.

In the event of a variation in the share capital of the Company, the option price and/or the number of shares comprised in each option will be adjusted (subject to the prior approval of the Inland Revenue) in such manner as the auditors of the Company confirm in writing to be fair and reasonable. No adjustment may be made which will either increase the aggregate amount payable on the exercise of an option, or reduce the subscription price for a share below its nominal value.

The rules of the Plan may, subject to the prior approval of the Inland Revenue, be altered by a committee of the Board provided that the alteration does not materially affect option holders holding options prior to the alteration. Without the approval of the Company in general meeting, no alteration may cause the terms on which future options will be granted to become materially more generous than those already in existence or increase the aggregate number of option shares.

8.2 *Network Technology Savings Related Share Option Scheme (the "Scheme")*

The Scheme was adopted on 24 September 1996. On 5 November 1996 the Board passed a resolution appointing a committee of directors to deal with any future amendments to the rules of the Scheme. The Scheme was approved by the Savings and Investments Division of the Inland Revenue on 18 November 1996 under paragraph 1 Schedule 9 of the Income and Corporation Taxes Act 1988. The Company has granted and there remain outstanding options in respect of 32,331 Ordinary Shares at £1.92 each granted on 28 February 1997.

Generally, an option granted under the Scheme may only be exercised within the period of six months after the bonus date, which is the end of the relevant save-as-you-earn contract applicable to the option. The personal representatives of an option holder may exercise an option within the earlier of twelve months of the death of the option holder and the first anniversary of the bonus date where the option holder dies within the six months following the bonus date. An option is exercisable within a limited period if the option holder ceases to be employed by a company participating in the Scheme before the bonus date by reason of injury, disability, redundancy or

retirement, or because he ceases to be a director or employee of a participating company because the company by which he is employed is no longer controlled by the Company or his office or employment relates to a business which is transferred to a non-participating company.

Options are exercisable within a limited period in the event of a take-over of the Company but may, alternatively, with the agreement of the acquiring company, be exchanged for options over the acquiring company's shares.

Options may be exercised within six months of the court sanctioning a compromise or arrangement under s425 of the Companies Act 1985.

If any person becomes bound or entitled to acquire shares in the Company pursuant to s428 or s429 of the Companies Act 1985 an option may be exercised at any time while such person remains so bound or entitled.

Options are also exercisable within six months of the passing of a resolution for the voluntary winding-up of the Company.

The rules of the Scheme may, subject to the prior approval of the Inland Revenue, be altered by a committee provided that the alteration does not materially affect option holders holding options prior to the alteration. Without the approval of the Company in general meeting no alteration may cause the terms on which future options will be granted to become materially more generous than those already in existence or increase the aggregate number of option shares.

9. Pension Scheme

The Group operates two retirement benefits arrangements.

- (a) The Woodgate Trust (the "Scheme") is a small self-administered scheme established by HBM. The assets of the Scheme are held under a trust administered by Pointon York Trustees Limited, K. Bollmann, H.E. Schlieker-Bollmann and D.F. Mould. Currently, there are 5 active members.

Although the Scheme was set up as a defined contributions arrangement, the Scheme rules provide for a target pension of two-thirds of final remuneration to each member and as a consequence section 56 (minimum funding requirements) and section 75 (deficiency in the assets) of the Pensions Act 1995 may apply. Since the establishment of the Scheme in 1994 HBM has contributed £239,093 in respect of the members. Apart from the actuarial valuation undertaken on the establishment of the Scheme, no actuarial valuation has been carried out to determine the funding position of the Scheme.

- (b) The Woodgate FURBS (the "FURBS") is a funded unapproved retirement benefits scheme established by the Company. It is a defined contributions arrangement and the Company has discretion over the amount of contributions payable. The Company is also liable for the expenses of the FURBS. The assets of the FURBS are held under a trust administered by K. Bollmann, H.E. Schlieker-Bollmann, D.F. Mould and TOR Pension Trustees Limited. Currently, there are 3 active members.

Since the inception of the FURBS in 1997, the Company has yet to pay any contributions or expenses. The trustees may amend the FURBS, which will continue until the expiration of the perpetuity period or earlier termination by the trustees.

