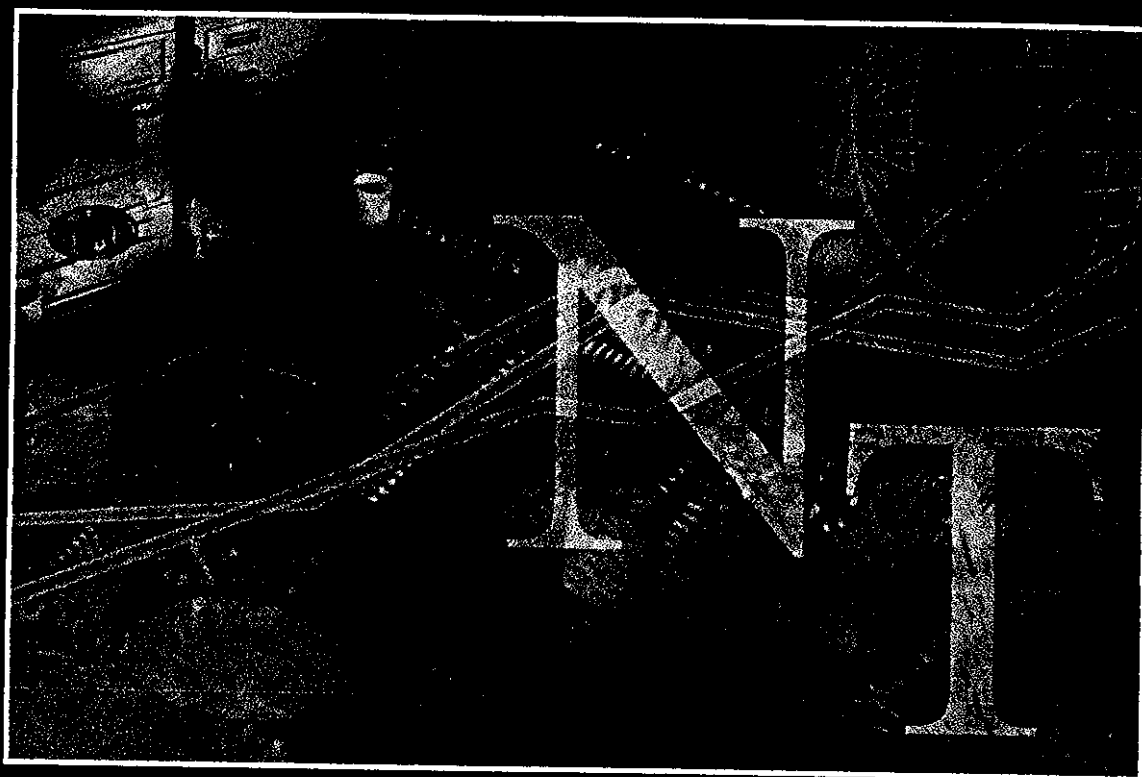


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ANNUAL REPORT



NT

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TECHNOLOGY
P L C

Registered in England

Annual Report 1999

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Chairman's Statement

This has been the most difficult trading period in our history as a public company. There are two reasons for the losses that we have incurred during the period covered by this report, namely the period from 1st October 1998 to 31st March 1999.



Firstly, the Japanese market for our printservers turned down to virtually 10% of its original size compared to the previous year, which fell far short of our own expectations, and, secondly, the level of investment made for the further development of the CD/DVD based Data Storage Server product, which following the change in accounting policy last year is now fully written off in the year in which it is incurred. As a direct result we had to issue several profit warnings during this time.

The final figures show that we incurred unaudited losses to the tune of £2.5 million after tax in the half year September 1998 to March 1999. In order to allow us to account for tax due and tax losses in the period we have changed our financial year-end to March. The loss per share was 6.9 pence.

The Group is in the process of restructuring its finances. As a result, National Westminster Bank will no longer be a lender to the Group and the existing facilities will be replaced by an asset lending financier secured on debtors and the property in Burgess Hill.

The Board has decided to place two of the Group's main companies Ringdale UK Limited and H. Bollmann Manufacturers Limited into Administration, which it believes to be in the best interest of the Group's shareholders, during the restructuring process.

The assets of the Group are ringfenced and as a result the Group will be in a better position to work with the Administrator to ensure that the Group remains well placed to exploit the market opportunities presented by the technologies that it has within its portfolio of products.

Two smaller subsidiaries N & R Circuits UK Limited and Bits Per Second will also go into Administration. Although both companies were engaged in providing Group companies with services or products, they had both been making significant losses. The current management has worked closely with the Administrator to establish a plan which will return the Group to profitability, and to this end 50 employees were made redundant recently leaving more appropriate staffing levels in line with the current turnover of the business.

The management is confident that this action will allow the Group to bring its new products to market and turn the situation around.

In May this year I have taken over as Executive Chairman and requested Hanne Bollmann to take responsibility for the finances. We have since restructured the Board as well as all other aspects of the operations in the various companies to adjust the cost of sales to the level of sales that can be achieved at this time.

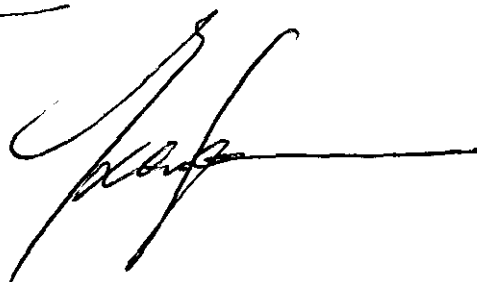
Chairman's Statement

The strategy to bring the Data Storage Server to market will continue and I expect the benefits of this to show in the first half of the year 2000. Delays in companies purchasing patterns due to the year 2000 fears especially in the banking and insurance sector was initially not factored into our forecasts which led us to believe that an upturn could be achieved in the second half of 1999. We have now brought the Storage Server technology to a mass-manufacturing state and will be ready to fill the demand as soon as it materializes.

We further believe that we understand our markets very well and have a significant technology with our Storage Server product and the Software that we created for the Storage Server to provide turn key solutions to a wide variety of applications. We are therefore well placed to take a part of the near-line storage and HSM (Hierarchical Storage Management) systems market.



Klaus Bollmann
Chairman
11th October 1999



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Financial Review

Having taken over responsibility of this role from 5th May 1999 onwards, I can report the following achievements.

1. Bringing staff levels in line with the current business by September 1999, following all procedures to avoid the unnecessary costs that could result from unfair treatment of personnel leaving the company.
2. Reduction of overheads from £1.199m in March 1999 to £659,000 in July 1999 and further reductions by the end of September. Restructuring the US business including the assimilation of HBM Inc in Pennsylvania into our Austin operations, a saving of \$200k per year.
3. MRP system has been moved from a Misys based system to a true web-based system (also being carried out by Nextus in USA). Developed by one of our group companies, PrestCity, the new system gives the group much higher effective control over its finances as well as significantly reducing the maintenance cost for such software as it is now all supported centrally. The rest of the group companies will move to the web-based accounts system over the next 6 months replacing SAGE in the UK and KK software in Germany.



Change of financial year end

Due to significant losses in the half-year to March 1999 the directors found it prudent to change the accounting period.

Performance

The turnover for the group reduced from 10.4 million for the same period of six months last year to £4.9 million. This was mainly due to the reduction of our Japanese business, today only 10% of its original size.

Earnings per share and dividends

As a result of the poor performance of our main market the loss per share was 6.9 pence - the directors recommend not to pay any dividend until a positive trading position has been reached.

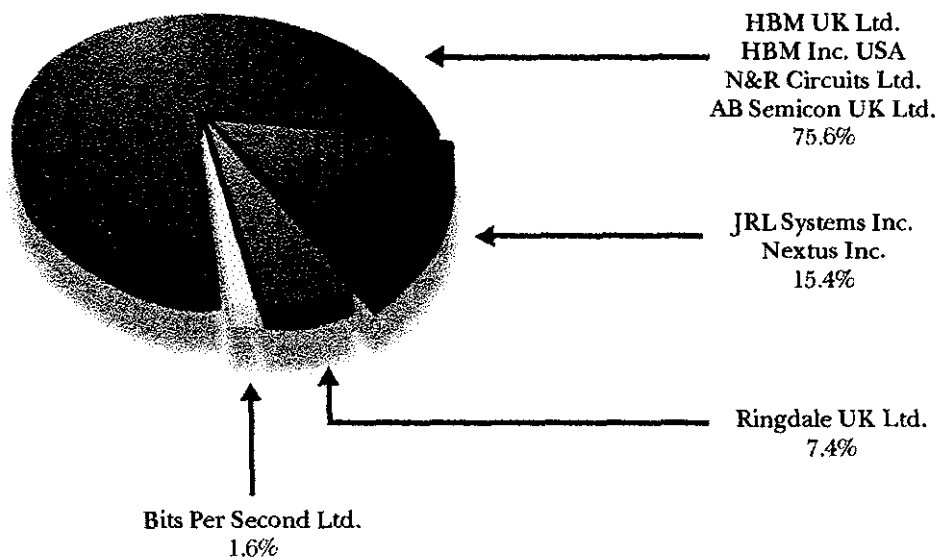
Cash flow

The cash out flow was £2.5 million incurred mainly on the development of the Storage Server product as well as restructuring costs. The Group needs to re-structure its facilities and is in the process of doing so, with the company's debtor and asset structure the directors believe this can be achieved, but have felt it prudent to achieve protection from creditors in our main UK subsidiaries by applying for an Administration Order.

