

*Network Technology PLC  
and subsidiaries*

*Financial Statements for the period  
from 11th May 1995  
to 30th September 1996*

add



**DIRECTORS**

Graham Woodhead (Chairman/Non-Executive)  
Klaus Bollmann (Chief Executive Officer)  
Hannelore Schlieker Bollmann (Financial Executive  
David Mould Officer)  
Martin Pollins (Technical Director)  
(Non-Executive Director)

**COMPANY SECRETARY  
& REGISTERED OFFICE**

Hannelore Schlieker Bollmann  
HBM House, 26 Victoria Way  
Burgess Hill, West Sussex  
RH15 9NF  
Tel: 01444 870408  
Fax: 01444 870152

**AUDITORS**

BDO Stoy Hayward  
Chartered Accountants and  
Registered Auditors  
8 Baker Street, London  
W1M 1DA

**BANKERS**

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

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

**CORPORATE FINANCE &  
TAXATION ADVISERS**

PRB Martin Pollins  
Chartered Accountants and  
Registered Auditors  
5 Bridge Road Business Park  
Bridge Road, Haywards Heath  
West Sussex RH16 1TX

**AIM NOMINATED ADVISERS**

Neill Clerk Capital Limited  
No 1 Portland Place  
London, W1N 3AA

**AIM NOMINATED BROKERS**

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

**REGISTRARS**

Mobesco Managers Limited  
5 Bridge Road Business Park  
Bridge Road  
Haywards Heath, West Sussex  
RH16 1TX

**SOLICITORS**

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

Burstows  
8 Ifield Road, Crawley  
West Sussex, RH11 7YY

**COMPANY NUMBER**

3055360





**Graham G Woodhead**

aged 65, was appointed as Non-Executive Chairman of the Company on 30th June 1995. Mr Woodhead is also a Director of The Gambica Association Limited, Surface Electronic PLC and Servelec Group PLC.

Mr Woodhead is a member of the Group's Remuneration and Audit Committees.

**Klaus Bollmann** (*Second from right*)

(Chief Executive Officer) aged 40, 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 and finally the AIM flotation of the Company in 1996. Mr Bollmann has been responsible for the Group's vertical integration product and acquisition strategies.

**Hannelore E Schlieker-Bollmann** (*Far right*)

(Chief Financial Officer) aged 37, co-founded H. Bollmann Manufacturers Limited in 1985. Mrs Schlieker-Bollmann has managed the financial affairs of the Group throughout the period since that date.

**David F Mould BA ed** (*Second from left*)

(Technical Director) aged 42, joined the Group as Design Engineer in 1987 and joined the Board as Technical Director in November 1989.

**Martin Pollins FCA ATII** (*Far left*)

(Non-Executive Director) aged 57, joined the Group in September 1995. Mr Pollins is a Director of several other companies and Managing Director of PRB Martin Pollins.

Mr Pollins is also a member of the Group's Remuneration and Audit Committees.

# Directors' Report



**For the period 11th May 1995 to 30th September 1996**

The Directors present their first report as an AIM company together with the audited Financial Statements for the period ended 30th September 1996.

## **Incorporation and change of name**

The Company was incorporated as Matlorill Limited on 11th May 1995. The Company changed its name to Network Technology Group PLC on 21st June 1996 and then to Network Technology PLC on 3rd July 1996.

## **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 Group's profit for the period after taxation was £2,338,637.

During the period dividends were paid as follows:

	Prior to flotation on the Alternative Investment Market £
'A' Ordinary shares	81,519
'A' Preference shares	221,630
'B' Preference shares	56,481
	<u>359,630</u>

A final dividend of 0.5p per share is proposed (payable in April 1997) which, if approved at the forthcoming Annual General Meeting, will make the total dividend payment for the period, £515,065.

## **Review of business and future developments**

A review of the period's operations is given in the Chairman's and the Chief Executive Officer's Statements. The Company was formed in order to effect the management buyout of H. Bollmann Manufacturers Limited and International Technology Consultants Limited in June 1995.

The Directors are pleased to report that the Group was successfully admitted to the Alternative Investment Market in July 1996.