10. Taxation

The summary set out below does not constitute tax advice and is intended as a general guide for shareholders who are resident or ordinarily resident in the UK for tax purposes to certain aspects of current UK law and Inland Revenue practice. Parts of the summary may not apply to certain classes of shareholders, such as dealers in securities, or to shareholders who are not absolute beneficial owners of Ordinary Shares or who hold their Ordinary Shares otherwise than as investments. Whilst the summary

takes account of the changes announced in the Budget on 2 July 1997, shareholders should note that the provisions eventually enacted may differ from those announced in the Budget.

Any shareholder who is in doubt as to his tax position or who is or may be subject to tax in any jurisdiction other than the UK should consult an appropriate professional adviser without delay.

(a) *Capital gains tax*

A disposal of Ordinary Shares may, depending upon the individual circumstances of the shareholder, give rise either to a liability to UK taxation on chargeable gains or to an allowable loss.

Further details on the treatment of the issue of New Ordinary Shares pursuant to the Open Offer for the purposes of the UK taxation of capital gains can be found in Part Two of this document.

(b) *Taxation of dividends on Ordinary Shares*

(i) Under current UK legislation, no tax will be withheld at source from dividend payments by the Company. However, when paying a dividend, the Company has to account to the Inland Revenue for an amount of advance corporation tax ("ACT"), currently equal to one quarter of the amount of the dividend.

(ii) Subject to special rules for foreign income dividends referred to below, for individual shareholders resident for tax purposes in the UK, the ACT paid gives rise to a tax credit equal to one quarter of the amount of the dividend received (ie 20 per cent of the aggregate of the dividend and associated tax credit) which may be set off against their tax liability on their total income. A UK resident individual shareholder will be liable to tax on the total of the dividend plus the tax credit. To the extent that an individual is liable to income tax at the higher rate (currently 40 per cent) on that total, the tax credit will satisfy that liability as to 20 per cent and he will have to pay additional tax equal (at present rates) to a further 20 per cent of the total of the dividend plus the tax credit. In the case of an individual who is liable to income tax at the basic or lower rates, the tax credit will match this liability to income tax and the individual taxpayer will not be liable to additional income tax on dividends received and will have no right to claim payment of the tax credit from the Inland Revenue. A UK resident shareholder who is not liable to income tax on the dividend (or is not liable to income tax on any part thereof) will be able to claim payment of the tax credit, or part thereof, in cash from the Inland Revenue. The tax credit regime which applies to UK resident individual shareholders, described above, will be changed with effect from 6 April 1999. The tax credit will be reduced to 10 per cent of the aggregate of the dividend and associated tax credit. The tax credit will satisfy the liability to tax at the basic or lower rates so that individual shareholders liable at the basic or lower rate will continue to have no additional tax to pay on their dividends. The higher rate of tax on dividends will be reduced to 32.5 per cent from 6 April 1999, with the result that individuals liable to income tax at the higher rate on their dividend income will receive the same after tax return as at present. A UK resident individual shareholder who is not liable to income tax on the dividend (or is not liable to income tax on any part thereof) will no longer be able to claim payment of the tax credit, or part thereof, in cash from the Inland Revenue from 6 April 1999.

(iii) A corporate shareholder resident in the UK for tax purposes will not normally be liable to corporation tax on any dividend received. Subject to special rules for foreign income dividends referred to below, such a corporate shareholder will be able to treat any dividend received and the related tax credit, currently equal to a quarter of the dividend received, as franked investment income. Pension funds and shareholders subject to corporation tax in the UK are unable to claim payment in cash of the related tax credit from the Inland Revenue.