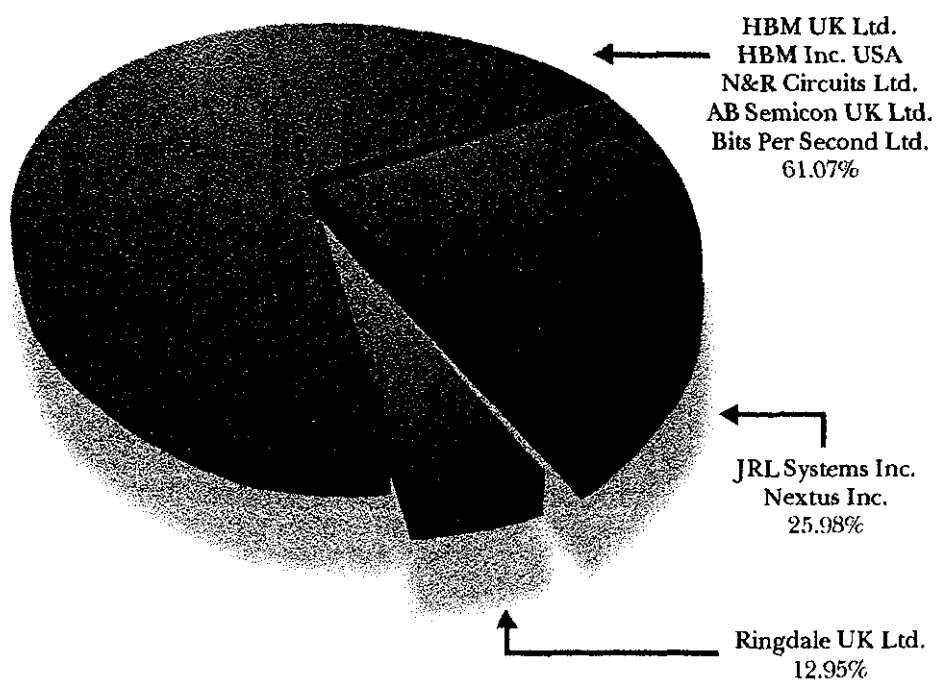
Hannelore E. Schlieker-Bollmann
Commercial Director
11th October 1999

Contributions to Group Turnover

Contribution to Group turnover in 1998



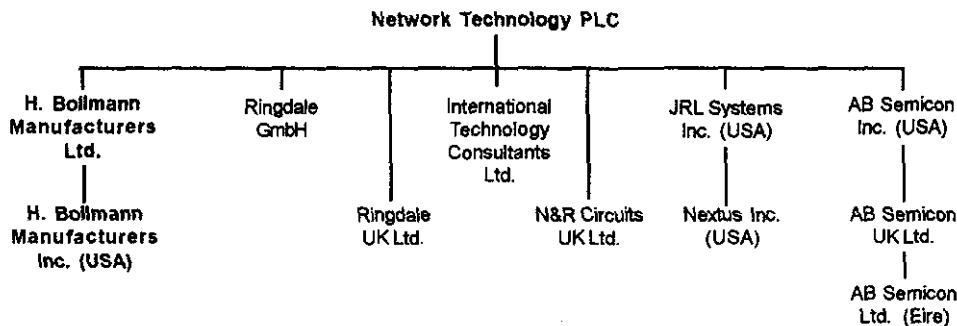
Contribution to Group turnover in 1999



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H. Bollmann Manufacturers Profile



H. Bollmann Manufacturers Ltd (HBM) has been trading since 1985 and is the largest company within the NT Group. The company's headquarters is based in Burgess Hill, UK with a sales and support office in the USA.

HBM designs and manufactures an extensive range of network connectivity products including internal and external Printservers, Hubs, Routers and Switches. HBM's diverse product range is constantly growing due to the ongoing investment into product development by the company's experienced Research and Development department. The company is proud to be able to provide competitive cost of ownership and high performance products to customers through carrying out all research and development, marketing, engineering and rigorous testing in-house. This enables the company to differentiate itself from other competitors in the market place.

The company originally established itself in the computer networking market for Printserver design and manufacture. Products are marketed both under the HBM brand and for leading Original Equipment Manufacturers (OEM's). Through successful relations with OEM's HBM supply products which span the world.

All products are built to exacting standards and HBM liaise closely with customers to find ways of evolving and improving upon the quality of its products and services.

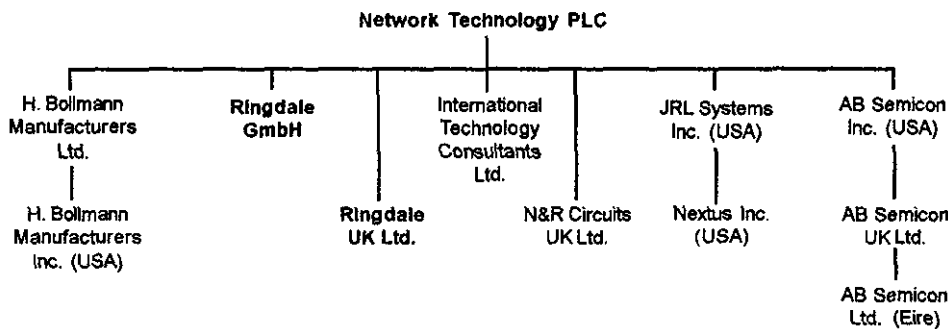
This years achievements are marked by a number of advanced technologies developed and brought to market via OEM customers and the Group's Ringdale brand:-

- The ability to receive e-mail on a printer using POP-3 protocol
- The ability to receive Internet fax on a printer
- Optica Storage Servers (three different models)
- DocuMan™ Document Management Software
- Fibre Switching Hub
- PrintPro® 99 external Printserver

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Ringdale UK Ltd Profile

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Ringdale has had an extremely positive year, marked by new product releases, a successful Networks Telecom '99 exhibition and the development of a number of new strategic partnership alliances.

During September 1998 sales commenced through UK distribution channels. Distributor alliances have been formed with Oki Systems (Ireland), Midwich Thame, Akhter Computers and GCS. At the beginning of 1999 Ringdale entered the French market with SQP, Distrimedia and Kyocera France. Other new markets include South Africa (Mabritech Distribution) and Greece (Pouliadis).

Ringdale's participation at this year's Networks Telecom exhibition at the NEC in Birmingham reflected the company's leading position within the network connectivity, data storage and plotter markets. Five High-End Optica Storage Servers were a key feature of Ringdale's display, each unit demonstrating Apollo Backup, Archiving and HSM software. The Compact model was used to demonstrate other applications including CD publishing and volume scanning of paper documents for archiving. Over one thousand sales leads were generated on the stand which are proving to be very fruitful for the company.

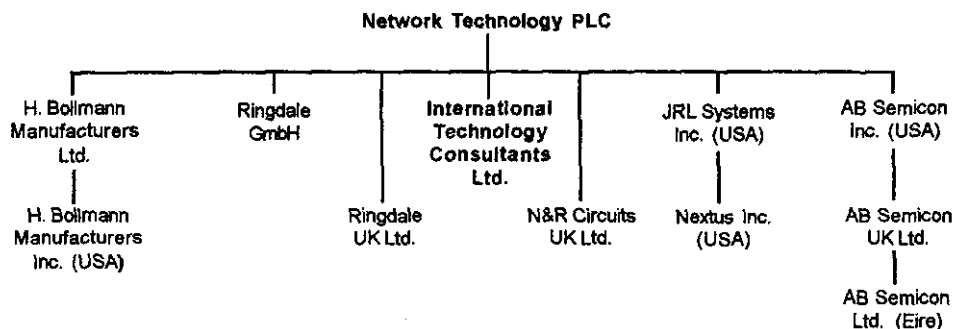
Strategic partnership alliances have been developed with RAM Peripherals, Technica, Tech Direct, Zylab and Imation UK Ltd, who are committed to selling Ringdale's Optica Storage Server products. Testimony to this is the Installation and Maintenance Agreement which Imation UK Ltd has signed for Ringdale Plotters and Storage Servers.

Another major achievement for the year was that of Kyocera Electronics Inc selecting Ringdale's internal Printservers for their Ecosys laser printers. This landmark agreement forms the basis of a strategic partnership that allows Kyocera to draw on Ringdale's in-depth experience of connecting printers to virtually any type of network.

Experienced management personnel have been recruited into key positions within sales, marketing, technical support and finance to assist in achieving the goals of Ringdale's revenue growth plan. As a result, Ringdale was able to release a series of new hardware and software products in 1998/1999:

- PrintPro® FLe (external Printserver that's able to receive Internet fax and normal Text e-mails securely via a fibre network)
- PrintPro® 99
- PrintPro® 10/100
- Megaswitch® FL (Fibre Switching Hub)
- IP Router x 4
- ModuLAN® Analogue Router
- SP32 Serial to Parallel Converter
- NetPhone (10baseT or 100baseTX Internet phone)
- DocuMan™ Document Management System

ITC Profile



International Technology Consultants Ltd (ITC) ensure that all products manufactured by any company within the Group comply fully with the European EMC (Electro Magnetic Compatibility) Directive. Although a large initial investment was required to set up this kind of high technology test facility, the cost was quickly recouped by testing the Group's own products, whilst also acting as a test house for other paying companies with similar requirements.

Utilising ITC's extensive test facilities enables the Group to achieve self-certification on all its products and has proved to be a valuable asset for research and development during the early stages of design. Owning leading edge equipment of this caliber has reduced the cost of redesign and re-testing, as well as cutting the "time to market" for company products by up to four months.

Products are tested to a wide range of international standards e.g. German and Japanese VCCI including the product specific IT standards BSEN55022 and BSEN 55024. Compliance with these standards and others has enabled the Group and HBM's client companies to confidently make a declaration of conformity for their products.

The adoption of new testing standards replacing the previous generic standards (due to be withdrawn next year) will give all future products a longer CE compliance life span.

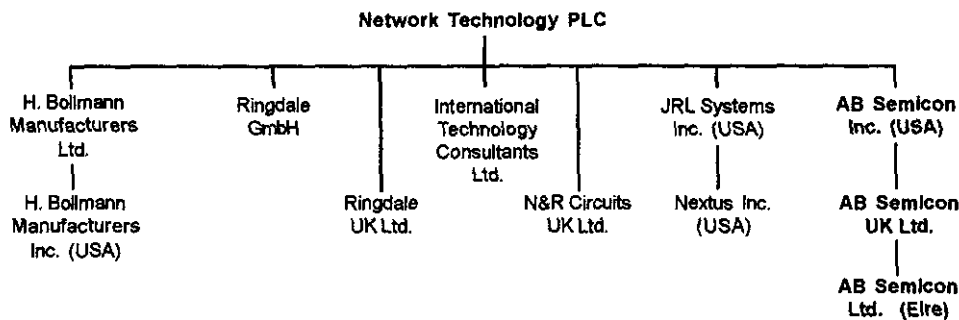
Key achievements for ITC's test facilities during 1999:-

1. The successful commissioning of the fully lined anechoic chamber configured for 3m emission testing with performance comparable to ANSI 63.4 (OATS) and immunity testing in accordance with BSEN 61000-4-3.
2. The design, manufacture and installation of a purpose built turnable and monitoring system for use with the anechoic chamber.
3. So far this year 40 new products have been investigated and tested to meet compliance standards.