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

## **Directors and their interests**

The Directors of the Company during the period and their beneficial interests in the issued share capital of the Company at the beginning and end of the period were as shown overleaf:

G. Woodhead (appointed 30.6.95)  
 K. Bollmann (appointed 30.6.95)  
 H. Schlieker-Bollmann (appointed 30.6.95)  
 D. Mould (appointed 30.6.95)  
 M. Pollins (appointed 8.9.95)

Non-Executive Chairman  
 Chief Executive Officer  
 Chief Financial Officer & Commercial Director  
 Technical Director  
 Non-Executive Director

### Ordinary Shares of £1 each 30.9.96 On Incorporation

D. J. Dwyer (resigned 5.6.95)	-	1
B. J. Doyle (resigned 5.6.95)	-	1

### Ordinary Shares 30.9.96 On Date of Appointment (10p each) (£1 each)

G. Woodhead	17,500	-
K. Bollmann	-	-
H. Schlieker-Bollmann	17,314,329	1,688,889
D. Mould	111,110	11,111
M. Pollins	-	-

### 'B' Preference Shares of 50p each 30.9.96 On Date of Appointment

H. Schlieker-Bollmann	-	600,000
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There have been no changes in Directors' interests between the balance sheet date and 4th November 1996.

Other than as 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 year or any preceding financial year and remains outstanding or unperformed in any respect.

### Substantial Shareholdings

As at 4th November 1996, 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 10p Ordinary Shares	Percentage
3i Group Plc	7,575,000	24.7%
Maltrace Plc	1,806,488	5.8%

# Directors' Report



## **Fixed Assets**

Information relating to changes in fixed assets is given in notes 11 to 13 to the Financial Statements.

## **Research and development**

The Group employs a number of product development staff and continues to be at the forefront of product development in its core business.

## **Creditors payment policy**

The Group policy for the year to 30th September 1997 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.

## **Directors and Officers liability insurance**

As permitted by the Companies Act 1985 and requested by the AIM nominated advisers, 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 Company made no charitable or political contributions during this period.

## **Corporate Governance**

The Directors have considered the report of the Cadbury Committee on the Financial Aspects of Corporate Governance, and in particular the Code of Best Practice, and consider that the Group's practices comply with the Code with the exceptions that, the Non-Executive Directors were not selected through a formal process and the Company has only two Non-Executive Directors. In the light of the current size and nature of the Group, the Board does not consider that further appointments of independent (Non-Executive) Directors are required at this stage of the Group's development. The Board, however, will continue to review the situation and where appropriate will consider further appointments. The Board was formed prior to the Company's public quotation in 1996, and as such there has been no need for formal selection processes.

## **Board of Directors**

The Board of Directors hold regular meetings. There is a separate Chairman and Chief Executive.

In addition to the Chairman, the Board currently comprises three Executive Directors and one Non-Executive Director. The Non-Executive Directors contribute an independent view to the management of the Company and play a full and active part in the various Board Committees.

## **Board Committees**

The principal standing committees appointed by the Board are as follows:

### *Audit Committee*

The Audit Committee is chaired by Mr M. Pollins and consists of himself and Mr G. Woodhead. The Committee provides a forum for reporting by the Group's external auditors and reviews the Group's budget, half year and annual Financial Statements before their submission to the Board. The Committee advises the Board on the appointment of external auditors and on their remuneration both for audit and non audit work.

### *Remuneration Committee*

The Remuneration Committee is chaired by Mr M. Pollins and also consists of himself and Mr G. Woodhead. The Committee is responsible for determining the contract terms, remuneration and other benefits for Executive Directors. Its policy is to ensure the Group's remuneration arrangements are in line with best practice, through a process of regular review.

The Committee takes account of comparative responsibilities and ranking, established through a job evaluation process, and levels of remuneration in the market, which are closely monitored.

When required, the Committee is also involved in the selection process for Executive Directors and approves any remuneration package before a final offer is made.

The Committee's report is set out on pages 32 to 33.

### **Internal Control**

The Group is registered under ISO 9000 and as such has fully documented procedures which are regularly reviewed both internally and by external assessors. To this end, the Group has an established control environment.

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.

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

### **Going Concern**

The Directors, having made enquiries, consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore they consider it appropriate to adopt the going concern basis in preparing the Financial Statements.