- (iv) The Income and Corporation Taxes Act 1988 contains provisions allowing companies to pay a foreign income dividend which will not carry a tax credit. The Directors will consider from time to time whether the payment of a foreign income dividend is appropriate. In current circumstances, the Directors do not envisage that the Company will pay a foreign income dividend. These provisions will cease to apply from 6 April 1999.
 - (v) The Finance Act 1997 contains provisions which will treat certain dividends associated with transactions in securities and certain other income distributions, as foreign income dividends. These provisions should not apply to normal dividends paid by the Company.
 - (vi) Whether shareholders who are resident for tax purposes in countries other than the UK are liable to UK tax on dividends received or entitled to a payment from the Inland Revenue of a proportion of the tax credit in respect of dividends on their Ordinary Shares depends in general upon the provisions of any double tax convention or agreement which exists between such countries and the UK. The effect of the changes to the tax credit regime referred to above will, in general, be that from 6 April 1999 no cash payment will be recoverable in respect of the tax credit. In addition, individual shareholders who are resident in countries other than the UK but who are Commonwealth citizens, nationals of member states of the European Economic Area, residents of the Isle of Man or the Channel Islands or certain other classes of person may be entitled to the entire tax credit, which they may set against their total UK income tax liability or claim payment of in cash to the same extent as if they were resident in the UK. (As to the position of such shareholders, see (ii) above). Shareholders who are not resident for tax purposes in the UK should consult their own tax advisers on the possible applicability of such provisions, the procedures for claiming payment and any relief or credit which may be claimed in the jurisdiction in which they are resident. They may also be subject to foreign taxation on dividend income under local law.
- (c) *Stamp duty and stamp duty reserve tax*

No stamp duty or stamp duty reserve tax ("SDRT") will be payable on the issue of New Ordinary Shares pursuant to the terms of the Open Offer. Where Ordinary Shares are held in certificated form, no stamp duty or SDRT will arise on a transfer of such Ordinary Shares into CREST unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent) will arise. Paperless transfers of Ordinary Shares within CREST will be liable to SDRT rather than stamp duty.

Any subsequent transfer on sale of Ordinary Shares outside CREST will give rise to a liability on the purchaser to *ad valorem* stamp duty or SDRT, in the case of stamp duty normally at the rate of 50p for every £100 or part of £100 of the consideration paid and, in the case of SDRT, normally at the rate of 0.5 per cent of the consideration paid.

(d) *Inheritance Tax*

Ordinary Shares are assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax even if the holder is neither domiciled in the UK nor deemed to be domiciled there under special rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value will be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements.

If you are in any doubt as to your tax position you should consult your own professional adviser.

11. Working capital

The Directors are of the opinion that after taking into account available bank facilities and the proceeds of the Placing and Open Offer receivable by the Company, the Group has sufficient working capital for its present requirements.

12. Litigation

Litigation has been instigated against H. Bollmann Manufacturers Inc. ("HBM Inc."), HBM and others by the Pennsylvania Human Relations Commission (the "PHRC") in respect of a charge of discrimination which was filed by a former employee of HBM Inc. on 29 May 1996. The former employee alleges that during her employment at HBM Inc. she was subjected to unlawful sexual harassment. She also claims that HBM Inc. ultimately terminated her employment because of her alleged disability. On 11 July 1996, HBM Inc. filed its answer to the charge of discrimination which denies the allegations in their entirety. The PHRC has taken no action to prosecute the claim since December 1996.

The American lawyers representing the Group are unable to determine the Group's potential maximum liability. If the former employee's case were successful, then she would be eligible to receive compensation for loss of past and future earnings together with other compensation, punitive damages, fees and costs. However, the American lawyers have advised that HBM Inc. has several strong legal defences to the claim and they have expressed their confidence that this matter will ultimately be resolved in the Group's favour.

Save as disclosed above, neither the Company, nor any member of the Group is, nor has been, involved in any legal or arbitration proceedings which may have, or have had during the twelve months preceding the date of this document, a significant effect on the financial position of the Group nor, so far as the Directors are aware, are any such proceedings pending or threatened by or against it.

13. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this document.

- (a) On 18 October 1995 HBM transferred to Pointon York Trustees Limited, K. Bollmann, H.E. Schlieker-Bollmann and D.F. Mould as trustees of The Woodgate Trust the property owned by HBM and situated at 26 Victoria Way, Burgess Hill, West Sussex for £425,000.
- (b) A lease dated 18 October 1995 between Pointon York Trustees Limited, K. Bollmann, H.E. Schlieker-Bollmann and D.F. Mould (as trustees of The Woodgate Trust) (1), and HBM (2), whereby HBM leased 26 Victoria Way, Burgess Hill, West Sussex, for six years from 18 October 1995 at £42,500 per annum subject to review on 18 October 1998 and 17 October 2001.
- (c) A deed of adherence dated 14 May 1996 entered into by Maltrace whereby Maltrace invested in the Company and undertook to be bound by the obligations of the investment agreement dated 30 June 1995 between the Company (1), K. Bollmann and others (2), 3i plc (3) and 3i Group plc (4) setting the terms on which 3i Group plc would invest in the Company and the terms upon which other investors would co-invest.
- (d) An agreement dated 9 July 1996 between the Company (1), K. Bollmann and others (2), 3i plc (3), 3i Group plc (4) and Maltrace (5) under which the investment agreement dated 30 June 1995 referred to in paragraph 14(c) above was terminated conditional upon admission to AIM.
- (e) An agreement dated 9 July 1996 between the Company (1) and Mobesco Managers Limited ("Mobesco") (2) whereby Mobesco agreed to act as Registrar to the Company on a fee basis linked to time spent but with a minimum annual payment of £10,000. This agreement will be terminated prior to Admission.