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Network Technology PLC

AB Semicon Profile



The **AB-Semicon** companies design semiconductor devices, which are also known as Integrated Circuits or Chips. The design tools are used by qualified and experienced Design Engineers and have lead to a number of leading edge designs currently in production, as well as providing the Group with dedicated devices to meet a particular market's needs better and to be more cost effective than off the shelf chip technology.

Currently AB-Semicon owns technology to manufacture Microcontrollers, Microprocessors, PCI to Local Bus bridge chips, Network and Memory chips. In particular, the AB181E-20 and AB180-20 are currently the fastest Z80 compatible 8-bit microprocessors on the market.

Microcontroller

AB1801-20 OCA microcontroller with embedded RAM
(available Q1 2000)

Microprocessor

(New) AB181E-20 8-bit Enhanced OCA Microprocessor
AB180-20 8-bit OCA* Microprocessor

Bus to Local Bus

AB2061-33 PCI to Local Bus Interface

Network and Communications

AB10100MAC 10/100baseTX MAC Layer
AB10100PHY 10/100baseTX Physical Layer
AB1205-5 100baseTX and ATM 4 Port Repeater

Memory

AB9961-2 Dual Ported RAM
AB9941 Dual Ported RAM

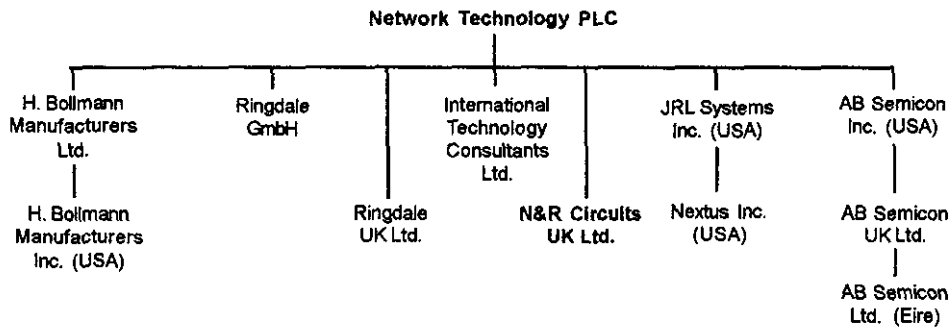
AB Semicon is actively establishing a growing network of distributors for our products around the world. Strong partnerships have already been formed with companies in the UK, Europe, Asia, Australia and Africa and negotiations are underway with companies in North America and Japan.

Interest for AB-Semicon products comes from the Automotive, Mobile Phone, Robotics and Automation industries where our devices are particularly well suited. The architecture of AB-Semicon devices allows lower cost and power consumption implementations without performance loss, compared to alternative products based on higher end devices.

*OCA stands for Once Cycle Architecture. Most Microprocessor devices need multiple clock cycles to fetch an instruction and carry it out, AB-Semicon OCA technology fetches the instruction within one clock cycle and at the end of the cycle the instruction is carried out.

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N & R Circuits Profile



N & R Circuits Ltd specialise in the manufacture of printed circuit boards. Formed in 1975, the company was acquired by the NT Group of companies in 1995. N & R has quickly grown to incorporate a wide range of services – from prototype to production manufacturing, data formulation to high quality production and processes.

N & R Circuits have invested in high technology processes to further improve methods of production and fault detection. A brand new palladium electroless line has been installed to further enhance the quality of through hole and multi layer boards as well as increasing the factory's capacity. Nickel instead of tin plating/stripping and solder levelling has improved the company's ability to carry out super fine line and take out processes no longer necessary for commercial grade PCBs.

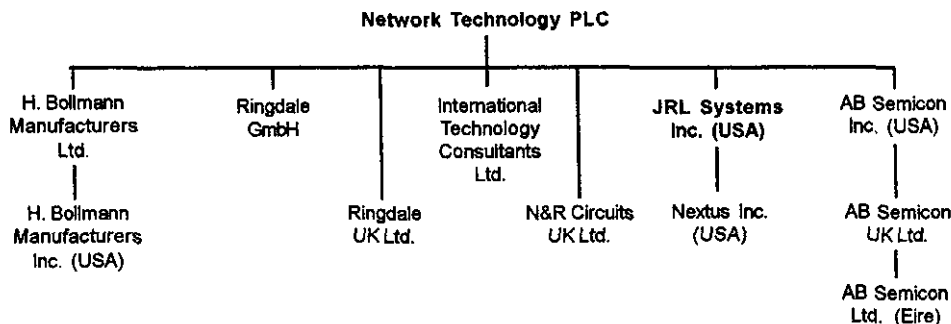
Three high specification drilling machines are currently utilised, collectively holding ten spindles. This allows N & R personnel to process a large amount of complex boards each day. The drill information is downloaded electronically from customer supplied information through a Local Area Network. Latest bareboard test equipment allows testing of double-sided boards up to a testing area of 12 x 12 inches at high speed. The test jigs are made in-house using sophisticated software programs which can derive drilling patterns for the test jig from customer supplied information.

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1995/1996

JRL Systems Profile



JRL Systems have combined controller hardware technology with Ethernet and Fast Ethernet in order to satisfy the OEM's demand for enhanced Controller boards. JRL's Touch Operator Panel has been incorporated as part of all wide-format Plotters sold and is creating a great deal of interest within the market place.

Wide-format Plotters, Data Storage Systems and network products have been sold into the US Dealer and VAR channels. JRL's distribution channel has been re-grouped and expanded for Plotter sales from distributors and dealers, to a dealer-only channel (as a result ten new dealers have been recruited and trained).

The Data Storage System has been successfully launched in the US and already several VAR's have signed up to market and distribute the product.

The Cobra Controller, a customer version of the JRL Bullet Controller, was sold to a major OEM customer. The Cobra has performed well and will provide a large revenue stream for JRL.

The AutoCAD 2000 HDI driver was completed and marketed in the US. This is a strategic application solution for wide-format Plotters in the Engineering market.

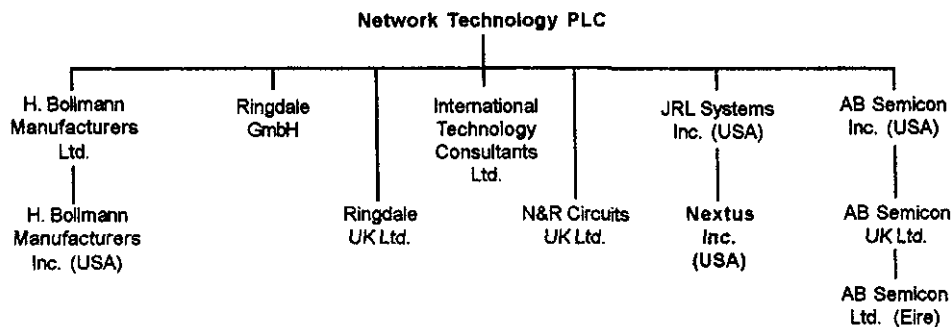
Recently developed products

JRL's **Magnum Controller** is progressing well and is in the final testing phase. Manufacturing and delivery of the Magnum will begin in the second quarter of 2000. The Magnum will provide a major competitive advantage for Plotter sales in the dealer channel. The OEM interest in the Magnum is very high with several significant orders expected.

PlotPro®Plus is an expanded version of JRL's established plot management software. PlotPro®Plus enhances the monitoring and allocation of job cost control for scanning and plotting. Workloads can be managed for scan-to-print and other print room operations including generation of job ticketing.

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Nextus Profile



Founded in 1987 by Mr and Mrs Skinner, **Nextus Inc** not only manufacture and test printed circuit boards but also build cabling harnesses for parent company JRL Systems Inc and an increasing number of US customers.

In 1996 Dave Sanders and fellow Directors bought all of the shares from the Skinners in a management buy-out. Then a year later in 1997 JRL Systems Inc acquired Nextus and Dave Sanders became a shareholder in Network Technology PLC and a Director of JRL Systems Inc.

Nextus Inc have played a pivotal role in the manufacture and logistics of all Group products in the North and South American markets. As well as increasing sales by 300%, the following achievements have been made this year:-

- Increased bookings by 300%
- Installed a new MRP system
- Streamlined the Purchasing and Materials departments
- Upgraded assembly area with leading edge machinery and equipment
- Occupied an additional 3200 square feet of manufacturing space

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New Product Summary

DocuMan™ Document Management System

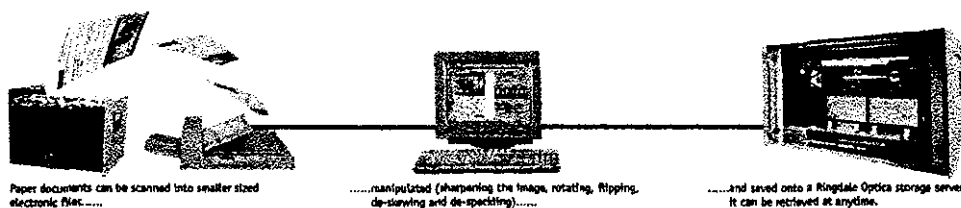
DocuMan™ provides an effective and practical solution for storing large amounts of data that need to be accessed quickly and simply. Avoid archiving bulky hard copy by using a scanner to turn the information into small sized electronic files, or transform existing electronic files, which can then be categorized and indexed into a database within DocuMan™.

Through a browser based viewer, DocuMan™ can be accessed by all the PCs on the network, giving the system widespread availability across an Intranet or the Internet as required, at minimum cost.

Using the scanner on your network, pictures, graphics and text of all kinds can be scanned in and imported into DocuMan™ as an easily managed file that can be stored using the system's comprehensive indexing system. Import existing files into DocuMan™ and index them in the same way.

Once your documents are within DocuMan™, comprehensive tools enable manipulation of the image to suit your requirements. There are facilities for sharpening the image, rotating, flipping, de-skewing and de-speckling. Adjustments can be made to the contrast, brightness and magnification etc.

Retrieval of the documents once they have been indexed is easy, the documents are suitable for moving electronically over a network or the Internet - they can be saved onto local hard drives or to FTP sites and can be e-mailed. Print the documents out to post, fax, use or write onto CD-ROM as required.