The Auditors have reported to the Board that in their opinion the Directors' Statements on internal financial controls above and on going concern have provided the disclosures required by paragraphs 4.5 and 4.6 of the Cadbury Code (as supplemented by the related guidance for Directors) and are consistent with the information which came to their attention as a result of their audit work on the Financial Statements; and that the Directors' other statements appropriately reflect the Company's compliance with the other paragraphs of the Code specified for their review. BDO Stoy Hayward were not required to perform the additional work necessary to determine, and did not express any opinion on, the effectiveness of either the Group's system of internal financial controls or corporate governance procedures nor on the ability of the Group to continue in operational existence.

## Directors' Report



### 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 Group and of the profit or loss of the Group 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;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Basis of Preparation

The statutory Financial Statements set on pages 35 to 51, cover the period from incorporation to 30th September 1996.

In order to present further information and to assist with comparison of the historical results of the Group pro forma profit and loss accounts for the 12 months ended 30th September 1996 and 30th September 1995 have been included on page 35.

The pro forma statements have been prepared on the basis shown in Note 1 to the Financial Statements.

On 21st November 1996, the Group's auditors reported to the Directors as follows:

#### *Report of the Auditors to the Directors of Network Technology PLC*

*"We have reviewed, without carrying out an audit, the pro forma statements on page 35 and confirm that they have been compiled in accordance with the accounting policies of the Group as stated in Note 1 to the Financial Statements."*

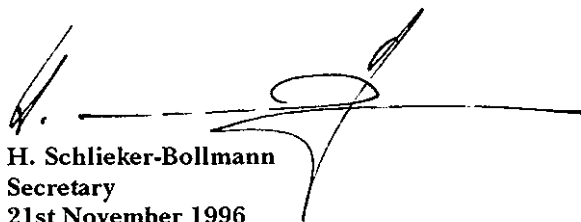
*BDO Stoy Hayward*

**BDO Stoy Hayward**  
**Chartered Accountants**  
**and Registered Auditors**  
**London**

### Auditors

BDO Stoy Hayward, who were appointed as first auditors of the Company by the Directors, have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting in February 1997.

by Order of The Board

  
**H. Schlieker-Bollmann**  
**Secretary**  
**21st November 1996**





## Report of the Remuneration Committee

### Composition of the Remuneration Committee

The composition of the Remuneration Committee is detailed in the Directors' Report on page 30.

### Compliance

The Group has complied throughout the period since flotation with the best practice provisions concerning remuneration committees annexed to the London Stock Exchange Listing Rules. In accordance with these provisions the Remuneration Committee has given full consideration to the best practice provision concerning remuneration policy, service contracts and compensation.

### Total remuneration

The total remuneration package of the executive directors, which is reviewed annually, is structured to retain and to motivate Executive Directors. Total remuneration consists of salary, performance related bonus, pension benefits and certain benefits in kind.

### Salary

Salary levels for Executive Directors are reviewed annually based on an assessment of market practice and are set to reflect the pay levels of executives with similar responsibilities at comparable companies.

### Performance related bonus

Executive Directors, with the exception of H. Schlieker-Bollmann, participate in a bonus scheme which is linked to the level of pre-tax profits of the Group. The incentive targets are set by the Board.

### Pensions and other benefits

Pensions and company cars are in line with those provided at Executive Director level in similar businesses. The pension plan is of a defined contribution type. The Directors have opted to contribute a percentage of their bonus to the pension plan during the period. The only contributions made to the plan in the period were made by the Executive Directors (excluding H. Schlieker-Bollmann) in lieu of part of their bonus entitlements.

### Service contracts

The Executive Directors each have a service contract of two years' duration. Service contracts of two years are reasonable and proper in the interest of both the Company and its Executive Directors, having regard to prevailing market conditions and current practice.

### Remuneration of non-executive directors

The remuneration of Non-Executive Directors is recommended by the Board on the basis of current fee levels in similar businesses. Fees are reviewed every year. Non-Executive Directors are not eligible for pensions, incentives or any similar payments other than out-of-pocket expenses in connection with the performance of their duties.