- (f) A letter of engagement dated 10 July 1997 between the Company (1) and Exchange Registrars Limited ("Exchange") (2) whereby Exchange agreed to act as Registrar to the Company on a fee basis linked to the number of shareholders and transfers.
- (g) A composite placing and nominated adviser agreement dated 9 July 1996 made between the Company (1), Burrough Johnstone Limited ("BJL") (2), Neill Clerk Capital Limited ("NCC") (3) and the Directors (4). Under that placing agreement, BJL agreed, subject to the conditions specified therein, to procure places for Ordinary Shares. BJL received a fee of £12,000 per annum (from the anniversary date of that placing), and a commission of 2 per cent of the aggregate value of the Ordinary Shares issued at the placing price. NCC agreed to act as nominated adviser to the Company. Under the terms of this agreement, NCC was to be paid £40,000 (plus VAT) in respect of its services for acting as nominated adviser and thereafter an annual fee of £15,000 (plus VAT). Under the placing agreement each of the Directors undertook to the Company and to BJL and NCC that he would not, without the prior consent of BJL and NCC, dispose of any Ordinary Shares in which he has a beneficial interest at the time of admission to AIM for a period of 12 months from the date of admission to AIM and for the following 24 and 36 months from such date he would not dispose of more than 5 per cent of such holding in any 12 month period, save for a takeover becoming unconditional or a transfer to members of his family or to trustees of a family trust. Under the placing agreement the Company and each of the Directors gave certain warranties and indemnities to BJL and NCC as to the accuracy of the information contained in that document and of other matters relating to the Group and its business.
- (h) Articles of merger dated 31 December 1996 between JRL (1) and NT Acquisition Inc. of Austin, Texas, which subsequently changed its name to JRL Systems Inc. of Austin, Texas (2) which effected a merger for \$4.8 million satisfied by \$1.8 million in cash and the issue of 1,089,573 Ordinary Shares to JRL shareholders.
- (i) An agreement dated 1 August 1996 between the Company (1), W. Rindlaub (2), D. Brown (3), B. Rindlaub (4), V. Dewald (5), G. Berndsen (6), and R. Keller (7) relating to Ringdale GmbH. Under the Agreement, the Company subscribed for a 25 per cent stake in Ringdale GmbH, a joint-venture company established for the purpose of selling and distributing Ringdale products in Germany.
- (j) A placing agreement dated 5 August 1997 between Singer & Friedlander (1), Burrough Johnstone (2), the Directors (3) and the Company (4) pursuant to which *inter alia* the Company has appointed Singer & Friedlander as its agent in connection with the application by the Company for Admission and in connection with the Placing and Open Offer and Burrough Johnstone has agreed on behalf of Singer & Friedlander to use its reasonable endeavours to find places to subscribe for New Ordinary Shares under the Placing and (subject to clawback to satisfy valid applications from Qualifying Shareholders pursuant to the Open Offer) the Open Offer, failing which Singer & Friedlander has agreed itself to subscribe for such number of the New Ordinary Shares in respect of which places have not been procured and for which valid applications are not received under the Open Offer.

The Company has agreed to pay Singer & Friedlander (together with VAT where applicable) *inter alia* a corporate finance advisory fee and a basic commission of 0.5 per cent of the aggregate value of the New Ordinary Shares at the Issue Price.

The Placing Agreement contains certain representations, warranties and indemnities given by the Company and the Directors to Singer & Friedlander relating to the accuracy of this document and to the affairs of the Group. Singer & Friedlander may terminate the Placing Agreement if, *inter alia*, there is a material breach of warranty. The Placing Agreement is conditional, *inter alia*, on Admission occurring on or before 28 August 1997 or such later date, not being later than 30 September 1997, as Singer & Friedlander and the Company may agree.