DocuMan™'s database can be stored on a network server or makes an ideal application for most data management devices such as the Optica Storage Server, enabling very high volumes of data to be stored and rapidly accessed, making large archiving facilities and their associated costs a thing of the past. The DocuMan™ Storage and Retrieval System offers a cost effective and efficient answer to document storage needs.

Key Features

- High volumes of documents can be easily managed
- Uses TWAIN to support scanners
- Can be used in association with an Automatic Document Feeder for fast, unattended operation

New Product Summary

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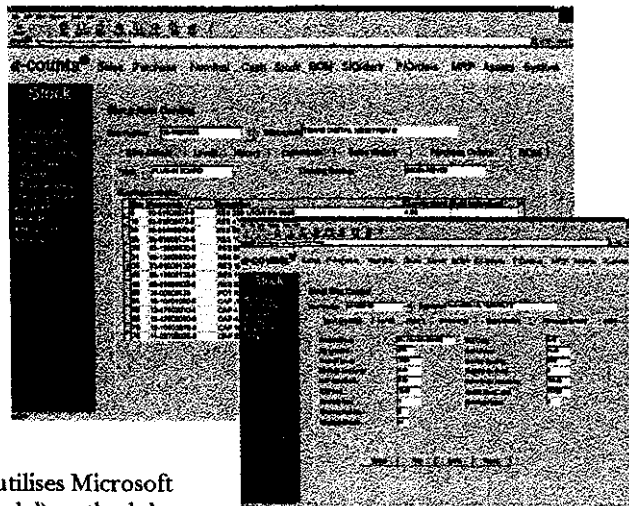
www.networktechnology.co.uk

- Can import 25 file formats including TIF, BMP, JPEG, GIF, most newspaper clipping and faxserver formats
- Uses templates for standard settings
- Image manipulation capability
- Web browser accessibility

e-Counts®

Network Technology's new e-Counts® system is an enabling technology that allows businesses to compete confidently in the new age of electronic commerce. e-Counts® is a truly open, browser-based, integrated business information and accounts system that is e-commerce, Internet and Intranet ready.

Developed by PrestCity™, a subsidiary of manufacturing and technology group Network Technology PLC, e-Counts® has been designed to meet the growing demand for a universal business information system that can be used via any browser-enabled computer anywhere in the world. Significantly, e-Counts® offers much more by also providing an efficient and flexible platform upon which enterprises can build an open, robust and secure, browser-based business information system.



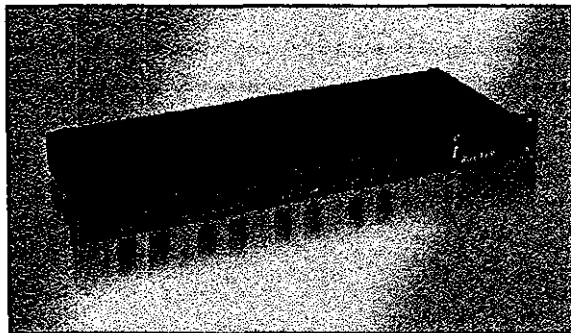
The strength of e-Counts® lies in an open-system infrastructure that is extremely flexible and highly scalable. The system utilises Microsoft COM (Component Object Model) methodology. This means that the individual business "building blocks" within e-Counts® are large enough and more importantly, independent enough to allow changes to the structure of a business process quickly and dynamically. The system's inherent scalability means that it can be used by a single user or by many thousands if required. The system interface uses a standard Windows browser to provide a consistent "look and feel" which ensures minimum user training.

e-Counts® will set the trend in what will be a new breed of business information systems that condemns the days of expensive training, disruptive implementations and long term commitments to inflexible computer systems to the past.

New Product Summary

IP Router x4

Ringdale's slim line 19-inch rack mountable device offers users four independent and manageable IP Routers within one unit. To avoid unnecessary cabling and installation difficulties



this space saving device comes complete with a built in power supply. The 19-inch IP Router enables greater control and smoother operation of a network. Once installed, the IP Router will not stop TCP/IP from running, if the file server should crash.

IP packets can be sent from one network/subnet to another on a Local or Wide Area Network - even across the Internet if required. The IP Router is configured using

PeripheralVision[®], Ringdale's network management software tool, to create a routing table that directs received IP packets straight to the required IP address, giving greater control over the operation of the network and aiding the rapid transmission of data.

Internet installation would require a suitable Internet connection. A combination of Ringdale ISDN Routers and Ringdale Hubs will provide Internet connection.

Megaswitch[®]FL

The Ringdale FL Switch is a Switching Hub with 8 x 10baseFL ports and 3 x 10/100 ports (the third 10/100 port enables connection to further Hubs). The Hub uses an automatic self-learning method to enhance switching performance. As each workstation is connected, the node address is remembered and a tailored MAC address table built.

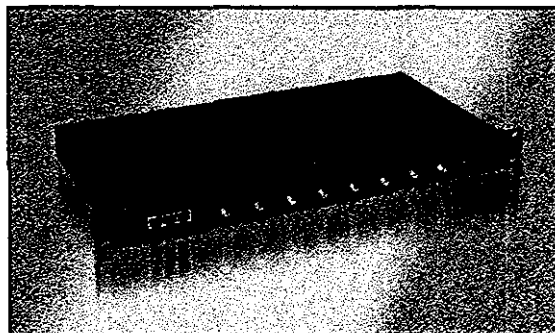
The Fibre Switch is able to route data packets directly from port-to-port with high security, helping to prevent network congestion.

Ringdale FL Switch module enables the user to enhance their existing fibre networks and connect local workgroups to a Ethernet or Fast Ethernet backbone.

The Fibre Repeater Hub has been specifically designed to save space in a 19-inch rack and its low power consumption reduces cooling requirements.

Installation is simple with no software to load or configure, unless advanced features need to be changed.

Ringdale Hubs support NPMP[™] network management standards. The Ringdale range offers the best



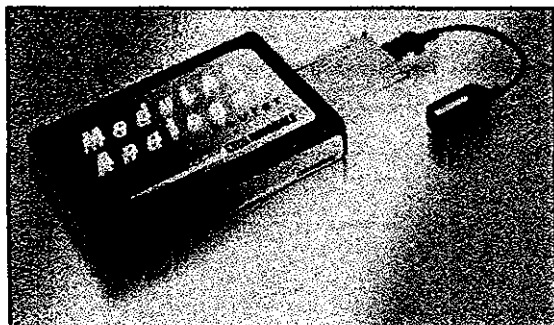
performance on the market for improved Ethernet connectivity, setting new standards in high speed switching and utilising AB-Semicon's NETSwitch technology.

New Product Summary

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ModuLAN® Analogue Router

Ringdale's ModuLAN® Analogue Router inexpensively connects users on a 10/100base Local Area Network to an Internet service provider. Targeted at the SOHO market, the device



satisfies needs of small and medium sized companies. The ModuLAN® Analogue Router provides high-speed Internet connection without the cost of adding an ISDN line.

The ModuLAN® Analogue Router is well suited for the large family network. The unit is suitable for a home with multiple PC's for access to the Internet. The stand-alone unit connects to an existing network via its own RJ-45 connector and is

remotely configured and managed using the ModuLAN® Commander software tool that can be installed on any Windows 95/98/NT 4.0 or higher PC on the network.

As standard, the product is shipped with a PCMCIA 56K modem for WAN or Internet connection. This provides maximum flexibility for the user, where connection to information can be made from any location, anywhere in the world.

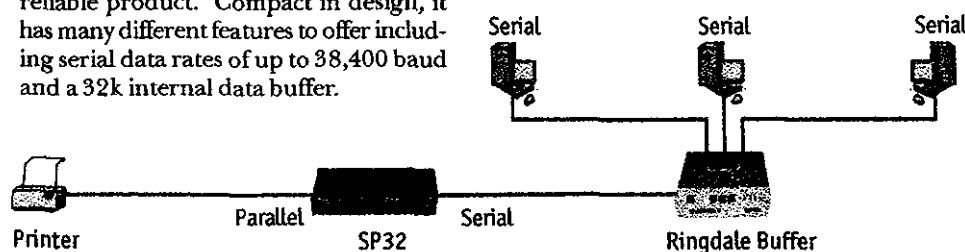
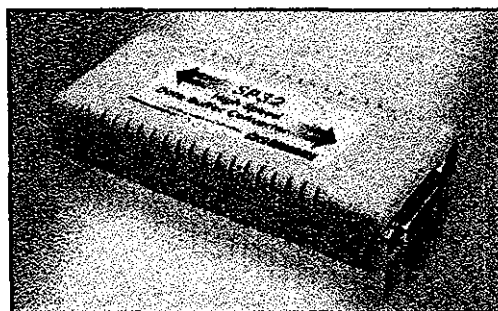
The single IP address translation feature allows the LAN to connect to the Internet using a single, dynamically or statically allocated IP address.

SP32 Serial-Parallel Converter

Ringdale's SP32 is a bi-directional Serial/Parallel Converter that provides simple connectivity through high speed interface conversion (serial to parallel or parallel to serial).

Ideal in applications requiring extended cabling, the Converter also eliminates the need to purchase additional printers if a users system or PC application changes.

The SP32 Converter is a hard wearing and reliable product. Compact in design, it has many different features to offer including serial data rates of up to 38,400 baud and a 32k internal data buffer.



New Product Summary

NetTalk

Ringdale's NetTalk™ transmits digitally encoded voice patterns over an IP network using VOIP (Voice Over Internet Protocol). The device connects with any Ethernet 10/100baseT LAN. Instead of dialling a phone number, the user simply dials an IP number.

The NetTalk™ is a compact, stand-alone unit, which comes complete with its own universal power supply. It has four sockets in total, two RJ-11 phone sockets, a mains socket and a RJ-45 network socket. For ease of use there are also three LEDs which show network status at a glance.

NetTalk™ adds the functionality of allowing a call to be made or received via the LAN and over the Internet. The telephone is connected to the socket marked 'phone', and in the socket marked 'PABX' (BT external line) the telecommunications network is attached.