- (k) A relationship agreement dated 5 August 1997 between the Company (1), K. Bollmann (2) and H.E. Schlieker-Bollmann (3) pursuant to Paragraphs 3.12 and 3.13 of the Listing Rules of the London Stock Exchange. Under the relationship agreement, K. Bollmann and H.E. Schlieker-Bollmann confirmed and undertook *inter alia*:
 - (i) that they will not seek to use any power or right to control the operations or decisions or policy of the Board;
 - (ii) that any transaction or relationship entered into between the Company and them shall be entered into at arm's length and on a normal commercial basis;
 - (iii) that where an actual or potential conflict of interest exists between the Company and them, they shall take all such steps as may be necessary to ensure that the Company is at all times able to comply with the requirements of Paragraph 3.13 of the Listing Rules of the London Stock Exchange; and
 - (iv) that for so long as they are "controlling shareholders" for the purposes of Paragraph 3.12 of the Listing Rules of the London Stock Exchange they shall exercise all powers and rights available to them from time to time so as to ensure the continued independence of the Board such that they (or their appointees, agents or representatives) shall not constitute a majority of the Directors.
- (l) An agreement dated 10 February 1997 between the Company (1) and Buis & Company (2). Under this agreement the Company appointed Buis & Company as agents to locate potential acquisition targets for the Company with details of commission to be paid in the event of them being successful.
- (m) An undated subscription agreement between D. Brown, P. Brown (1), W. Rindlaub (2) and the Company (3), in connection with the organisation and capitalisation of Ringdale Inc. Under the subscription agreement, Ringdale Inc. was incorporated and the Company (subject to there being subscriptions from at least two subscribers for an aggregate capital commitment of at least \$200,000):
 - (i) granted Ringdale Inc. an exclusive licence to distribute and sell "Ringdale" products in the USA; and
 - (ii) committed to advance up to \$400,000 to Ringdale Inc. at its request.

In consideration of the provision of the advance, the Company has the right to acquire 40,000 shares in Ringdale Inc. The subscribers each acquired 10,000 shares in Ringdale Inc., and the Company was granted an option to purchase those shares not purchased by the subscribers. The subscription agreement provides for the advance to be repaid in full on or before 30 September 2002, and for interest to be payable thereon.

- (n) Key man insurance has been taken on the life of K. Bollmann for the sum of £1,000,000 for a period of 5 years commencing 1 August 1997.

14. Company Voluntary Arrangement ("CVA")

In 1992 HBM entered into a CVA. At that time HBM's bankers were owed approximately £1.1 million and agreed to write off part of their loan so that £150,000 was secured against HBM's book debts and £400,000 against HBM's freehold property at 26 Victoria Way, Burgess Hill, West Sussex.

The bank:

- took an option over HBM's freehold property at 26 Victoria Way at a fixed price of £400,000 with the right to call on HBM in a ten year period from December 1992 to transfer the property to the bank;
- received interest on the residual mortgage of £400,000 which was fixed at £40,000 a year;
- took an option over 15 per cent of the 42 per cent of H.E. Schlieker-Bollmann's shares at an option price of £1; subsequently H.E. Schlieker-Bollmann has repurchased that option; and
- received a debenture to secure the book debts in the amount of £150,000 (which was repaid as to £25,000 in December 1992 and thereafter at £25,000 a quarter); the debenture has been discharged.

Arrangements with creditors were such that:

- unsecured creditors were paid 30p in the pound;
- preferential creditors were paid in full; and
- payments to the creditors commenced shortly after the CVA commenced.

The final payment to the CVA creditors was made in June 1995, at which time the CVA was completed.

15. Intellectual Property

Set out below are details of the intellectual property rights of the Group which are of continuing importance to the Group's business:

15.1 Copyright

Much of the output of the Group is in the form of computer software. This software is covered by copyright, which arises automatically upon its creation.

15.2 Trade Marks

The Group uses a number of trade marks in the furtherance of its business, all of which are registered in class 9 (data-processing equipment) only, except for the Ringdale mark which is registered in both classes 9 and 37 (repairs, installation services). The marks are SlimScreen, Optica, NPMP, CopyMan, CopyPatrol, CopyView, CopyAdmin, CopyClient, NetTalk, HBM, PeripheralVision, ModuLan, Ringdale and ITC/MTOS. Countries in which marks have been registered include the UK, France, Benelux, Germany and Taiwan.

The Group has applied for a number of trade marks in class 9. The marks are FastJet, PeripheralView, Ringdale virus filter, Ringdale Plug-On, PeripheralVision (Benelux), ModuLan (Japan; US), Pocket printserver and MegaSwitch. Ringdale UK has filed for registration of the "Ringdale" mark in Japan. Trade mark agents have also been instructed to seek protection for the Ringdale mark in the US.

In addition, the Group has made the following European Community Trade Mark applications: NPMP, CopyMan, CopyPatrol, CopyView, CopyAdmin, CopyClient, NetTalk, HBM, PeripheralVision, ModuLan, FastJet, PeripheralView, Ringdale, MegaSwitch, ITC/MTOS and Fast Port.

JRL uses a number of unregistered trade marks. These include JRL, High-Res, Bullet, PlotPro, Easy-Copy, "Hard Copy the Easy Way", JRL DCS 2000, JRL DACS 2010, JRL 9000, OVERLAN,

Ringdale and OVERLAN COMMANDER. The Company has instructed trade mark agents to file applications in respect of the OVERLAN and OVERLAN COMMANDER marks in the UK, Europe and the US.

15.3 *Patents*

The Group has applied for a UK patent entitled "A wave guide". The invention includes means for focusing light transmitted through the wave guide and the use of the wave guide in a computer.

15.4 *Licences granted to the Group*

15.4.1 An agreement dated 7 September 1993 between (1) HBM and (2) Digital Equipment Corporation ("DEC"). HBM has licensed technology relating to DEC's LAT protocol stack (a communication model for resource sharing). The licence permits HBM to develop host software and server products and to sub-license its own products incorporating the same. The agreement is for an initial term of five years. In addition to a base licence fee, variable royalties are payable on units manufactured with more than one LAT port.

15.4.2 An agreement dated 28 February 1989 between (1) JRL and (2) A.J. Lincoln & Co. Inc. ("Lincoln"). JRL has licensed a software interpreter for the PostScript printer language for use in printer controllers. A base licence fee and royalties per controller manufactured are payable.

15.4.3 An agreement dated 27 December 1990 between (1) JRL and (2) Bitstream Inc. ("Bitstream") for the license of software fonts and fonts-scaling software. In addition to a one-off payment, royalties are due on a per font or set of fonts basis. JRL has entered into supplemental agreements with Bitstream for the licensing of further fonts.

15.4.4 Agreements between (1) HBM and (2) Novell, Inc. ("Novell") under which HBM has licensed a number of technologies which will allow the Group to manufacture and market products compatible with Novell's proprietary NetWare network technology.

HBM has licensed documents and tools ("the Tools") from Novell. The term of the agreement is two years from 10 May 1996. By a separate agreement also dated 10 May 1996, HBM has acquired a licence to reproduce and distribute products containing code derived from the Tools. Royalties are due under the licence with a minimum royalty payment depending upon the modules used. The term of the agreement is one year from 10 May 1996, automatically renewing unless either party provides 30 days or more prior written notice of its intent to terminate.

15.5 *Licences granted by Group companies to third parties*

15.5.1 An agreement dated 11 March 1997 between (1) HBM, (2) Rikei and (3) Seiko Epson Corporation ("Epson"). HBM granted a non-exclusive licence to Epson to copy and distribute utility software for Network server devices. A one-off customisation fee was payable. The term of the agreement is three years, automatically renewing for one year periods unless notice is served by either party not less than six months before any expiry date.

15.5.2 An agreement dated 1 September 1996 between (1) HBM, (2) Seiko Epson Corporation ("Epson") and (3) Rikei. HBM granted a non-exclusive licence to Epson to use, copy and sub-license software, for use exclusively with Network interface cards, to customers in the Japanese market for an annual royalty payment. The term of the agreement is one year, automatically renewing unless notice is served by Epson within three months of any expiry date.