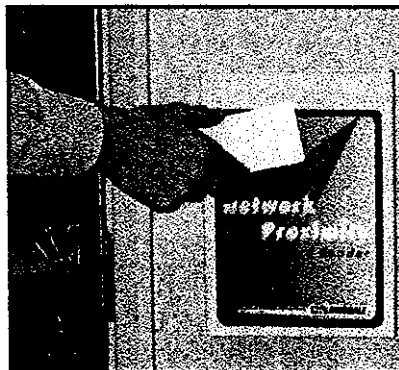


The user can select whether to use the telecommunications network or not, by simply configuring the unit at power-up. The 10baseT or 100baseTX network cable is connected to the RJ-45 socket. The user can easily choose between the telecommunications network and the voice over IP by simply selecting pre-defined numbers on the handset.

Network Proximity Card Reader

Ideal for security and time keeping applications where access to certain areas need to be tightly controlled and monitored. Ringdale's Proximity Card Reader and Access Control box is an Ethernet device suitable for Local Area Networks (LANs). With a fast communication speed there are no limits to the number of nodes that can be connected to the system.

Every employee is issued with an inexpensive card. Each card has a built-in unique code, and so identifies each employee. To clock in or out, or to gain access to secure areas, the employee waves the card in front of an unobtrusive reader unit, which will then log the event and/or open a door lock if the card has been granted access at that time. All events from every card reader are gathered by a central standard PC workstation, which may be situated anywhere on the LAN. If the LAN has access to the Internet, the workstation may be situated anywhere in the World.



More than 10,000 users can be programmed with individual access patterns into any unit. A software application is supplied with the system, setting up the cards and readers as well as polling the readers and retrieving the access information into a user-friendly database. From the database users can break the information down into various analysis options allowing graphs and lists of access information to be produced by hour, day, month, year, group, user and reader. Each unit stores its own database of cards and access times in Flash memory. This is in contrast to systems that rely on a battery to keep data intact during a power outage, where it is often discovered that failed batteries have allowed the database to be destroyed during a mains disruption.



*Network Technology PLC
and subsidiaries*

*Financial Statements for the 6 months
to 31st March 1999*



The Board

Klaus Bollmann

(Executive Chairman), aged 43, co-founded H. Bollmann Manufacturers Limited in 1985. Previously, Mr Bollmann worked for OEM PLC in London where he designed hardware and software as well as being instrumental in the marketing and globalisation of OEM's products which were based on his technology. Mr Bollmann restructured the HBM business in 1992, led an MBO in 1995, the AIM flotation of the company in 1996 and finally the admission to the official list in August 1997. Mr Bollmann has been responsible for the Group's vertical integration, product and acquisition strategies.

Hannelore E Schlieker-Bollmann

(Commercial Director and Acting Finance Director), aged 40, co-founded H. Bollmann Manufacturers Limited in 1985.

David F Mould Cert Ed

(Technical Director), aged 44, joined the Group as Design Engineer in 1987 and joined the Board as Technical Director in November 1989.

Frederick Klingensmith

(Non-Executive Director), aged 54, joined the Group in January 1997 following the acquisition of JRL Systems Inc. Mr Klingensmith is a member of the Group's remuneration committee and became Chairman of that committee and of the Audit committee on 7 September 1999.

Directors' Report



The Directors present their report together with the audited financial statements for the 6 months ended 31st March 1999.

Principal activity and business review

The Group's main strategy is to be at the forefront of computer network and Internet technology. The Group's business focuses on the design, manufacture and marketing of hardware and software used in connecting all 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.

Results and dividends

The financial results for the period appear on page 36. A final dividend of 0.55p per share in respect of the previous year was paid in March 1999. No dividend is proposed for the six months to 31st March 1999.

Review of business and future developments

A review of the year's operations is given in the Chairman's and the Chief Executive Officer's Statements and in the Financial Review.

There have been no events since the balance sheet date which materially affect the position of the Group.

Directors and their interests

The Directors who held office during the period were as follows:

K. Bollmann		Executive Chairman (from 1/4/99)
R. Ehlers	Resigned 9th September 1999	Chief Executive Officer (from 1/4/99)
H. Schlieker-Bollmann		Commercial Director
D. Mould		Technical Director
F. Klingensmith		Non-Executive Director
M. Pollins	Resigned 7th September 1999	Non-Executive Director
G. Woodhead	Resigned 1st April 1999	Non-Executive Chairman
N. Soames	Resigned 1st May 1999	Non-Executive Director
P. Cottrell	Resigned 4th April 1999	Finance Director

The interests of the Directors in shares in the company, are disclosed in the Report of the Board on Remuneration on page 32.

Other than set out in note 27, none of the directors has or had any interest, direct or indirect in any transactions effected by any company in the Group which are, or were unusual in their nature or conditions, or significant to the business of the Group, which was effected by the Company or the Group during the current financial period or any preceding financial year, and remains outstanding or unperformed in any respect.



Directors' Report

Substantial shareholdings

As at 23rd September 1999, the Company has been notified that in addition to H. Schlieker-Bollmann, the following have a beneficial interest in the Company's shares amounting to 3 per cent or more of the issued share capital:

	Number of Ordinary Shares	Percentage
3i Group Plc	4,805,000	13.28%
Drew Nominees Ltd.	1,106,000	3.06%

Research and development

As explained in the last Financial Statements, the Group employs a number of product development staff and continues to be at the forefront of product development in its core business. At the previous year end, the accounting policy for research and development was changed. The cost of all research and development is written off as incurred.

Creditors payment policy

The Group policy for the period under review and the year ended 30th September 1998 for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms and to abide by the agreed terms of payment. The creditor payment days outstanding for the Company at 31st March 1999 was 125 days (59 days at 30th September 1998).

Directors' and Officers' liability insurance

The Group maintains Directors' and Officers' liability cover for the Directors.

Disabled persons and minorities

The Group's policy is to offer equal opportunities to disabled persons and minorities who apply for employment. In addition, employees who become disabled are given every opportunity and assistance to continue their employment or be trained for other suitable positions within the Group.

Charitable and political contributions

The Group made no charitable or political contributions during the period.

Year 2000

The year 2000 date change may cause difficulties with many computer and electronic systems. To assess the impact of this on the Group's products, management information and operating systems, a review has been carried out which indicates that the change over to the new millennium will not cause any major disruption or involve the Group in any significant cost.

Treasury Policy

The Board agrees and reviews policies and financial instruments for risk management. The Group does not trade in financial instruments. There is no formal policy for matching foreign currency cash flows or matching exposure to foreign currency net assets, although the situation is monitored carefully. In planning the maturity of debt, the Group's policy is to ensure a balance between continuity of funding and flexibility. The current funding position is explained more fully in note 29 to these financial statements.

Auditors

BDO Stoy Hayward, who were appointed as auditors on 1 April 1999 in succession to KPMG Audit Plc, have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the forthcoming Extraordinary General Meeting.



Report of the Board on Remuneration

The Remuneration Committee

During the 6 months to 31st March 1999, the remuneration committee consisted wholly of Non-Executive Directors. The Chairmanship passed to Martin Pollins from Nicholas Soames on 4th May 1999. The other members were Graham Woodhead (until 1st April 1999) and Frederick Klingensmith who was appointed chairman on 7th September 1999 following the resignation of Martin Pollins.

The remuneration committee is responsible for reviewing and determining the remuneration of Executive Directors, and *within that overall remit, for establishing the individual arrangements appropriate to them.* Its main role is to ensure that the executive remuneration arrangements within the Group are in line with best practice.

The committee met when required and consulted with the Chief Executive when necessary. In addition, the committee having sought external advice and obtained data on reward schemes for Executive Directors in other companies in the previous year, relied on that information.

Executive Directors' salaries

In carrying out its annual review of salaries, the committee has the benefit of internal and external advice, as well as having access to the policies and data of other comparable companies. The review comprises not only an assessment of personal performance, but also the performance of the business area for which a Director is responsible. Further, the breadth of responsibility that Directors carry and the overall performance of the Group are relevant factors. These differing strands of review can carry unequal weighting, depending upon circumstance.

Executive Directors' benefits

The use of a car is the principal benefit provided for Executive Directors.

Executive Directors' long term incentives

As reported last year, unusually no long-term incentive plan exists for the benefit of the Executive Directors (or key Senior Executives) to provide a meaningful reward for achieving above average growth in shareholder value. As previously reported, it is proposed that the remuneration committee should review this matter and take further external advice and, if appropriate, to make recommendations to shareholders at a later date. It would be expected that if such a scheme were implemented, participants in it would become ineligible for the grant of further options under any other Company Share Option Plan.

Executive Directors' annual bonuses

Due to the economic circumstances affecting the group's trading in this period and the previous year, no bonus is payable.

For the current year ending 31st March 2000, the committee intends to review the appropriateness of the previous scheme and to either revise or replace it with a new scheme that has realistic, yet challenging targets.

Report of the Board on Remuneration



Share Option Plan

The Company operates a Share Option Plan and invitations are made to Group Executives and Managers based on recommendations from the Chief Executive (who does not participate in the scheme) to the remuneration committee.

Executive Directors based in the UK are also eligible to participate in the Company's Savings-Related Share Option Scheme. Under this scheme, options are granted, at a discount of 20% to the market price at the date of invitation, to participants who have contracted to save up to £250 per month over a period of three or five years.

Contracts

All Executive Directors have written service contracts of between one and two years' duration containing provision for termination on giving twelve month's notice.

Non-Executive Directors

Non-Executive Directors do not enter into service contracts, nor do they receive grants under any of the Company's share option plans. Their remuneration takes the form of fees, which are non-pensionable, at a level agreed from time to time by the Board as a whole, subject to a maximum aggregate level agreed by shareholders.

Directors' remuneration including Pension costs:

6 months ended 31st March 1999

	Salary/ Fees £'000	Bonus £'000	Benefits £'000	Pension Costs £'000	Total Costs £'000	Year to 30.9.98 £'000
Executive Directors						
K. Bollmann	54	-	8	22	84	157
H. Schlieker-Bollmann	15	-	3	20	38	70
D. Mould	21	-	-	21	42	96
P. Cottrell (to 4th April 1999)	32	-	4	-	36	70
R. Ehlers (to 9th September 1999)	33	-	3	-	36	25
Non-Executive						
G. Woodhead (to 1st April 1999)	11	-	-	-	11	28
M. Pollins (to 7th September 1999)	23	-	-	-	23	35
F. Klingensmith	9	-	-	-	9	17
N. Soames (to 1st May 1999)	9	-	-	-	9	17
Total	207	-	18	63	288	515

Pensions

Except for the premiums payable to the Director's pension schemes (the Woodgate Trust), as above, Executive Directors do not participate in any other pension arrangements sponsored by the Company. The total pension cost for the 6 months ended 31st March 1999 was £63,000 (1998 - year - £38,000). The pension cost for the highest paid employee was £22,000 (1998-year-£23,000).