15.5.3 An agreement dated 31 August 1994 between (1) HBM, (2) Rikei and (3) Seiko Epson Corporation ("Epson"). HBM granted a non-exclusive licence to Epson to copy and sell

utility software for network server devices. A one-off customisation fee was payable. The term of the agreement was one year, automatically renewing unless notice is served by either party not less than three months before any expiry date.

- 15.5.4 An agreement dated 27 July 1995 between (1) HBM, (2) Fujitsu Limited ("Fujitsu"), (3) Rikei and (4) Clan Systems Limited. HBM granted a non-exclusive licence to Fujitsu to use and reproduce the software. A base fee and royalties per unit sold are payable under the licence. The term of the agreement is five years, automatically renewing for three years unless notice is served by either party not less than 90 days before the end of the initial term.
- 15.5.5 An expired agreement dated 22 June 1994 between (1) HBM and (2) Pacific Semiconductor Limited ("PS"). Under this agreement HBM grants a non-exclusive licence to PS to use certain software and Firmware in the manufacture of printer controllers. Royalties are payable per controller manufactured. The agreement provides for minimum royalty payments. A base fee and royalties per controller are payable under the licence. For larger production runs, the royalty rate is to be set by agreement of the parties. The term of the agreement is three years. Although this agreement has now expired, the Company is currently in negotiations over its renewal.
- 15.5.6 An agreement dated 1 August 1994 between (1) HBM, (2) Rikei and (3) NEC Corporation. HBM agreed to develop a printer board and utility software for use with one of NEC's printers. Restrictions are placed on HBM's use of technology or products developed under the agreement. There are no term or termination provisions. The agreement is silent as to the governing law and jurisdiction. There is a form of indemnity given by HBM to NEC in respect of claims for infringements of intellectual property rights. Otherwise, there are no provisions concerning the ownership of intellectual property rights or confidentiality.
- Provisions concerning the sale of products developed under the agreement referred to immediately above are contained in a side letter dated 7 May 1997. The provisions of this letter are not entirely clear and there is no clause on governing law and jurisdiction.
- 15.5.7 Ringdale UK has recently concluded a trade mark licence agreement with each of Ringdale Inc. and Ringdale GmbH (the "Licencees"). The agreements set out the terms upon which the Licencees may use the Ringdale name and contain provisions designed to protect the Ringdale name and reputation. The agreements provide for termination at Ringdale UK's option.
- 15.6 K. Bollmann and D. Mould have previously enjoyed contractual rights to exploit inventions made and patents granted during the time of their employment with HBM. Prior to Admission, K. Bollmann and D. Mould entered into Deeds of Termination and Release whereby the agreements which granted such rights were terminated and the accrued rights were transferred to HBM.
- 15.7 Save as described in this paragraph, the Directors believe that there are no other trade marks, patents, licences or agreements relating to intellectual property which are of fundamental importance to the Group's business or profitability.
- 15.8 The Group in the past made limited use of a third party's intellectual property rights without authorisation. Action has been taken by the Group to cease such use.

16. Significant changes

Save for the potential acquisition of Nextus Inc., which is described on page 11 of Part One, the Placing and Open Offer and the matters referred to in the section of this document entitled "Current Trading" which is set out on page 17 of Part One, there has been no significant change in the financial or trading position of the Group since 31 March 1997, the date to which the unaudited consolidated interim financial statements for the Group have been prepared.

Part Five: Additional Information

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17. Principal premises

The following is a summary of the principal properties occupied by the Group:

Location	Description	Tenure	Unexpired Term	Rent per annum	Approx Size (sq ft)
26 Victoria Way Burgess Hill West Sussex RH15 9NF	Two storey industrial building	Lease for 6 years from 18 October 1995	Approximately 4 years and 3 months	£42,500	16,370
56 Victoria Road Burgess Hill West Sussex RH15 9LR	Single storey light industrial building	Lease for 6 years from 1 January 1995	Approximately 3 years and 6 months	£40,000	9,560
62 Victoria Road Burgess Hill West Sussex RH15 9LR	Single storey light industrial building	Freehold	n/a	n/a	5,400
3 Commerce Way Lancing West Sussex BN15 8TA	Single storey light industrial building	Lease for 5 years from 7 January 1997	Approximately 4 years and 6 months	£28,000	10,950
6101 W. Courtyard Drive Building No 1 Austin Texas USA	Office building. Underlet to Sigma Tel Inc. at \$7,209.76 per month	Leasehold until 28 February 1998	Approximately 7 months	\$86,517	8,162
8305 Highway 71 West Austin Texas 78735 USA	Office building	Freehold	n/a	n/a	12,000

18. General

- (a) The financial information contained in this document does not amount to full accounts within the meaning of section 240 of the Act. The auditors of the Company are BDO Stoy Hayward, Chartered Accountants and Registered Auditors of 8 Baker Street, London W1M 1DA who audited the Group's annual accounts for the period ended 30 September 1995 and the consolidated annual accounts for the year to 30 September 1996 and whose reports thereon were unqualified and whose reports did not contain a statement under section 237(2) or (3) of the Act. The previous auditors of HBM and ITC and their respective subsidiaries for the period to 30 September 1994 were PRB Martin Pollins, Chartered Accountants and Registered Auditors of 5 Bridge Road Business Park, Bridge Road, Haywards Heath, West Sussex RH16 1TX, whose report thereon was unqualified and whose report did not contain a statement under section 237(2) or (3) of the Act.
- (b) Singer & Friedlander whose registered office is at 21 New Street, Bishopsgate, London EC2M 4HR is regulated by the Securities and Futures Authority Limited. Singer & Friedlander has given and not withdrawn its written consent to the inclusion in this document of the letter from Singer & Friedlander set out in Part Two and the references to its name in the form and context in which they are included.
- (c) BDO Stoy Hayward have given and not withdrawn their written consent to the inclusion in this document of the Accountants' Reports in Parts Three and Four and the financial extractions on pages 9 and 16 in Part One and the references thereto and to their name in the form and context

in which they are respectively included. BDO Stoy Hayward have authorised the contents of Parts Three and Four and the financial extractions on pages 9 and 16 in Part One of this document for the purpose of Section 152(1)(e) of the Financial Services Act 1986.

- (d) The receiving agents for the Placing and Open Offer and the Company's registrars are Exchange Registrars Limited, 18 Park Place, Cardiff CF1 3PD.
- (e) The total costs and expenses of or incidental to the Placing and Open Offer and Admission, including underwriting commissions, are payable by the Company and are estimated to amount to approximately £0.75 million (excluding VAT).
- (f) The Issue Price represents a premium over nominal value of 148 pence per Ordinary Share.
- (g) The Ordinary Shares are currently traded on AIM.
- (h) Other than under the Placing and Open Offer no Ordinary Shares are being offered, in whole or in part, to the public.
- (i) Definitive share certificates in respect of the New Ordinary Shares are expected to be despatched on 1 September 1997. Pending despatch of definitive share certificates, transfers will be certified against the register of members.
- (j) A total of 2,138,356 New Ordinary Shares have been reserved for allocation to existing shareholders, at the Issue Price.
- (k) M. Pollins was appointed a Director on 8 September 1995. M. Pollins is a partner in the firm PRB Martin Pollins. That firm audited the accounts of the principal subsidiary, HBM, for the financial periods ended 30 September 1994.
- (l) Other than as disclosed in this document, there are no licences or contracts which the Directors view as being fundamental to the business of the Group.

19. Documents available for inspection

Copies of the following documents may be inspected at the offices of Simmons & Simmons, 21 Wilson Street, London EC2M 2TX, during usual business hours on any week day (Saturdays and public holidays excepted) for a period of fourteen days from the date of this document:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the audited consolidated accounts of the Company and its subsidiaries for the period ended 30 September 1996;
- (c) the audited accounts of H. Bollmann Manufacturers Limited, Ringdale UK Limited, N&R Circuits UK Limited and JRL Systems Inc. for each of the 2 years ended 30 September 1994 and 1995;
- (d) the material contracts referred to in paragraph 13 above and the Directors' service agreements referred to in paragraph 7 above;
- (e) the written consents referred to in paragraphs 18(b) and 18(c);
- (f) rules of the share option schemes;
- (g) the accountants' report on the Group reproduced in Part Three (and the statement of adjustments relating thereto);
- (h) the AIM Prospectus of the Company dated 10 July 1996; and

Part Five: Additional Information

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- (i) the unaudited interim results of the Group for the six month period ended 31 March 1997 reproduced in Part Four.

Dated: 5 August 1997 ✓