Report of the Board on Remuneration

Directors' interests

The beneficial interests of Directors in the Company's securities are set out below:

Name (see notes below)	As at 31.3.99 Ordinary Shares	As at 30.9.98 Ordinary Shares
K. Bollmann and H. Schlieker-Bollmann	17,620,095	17,314,329
D. Mould	307,395	119,895
R. Ehlers (Resigned 9th September 1999)	-	-
M. Pollins (Resigned 7th September 1999)	38,773	-
F. Klingensmith	318,331	318,331
G. Woodhead (Resigned 1st April 1999)	111,095	17,500
P. Cottrell (Resigned 4th April 1999)	1,514	1,514
N. Soames (Resigned 1st May 1999)	-	-

Notes regarding holdings at 31st March 1999:

1. Of the ordinary shares in which G. Woodhead was interested, 17,500 shares were registered in the name of his wife, K. Woodhead.
2. Of the ordinary shares in which K. Bollmann and H. Schlieker-Bollmann are interested, 17,429,484 are registered in the name of H. Schlieker-Bollmann, 3,111 in the name of K. Bollmann and 187,500 in the name of Woodgate Trust, a pension scheme in which Mr and Mrs Bollmann are interested as members.
3. Of the ordinary shares in which M. Pollins is interested, 16,250 shares are held in the name of RBSTB Nominees Limited for Personal Pension Management, a pension scheme in which he is interested as a member.
4. Of the ordinary shares in which D. Mould is interested, 187,500 shares are held in the name of Woodgate Trust, a pension scheme in which he is interested as a member.
5. There has been no change in the interests of the Directors in the ordinary shares of the Company since the end of the financial period on 31st March 1999.
6. Full details of Directors' shareholdings and options are contained in the Register of Directors' Interests which is kept by the Company and is open to inspection in accordance with the provisions of the Companies Act 1985.

Directors' share options

The details of the Directors' share options at 31st March 1999 were as follows:

	30.9.98 and 31.3.99	Exercise price	Exercise period from to	
D. Mould	10,000	79p	10th Aug 2000	10th Aug 2007
	31,994	43.5p	29th Sept 2001	29th Sept 2008
P. Cottrell (all since lapsed)	10,000	126p	28th Nov 2000	28th Nov 2007
	20,000	79p	10th Aug 2001	10th Aug 2008
	2,222	43.5p	29th Sept 2001	29th Sept 2008
R. Ehlers (all since lapsed)	15,000	163.5p	29th Nov 1999	29th Nov 2006
	6,930	79p	10th Aug 2001	10th Aug 2008
R. Ehlers (S.A.Y.E.) (all since lapsed)	2,600	120p	1st Sept 2001	1st March 2002

The mid-market price of the Group's ordinary shares at 31st March 1999 was 22½ pence. The highest and lowest mid-market prices during the period were 174½ pence and 19½ pence respectively.

Frederick Klingensmith
Chairman of the Remuneration Committee
11th October 1999



The Stock Exchange requires, as a continuing obligation of listing, that the company complies with the Combined Code of Best Practice. The directors consider that, while the Code may be appropriate for larger companies, some of what it contains is not appropriate for a company of our size and nature. In particular, it is recognised that, following the resignations of certain directors, the company's compliance with the Combined Code since 31 March 1999 has reduced. The Board considers that it has not complied with the Combined Code in respect of its reporting on internal controls and is not in compliance with respect to its Non-Executive Directors. The Board is responsible for adopting and implementing a strategy for the Group that is designed to deliver increasing value to shareholders. The implementation of the strategy and the management of the Group's operations are the responsibility of the Executive Directors, led by the Executive Chairman (formerly the Group Chief Executive).

In order to effectively discharge these responsibilities the Board has reserved to itself a schedule of key matters, and in addition has delegated certain authorities to Executive Directors.

The Board also delegates particular matters to approved committees of the Board.

Audit committee

The audit committee has written terms of reference defining its duties and responsibilities. During the 6 months to 31st March 1999, the committee chaired by Martin Pollins, consisted wholly of Non-Executive Directors, the others being Graham Woodhead, Frederick Klingensmith and Nicholas Soames. The committee meets with the auditors at least once a year. Following resignations after the period end, the Chairman of this committee is Frederick Klingensmith.

Nomination committee

The nomination committee has written terms of reference defining its duties and responsibilities. During the 6 months ended 31st March 1999, the committee chaired by Graham Woodhead, consisted of the Non-Executives and the Chief Executive. The committee meets only as required. Following resignations after the period end, the committee now consists of the Executive Chairman and the Non-Executive.

Remuneration committee

The remuneration committee (chaired by Nicholas Soames), consisted wholly of Non-Executive Directors, the others being Martin Pollins, Graham Woodhead and Frederick Klingensmith. Following resignations after the period end, the committee is chaired by Frederick Klingensmith.

The committee met on several occasions during the period and consulted with the Chief Executive when necessary. In addition, the committee sought external advice and obtained data on reward schemes for Executive Directors in other companies.

Internal financial control

The Directors are responsible for the Group's internal financial control system, which incorporates procedures that have been designed to provide reasonable assurance that assets are safeguarded, proper accounting records are maintained, and financial information is reliably reported, but any such system can only provide reasonable and not absolute assurance against misstatement or loss.

The Group's internal financial control and monitoring procedures include:

- a) Clear responsibilities on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely financial management information;
- b) The control of key financial risks through clearly laid down authorisation levels and proper segregation of accounting duties;
- c) Detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budgets;
- d) Reporting on compliance with internal financial controls and procedures.



Corporate Governance

The Directors have reviewed the effectiveness of the system of internal and financial controls for the period covered by the Financial Statements.

Going concern

As set out in note 29 to the financial statements, the Directors, consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore they consider it is appropriate to adopt the going concern basis in preparing the Financial Statements.

Statement of Directors' Responsibilities

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Statement of Auditors' Responsibilities

The responsibilities of the company's independent auditors are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and the accountancy profession's ethical guidance. Their responsibilities in relation to the Annual Report are set out below.

They report to the shareholders their opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. They also report to the shareholders if, in their opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if they have not received all the information and explanations they require for their audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

They review whether on page 35 reflects the company's compliance with those provisions of the Combined Code specified for their review by the Stock Exchange, and they report if it does not. They are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

They read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. They consider the implications for their report to shareholders if they become aware of any apparent misstatements or material inconsistencies with the financial statements.

Report of the Auditors to the Members of Network Technology PLC



We have audited the Financial Statements on pages 36 to 55 which have been prepared in accordance with the accounting policies set out on pages 40-42.

Respective responsibilities of directors and auditors

As described on page 34, the Company's Directors are responsible for the preparation of the Financial Statements. It is our responsibility to form an independent opinion, based on our audit, on those Financial Statements and to report our opinion to you.

Basis of opinion

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

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

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in note 29 of the financial statements concerning the uncertainty as to the ability of the Administrator and the Directors to achieve a refinancing of the Group. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the Financial Statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March 1999 and of the Group's result for the 6 month period then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward

BDO Stoy Hayward
Chartered Accountants and Registered Auditor
London
11th October 1999

Group Profit & Loss Account

		6 months to 31 March 1999	Year to 30.9.98
	Notes	£'000	£'000
Turnover			
Existing operations		4,970	17,901
Acquisitions		-	302
		<hr/>	<hr/>
Continuing operations	2	4,970	18,203
Cost of sales		(2,815)	(8,762)
		<hr/>	<hr/>
Gross profit		2,155	9,441
Other operating expenses before exceptional item	5	(5,095)	(8,348)
Exceptional operating expenses	5,6	-	(182)
		<hr/>	<hr/>
Group operating (loss)/profit		(2,940)	911
Share of losses of associated undertakings		-	(41)
		<hr/>	<hr/>
Total operating (loss)/profit	6	(2,940)	870
Interest receivable and similar income		26	200
Interest payable and similar charges	7	(33)	(58)
		<hr/>	<hr/>
(Loss)/Profit on ordinary activities before taxation		(2,947)	1,012
Tax on (loss)/profit on ordinary activities	8	470	(642)
		<hr/>	<hr/>
(Loss)/Profit on ordinary activities after taxation		(2,477)	370
Equity dividends	9	-	(396)
		<hr/>	<hr/>
Retained (loss)/profit for the financial period/year		(2,477)	(26)
Earnings per ordinary share	10	(6.85)p	1.03p

Group Balance Sheet



		Group 31.3.99		Group 30.9.98	
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	11		3,959		3,726
Investments	12		72		322
			<u>4,031</u>		<u>4,048</u>
Current assets					
Stocks	13	4,841		4,376	
Debtors	14	2,211		3,426	
Cash at bank and in hand		803		2,410	
		<u>7,855</u>		<u>10,212</u>	
Creditors					
Amounts falling due within one year	15	(4,209)		(4,231)	
Net current assets			<u>3,646</u>		<u>5,981</u>
Total assets less current liabilities			<u>7,677</u>		<u>10,029</u>
Creditors: amounts falling due after more than one year	15		(67)		(89)
Provisions for liabilities and charges	16		-		-
Net assets			<u>7,610</u>		<u>9,940</u>
Capital and reserves					
Called up share capital	17, 18		3,618		3,588
Share premium account	18		8,093		7,975
Capital redemption reserve	18		12		12
Profit and loss account	18		(4,113)		(1,635)
Equity shareholders' funds	18		<u>7,610</u>		<u>9,940</u>

These Financial Statements were approved by the Board of Directors on 11th October 1999 and were signed on its behalf by:

K. Bollmann

Group Cash Flow Statement

	Notes	6 months to 31.3.99		Year to 30.9.98	
		£'000	£'000	£'000	£'000
Net cash (outflow)/inflow from operating activities		19	(999)		2,477
Returns on investments and servicing of finance					
Interest received		26		200	
Interest paid		(22)		(36)	
Interest element of hire purchase payment		(11)		(22)	
Net cash inflow/(outflow) from returns on investments and servicing of finance			(7)		142
Taxation					
Corporation tax and overseas tax paid			(125)		(1,156)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(791)		(1,443)	
Receipts from sales of fixed assets		56		13	
Other investments		-		(131)	
Net cash outflow for capital expenditure and financial investment			(735)		(1,561)
Acquisitions					
Payments to acquire subsidiary undertakings	23		-		(138)
Equity dividends paid			(198)		(466)
Cash outflow before use of liquid resources and financing			(2,064)		(702)
Expenses set against share premium account	20	-		(68)	
Decrease in debt	20	(58)		(132)	
Net cash (outflow) from financing	20		(58)		(200)
(Decrease)/Increase in cash in the period	21		(2,122)		(902)

Statement of total Group recognised gains and losses



	6 months to 31.3.99	Year to 30.9.98
	£'000	£'000
(Loss)/profit for the period/year after taxation	(2,477)	370
Unrealised (loss)/profit on exchange	(1)	(104)
Total recognised gains and losses relating to the financial period	<u>(2,478)</u>	<u>266</u>

Company Balance Sheet

		Company 31.3.99	Company 30.9.98
	Notes	£'000	£'000
Fixed assets			
Investments	12	4,489	9,551
		<u>4,489</u>	<u>9,551</u>
Current assets			
Debtors	14	7,544	7,252
Cash at bank and in hand		8	-
		<u>7,552</u>	<u>7,252</u>
Creditors			
Amounts falling due within one year	15	(1,000)	(495)
Net current assets		<u>6,552</u>	<u>6,757</u>
Net assets and total assets less current liabilities		<u>11,041</u>	<u>16,308</u>
Capital and reserves			
Share capital	17, 18	3,618	3,588
Share premium account	18	8,093	7,975
Capital redemption reserve	18	12	12
Merger reserve	18	1,963	1,963
Profit and loss account	18	(2,645)	2,770
Equity shareholders' funds	18	<u>11,041</u>	<u>16,308</u>

These Financial Statements were approved by the Board of Directors on 11th October 1999 and were signed on its behalf by:

K. Bollmann



Notes to the Financial Statements

1. Accounting policies

Accounting convention

The Financial Statements have been prepared under the historical cost convention and 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. For associated undertakings the Group includes its share of profits or losses in the consolidated Financial Statements.

In accordance with section 230(3) of the Companies Act 1995 the Company is exempt from the requirement to present its own profit and loss account. The amount of loss for the financial period dealt with in the financial statements of Network Technology PLC is disclosed in note 18 to these Financial Statements.

Turnover

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

Depreciation

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

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

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.

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

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

For consolidation purposes, the assets and liabilities of overseas subsidiaries are translated at the closing exchange rate. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Exchange differences arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Notes to the Financial Statements

Leased assets

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included with creditors.

Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are treated as operating leases, the rentals of which are charged to the profit and loss account as incurred.

2. Segmental information

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

Turnover	6 months to 31.3.99 £'000	Year to 30.9.98 £'000
United Kingdom	1550	3,276
Other EC Countries	801	1,533
United States of America	1598	3,044
Japan	999	9,610
Rest of the world	22	740
	<u>4,970</u>	<u>18,203</u>

Notes to the Financial Statements



Analysis of results by origin of supply:

	6 months to 31.3.99		Year to 30.9.98	
	UK £'000	USA £'000	UK £'000	USA £'000
Turnover	3,421	1,549	14,760	3,443
Operating profit/(loss)	(2,108)	(832)	1,638	(727)
Net assets/(liabilities)	7,937	(327)	9,953	(13)

3. Staff costs	6 months to 31.3.99		Year to 30.9.98	
	£'000		£'000	
Salaries and wages		2,619		4,452
Social security costs		218		426
Other pension costs		71		68
		<u>2,908</u>		<u>4,946</u>

The average monthly number of employees during the period, including Directors, was 280 (1998: 252).

4. Directors' remuneration	6 months to 31.3.99		Year to 30.9.98	
	£'000		£'000	
Management remuneration		188		358
Fees		19		97
Benefits		18		22
Pension		63		38
		<u>288</u>		<u>515</u>

The emoluments of the Chairman and highest paid Director are shown in the Report of the Board on Remuneration on page 30. Details of Directors' bonuses, pensions and share options are also shown in the Report of the Board on Remuneration on page 31 to 32.

5. Other operating expenses	6 months to 31.3.99		Year to 30.9.98	
	£'000		£'000	
Research and development expenses		787		2,664
Sales, marketing and distribution expenses		1,286		1,944
Administrative expenses including exceptional item		3,025		3,922
Other operational income		(3)		-
		<u>5,095</u>		<u>8,530</u>



Notes to the Financial Statements

6. Operating (loss)/profit

Continuing operations comprise the following:

	Existing operations		Acquisitions		Continuing operations	
	Period to 31.3.99 £'000	Year to 30.9.98 £'000	Period to 31.3.99 £'000	Year to 30.9.98 £'000	Period to 31.3.99 £'000	Year to 30.9.98 £'000
Turnover	4,970	17,901	-	302	4,970	18,203
Cost of sales	(2,815)	(8,741)	-	(21)	(2,815)	(8,762)
Gross profit	2,155	9,160	-	281	2,155	9,441
Other operating expenses	(5,095)	(8,150)	-	(198)	(5,095)	(8,348)
Exceptional item	-	(182)	-	-	-	(182)
Operating (loss)/profit	(2,940)	828	-	83	(2,940)	911

Exceptional item

During the previous year the Group incurred costs relating to a potential acquisition in the USA which would have been capitalised if the transaction had been completed. No agreement could be reached with the vendor that was acceptable to the Board of Directors. The costs incurred related to research, financial and legal due diligence and legal services in preparation for a sale and purchase agreement all of which was substantially complete when negotiations were ended.

(Loss)/Profit on ordinary activities before taxation

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

	6 months to 31.3.99 £'000	Year to 30.9.98 £'000
Depreciation of tangible assets (note 11)		
Owned assets	492	838
Assets held under hire purchase contracts	9	58
Loss on sale of fixed assets	-	(3)
Auditors' remuneration		
Audit - KPMG Audit Plc (company £18,000)	-	35
Other fees paid to the auditors and their associates	-	34
Audit - BDO Stoy Hayward	47	-
Hire of plant and equipment	7	30

7. Interest payable and similar charges

	6 months to 31.3.99 £'000	Year to 30.9.98 £'000
Loan interest	11	17
Bank overdraft interest	10	15
Other interest including finance leases	12	26
	33	58



Notes to the Financial Statements

11. Tangible fixed assets

Group	30.9.98 £'000	Additions £'000	Disposals £'000	31.3.99 £'000
Cost				
Freehold & leasehold property improvements	298	67	-	365
Freehold property	480	-	-	480
Plant and equipment	3,812	693	(30)	4,475
Computer software & licenses	825	8	(2)	831
Motor vehicles	229	10	(31)	208
Fixtures and fittings	501	13	-	514
	<u>6,145</u>	<u>791</u>	<u>(63)</u>	<u>6,873</u>
	30.9.98 £'000	Charge £'000	Disposals £'000	31.3.99 £'000
Depreciation				
Freehold & leasehold property improvements	38	20	-	58
Freehold property	21	-	-	21
Plant and equipment	1,681	382	-	2,063
Computer software & licences	358	72	-	430
Motor vehicles	60	22	(6)	76
Fixtures and fittings	261	5	-	266
	<u>2,419</u>	<u>501</u>	<u>(6)</u>	<u>2,914</u>
	30.9.98 £'000			31.3.99 £'000
Net book value				
Freehold & leasehold property improvements	260			307
Freehold property	459			459
Plant and equipment	2,131			2,412
Computer software & licences	467			401
Motor vehicles	169			132
Fixtures and fittings	240			248
	<u>3,726</u>			<u>3,959</u>

The net book value of tangible fixed assets includes an amount of £66,537 (1998:£174,000) in respect of assets held under hire purchase agreements. The related depreciation charge for the period was £9,505 (1998:£58,000). There is no disclosed depreciation charge in the year on freehold property since this materially is represented by freehold land.

Notes to the Financial Statements



12. Fixed asset investments

Group

	Other investments £'000	Total £'000
At 1 st October 1998	322	322
Provision for diminution in value	(250)	(250)
At 31st March 1999	<u>72</u>	<u>72</u>

Company

	Other investments £'000	Subsidiary undertakings £'000	Total £'000
At 1 st October 1998	322	9,229	9,551
Provision for diminution in value	(250)	(4,812)	(5,062)
At 31st March 1999	<u>72</u>	<u>4,417</u>	<u>4,489</u>

Other investments are held by the Company at cost less any amounts written off. The market value of the investments at 31st March 1999 was £72,000 (1998:£69,000). The Directors consider the investments to be of a long term nature.



Notes to the Financial Statements

13. Stocks		
Group	31.3.99	30.9.98
	£'000	£'000
Raw materials and consumables	1,412	1,831
Work in progress	1,339	330
Finished goods	2,090	2,215
	<u>4,841</u>	<u>4,376</u>
 14. Debtors		
Group	31.3.99	30.9.98
	£'000	£'000
Amounts falling due within one year		
Trade debtors	1,320	2,894
Amounts owed by related undertakings (see note 27)	-	15
Other debtors	312	244
Prepayments	422	255
Value added tax	124	18
Corporation tax refund	33	-
	<u>2,211</u>	<u>3,426</u>
 Company	31.3.99	30.9.98
Amounts falling due within one year	£'000	£'000
Amounts owed by subsidiary undertakings	7,422	7,122
Other debtors	45	43
Prepayments	24	34
Value added tax	53	53
	<u>7,544</u>	<u>7,252</u>



Notes to the Financial Statements

16. Provisions for liabilities and charges

	31.3.99 £'000	30.9.98 £'000
Group		
Deferred tax		
At beginning of period	-	46
(Credit)/charge for the period	-	(46)
At end of period	-	-

The amounts provided for deferred taxation and the amounts not provided are set out below:

	Provided £'000	31.3.99 Unprovided £'000	Provided £'000	30.9.98 Unprovided £'000
Group				
Difference between accumulated depreciation and capital allowances	-	-	-	50
Deferred tax (assets) in the USA	-	-	-	(460)
	-	-	-	(410)

There was no unprovided deferred taxation in the company.

17. Called up share capital

	31.3.99 £'000	30.9.98 £'000
Authorised		
53,000,000 Ordinary Shares of 10p each	5,300	5,300
Allotted, issued and fully paid		
36,180,981 (1998: 35,879,187) Ordinary Shares of 10p each	3,618	3,588

301,794 Ordinary Shares of 10p each were issued during the period in settlement of the deferred consideration outstanding at 30 September 1998 of £148,000.

Notes to the Financial Statements



18. Reconciliation of movements in shareholders' funds

	Share Capital £'000	Share Premium £'000	Capital Redemption £'000	Merger Reserve £'000	Goodwill Reserve £'000	P & L Account £'000	Total £'000
Group							
At 30.9.98	3,588	7,975	12	-	-	(1,635)	9,940
Shares issued	30	118	-	-	-	-	148
Exchange difference	-	-	-	-	-	(1)	(1)
Retained loss for the period	-	-	-	-	-	(2,477)	(2,477)
At 31.3.99	3,618	8,093	12	-	-	(4,113)	7,610
	Share Capital £'000	Share Premium £'000	Capital Redemption £'000	Merger Reserve £'000		P & L Account £'000	Total £'000
Company							
At 30.9.98	3,588	7,975	12	1,963		2,770	16,308
Shares issued	30	118	-	-		-	148
Retained loss for the period	-	-	-	-		(5,415)	(5,415)
At 31.3.99	3,618	8,093	12	1,963		(2,645)	11,041

The merger reserve arises under S131 Companies Act 1985 and is a non-distributable reserve against which the Group can write off goodwill. The cumulative amount of goodwill resulting from acquisitions in earlier financial years which has been written off is £6,981,000 (in 1998: £6,981,000).



Notes to the Financial Statements

19. Reconciliation of operating (loss)/profit to net cash flow from operating activities

	6 months to 31.3.99 £'000	Year to 30.9.98 £'000
Operating (loss)/profit	(2,940)	870
Depreciation and amortisation charges	501	896
Loss on sale of fixed assets	-	3
Increase in stocks	(465)	(129)
Decrease/(Increase) in debtors	1,249	1837
Increase/(Decrease) in creditors	258	(1,041)
Share of associates losses	-	41
Provision for diminution in value of investment	250	-
Shares issued as deferred consideration	148	-
Net cash (outflow)/inflow from operating activities	(999)	2,477

20. Analysis of changes in financing

	6 months to 31.3.99 £'000	Year to 30.9.98 £'000
Issue of share capital	148	-
Expenses set against share premium account	-	(68)
Decrease in short term debt (note 21)	(58)	(132)
	90	(200)

21. Analysis of net debt and reconciliation to cash flow

	At 1.10.98 £'000	Cash flow £'000	At 31.3.99 £'000
Cash at bank and in hand	2,410	(1,607)	803
Overdrafts	-	(515)	(515)
	2,410	(2,122)	288
Debt due after one year	(59)	19	(40)
Debt due within one year	(41)	-	(41)
Hire Purchase contracts	(84)	39	(45)
	(184)	58	(126)
Total	2,226	(2,064)	162

24. Cash flows relating to acquired undertakings

Year to	6 months to	
	31.3.99 £'000	30.9.98 £'000
Operating cash flows	-	190
Returns on investments and servicing of finance	-	5
Taxation	-	3
Investing activities	-	(6)
Financing	-	-
Net cash inflow/(outflow) for the period from acquisition	-	192

25. Commitments under operating leases

At the period end, the Group had annual commitments under non-cancellable operating leases as set out below:

	31.3.99		30.9.98	
	Land & buildings £'000	Other £'000	Land & buildings £'000	Other £'000
Operating leases which expire:				
- within one year	28	16	-	-
- in the second to fifth years inclusive	98	-	135	16
- over 5 years	12	-	-	-
	<u>138</u>	<u>16</u>	<u>135</u>	<u>16</u>

26. Share option schemes

Under the share option schemes operated by the Company, at 31st March 1999, the following options were outstanding:

Share option plan	Date of grant of Option	Number of Ordinary shares	Period of Exercise	Price per share
	Nov 1996	15,000	Nov 1999 to Nov 2006	£1.635
	Dec 1996	28,402	Dec 1999 to Dec 2006	£1.725
	Apr 1997	22,275	Apr 2000 to Apr 2007	£2.160
	Nov 1997	10,000	Nov 2000 to Nov 2007	£1.260
	Dec 1997	28,750	Dec 2000 to Dec 2007	£1.260
	Feb 1998	7,500	Feb 2001 to Feb 2008	£1.250
	Jun 1998	76,456	Jun 2001 to Jun 2008	£1.640
	Jul 1998	35,600	Jul 2001 to Jul 2008	£0.945
	Aug 1998	36,930	Aug 2001 to Aug 2008	£0.790
	Sep 1998	149,046	Sep 2001 to Sep 2008	£0.435
	Dec 1998	60,000	Dec 2001 to Dec 2008	£0.350
		<u>469,959</u>		
Saving related option scheme				
	Feb 1997	10,706	Apr 2000 to Oct 2004	£1.920
	July 1998	11,050	Sept 2001 to Oct 2005	£1.200
		<u>21,756</u>		

27. Related party transactions

During the period, the Group made or proposed payments of £63,000 (including salary sacrifice) (1998: £38,000) to the Directors' Executive Pension Scheme (Woodgate Trust) in respect of pension contributions. During the period, Woodgate Trust received £41,000 (1998: £99,000) in respect of rent from H. Bollmann Manufacturers Limited.



Notice of the Extraordinary General Meeting

NOTICE IS HEREBY GIVEN that an **EXTRAORDINARY GENERAL MEETING** of the Company will be held at The Priory, Haywards Heath, West Sussex on Monday 15th November 1999 at 12.00 noon, for the purpose of considering and if thought for, passing the following resolutions of which resolutions 1 to 3 will be proposed as ordinary resolutions and resolution 4 will be proposed as a special resolution.

Ordinary resolutions

1. THAT the reports of the Directors and Auditors, the audited profit and loss account of the Company for the period ended 31st March 1999 and the balance sheet of the company as at 31 March 1999 be received and each of them is hereby adopted.
2. THAT BDO Stoy Hayward be and they are hereby appointed as Auditors to the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company, and the Directors be and they are hereby authorised to fix the Auditor's remuneration.
3. THAT the Directors be and they are hereby generally and unconditionally authorised pursuant to and in accordance with section 80 of the Companies Act 1985 ("The Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal value of £355,204 PROVIDED THAT:
 - (i) this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution unless renewed, varied or revoked by the Company in general meeting save that the Company may before such expiry make offers or agreements which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired; and
 - (ii) that this authority shall be to the exclusion of and in substitution for any such earlier authority to the extent unused.

Notice of the Extraordinary General Meeting



Special Resolution

4. THAT the Directors, pursuant to section 80 of the Act, are hereby given power to allot equity securities (within the meaning of section 94 of the Act) for cash as if sub-section 89 (1) of the Act did not apply to any such allotment, PROVIDED THAT the power conferred hereby shall:
- (i) Be limited to the allotment of equity securities up to an aggregate nominal amount of £355,204 (representing 9.9% of the then existing issued ordinary share capital of the Company);
 - (ii) Expire at the conclusion of the next Annual General Meeting of the Company (unless previously renewed, varied or revoked by the Company);
 - (iii) Allow and enable the Directors to make offer or agreement before any such expiry which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired; and
 - (iv) Shall be in substitution for any authority previously conferred by the Directors pursuant to section 95 of the Act.

By Order of the Board
H. Schlieker Bollmann
Company Secretary
11th October 1999

Registered Office: HBM House, 26 Victoria Way, Burgess Hill, West Sussex, RH15 9HF

Notes:

1. A member entitled to vote at the Meeting convened by the Notice set out above is entitled to appoint a proxy to attend, and in a poll, vote in his place. A proxy need not be a member of the Company. A form of appointment of proxy is enclosed. Completion and return of a form of proxy does not prevent a member from attending and voting at this meeting.
2. To be effective, the form of appointment of proxy, duly completed and executed, together with any power of attorney or other authority under which it is signed, must be lodged at the offices of the registrars of the Company - Exchange Registrars Ltd, at 18 Park Place Cardiff CF1 3PD no later than 48 hours before the meeting to be valid.
3. Directors service contracts will be available for inspection for at least 15 minutes prior to the commencement of the meeting.



NOTICE OF THE EXTRAORDINARY GENERAL MEETING Explanatory Notes

Explanatory notes

Shareholders may find it useful to have some explanatory notes in connection with the documentation and business to be conducted at the forthcoming Extraordinary General Meeting.

The notice of the Extraordinary General Meeting - this sets out the business that will be dealt with at the meeting. Ordinary Resolutions are passed by a simple majority of shareholders voting in person or by proxy. A Special Resolution requires 75% of the shareholders voting in favour (in person or by proxy) for it to be adopted.

Proxy cards - allow a shareholder to appoint a proxy to vote if he/she is unable to attend the meeting in person. A proxy holder at the meeting may not address the meeting. All proxy holders must register at the door before the meeting. However, if he/she does not appoint a proxy, a shareholder may also vote in a poll vote if he/she does not wish to appoint a proxy holder by completing and returning the proxy card. It is normal custom for the Chairman of the meeting to be appointed the proxy holder who will vote as instructed if a poll vote is called. The proxy card must reach the Registrars of the Company Exchange Registrars Ltd., 18 Park Place, Cardiff, CF1 3PD by not less than 48 hours before the time for holding the meeting.

Resolution 1 - deals with the receipt of the financial statements for the period ended 31st March 1999 which the Directors are required to present to the shareholders in General Meeting.

Resolution 2 - deals with the appointment and remuneration of the Auditors. A public company must appoint Auditors. Their appointment is renewed each year at the Extraordinary General Meeting. The Directors wish to appoint BDO Stoy Hayward. In accordance with common practice, the resolution also authorises the Directors to fix the Auditors' remuneration.

Resolution 3 - The Directors feel that they may need the flexibility to be able to finance business opportunities, as they arise, by the possible issue of equity in the Company. The Company has granted such authority to the Directors already which expires at the 2000 Annual General Meeting. The authority is for only 5% of the issued Share Capital of the company which complies with the guidelines recommended by the London Stock Exchange.