#### Period 11th May 1995 to 30th September 1996

	Basic Salary £'000	Fees £'000	Benefits £'000	Bonus £'000	Total Excluding Pensions £'000	Pension £'000
<b>Executive</b>						
K. Bollmann	105	-	-	175	280	77
H. Schlieker- Bollmann	38	-	6	-	44	-
D. Mould	67	-	-	168	235	45
<b>Non-Executive</b>						
G. Woodhead	-	6	-	-	6	-
M. Pollins	-	11	-	-	11	-
<b>Total</b>	<b>210</b>	<b>17</b>	<b>6</b>	<b>343</b>	<b>576</b>	<b>122</b>

## Report of the Remuneration Committee

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### **Share Options**

The Company's prospectus dated 10th July 1996 provided for 941,050 Ordinary Shares to be reserved for issue as part of the share option schemes referred to below.

The Company has approved and adopted rules of a savings-related share option scheme for Group employees (for 235,262 Ordinary Shares) and a share option plan for key executives (for 705,788 Ordinary Shares) which have been approved by the Inland Revenue.

On 18th November 1996, letters of invitation to key Executives were issued for a total of 33,348 Ordinary Shares at 163.5p per share.

The Directors had no material interests other than as shareholders or as detailed in note 27 to the Financial Statements, in any significant contracts of the Company or of its subsidiary undertakings.

**Martin Pollins**  
**Chairman of the Remuneration Committee**  
**21st November 1996**



## Report of the Auditors to the Shareholders of Network Technology PLC

We have audited the Financial Statements on pages 35 to 51, with the exception of the pro forma statement on page 35, which have been prepared under the historical cost convention and the accounting policies set out on pages 38 to 40. We have also examined the amounts disclosed relating to the emoluments of the Directors which form part of the report of the Remuneration Committee on pages 32 and 33.

### **Respective Responsibilities of Directors and Auditors**

As described on page 31, 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 Company'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.

### **Opinion**

In our opinion the Financial Statements give a true and fair view of the state of the affairs of the Company and the Group at 30th September 1996, and of the Group's profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

### **Corporate Governance Matters**

In addition to our audit of the Financial Statements, we have reviewed the Directors' statements on page 29 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which are not disclosed.

We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to Corporate Governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not express any opinion on, the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

### **Opinion**

With respect to the Directors' Statements on internal financial control on page 30, and going concern on page 30, in our opinion the Directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the Financial Statements.

Based on enquiry of certain Directors and Officers of the Company, and examination of relevant documents, in our opinion the Directors' Statement on page 29 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

**BDO STOY HAYWARD**

**Chartered Accountants and Registered Auditors**

**London**

**21st November 1996**

# Consolidated Profit & Loss Account

**NT**

	Notes	11.5.95 to 30.9.96 £	Pro forma Year to 30.9.96 £	Pro forma Year to 30.9.95 £
<b>TURNOVER</b>	2	16,764,316	14,504,282	8,519,560
Cost of Sales		(9,060,490)	(7,713,302)	(5,248,393)
<b>GROSS PROFIT</b>		7,703,826	6,790,980	3,271,167
Administrative Expenses			(3,451,287)	(2,149,562)
- continuing operations		(43,030)		
- acquisitions		(4,116,036)		
Other Operating Income		8,143	6,514	15,873
<b>OPERATING PROFIT</b>	5	3,552,903	3,346,207	1,137,478
Other Interest Receivable and Similar Income		27,531	25,780	4,651
Interest Payable and Similar Charges	6	(47,976)	(37,072)	(63,298)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		3,532,458	3,334,915	1,078,831
Tax on Profit on Ordinary Activities	7	(1,193,821)	(1,068,869)	(431,064)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		2,338,637	2,266,046	647,767
Dividends				
non equity	8	(278,111)		
equity	8	(236,954)		
<b>RETAINED PROFIT FOR THE PERIOD</b>		1,823,572		
Earnings per Ordinary Share	9	8.73p	7.63p	
Headline earnings per Ordinary Share	9	9.81p	8.38p	

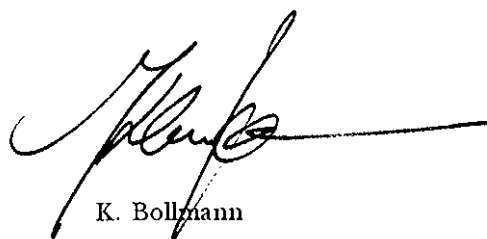
The only amount relating to continuing operations is shown in administrative expenses, all other amounts relate to acquired activities. All recognised gains and losses are included in the profit and loss account. The basis of preparation of the consolidated pro forma profit and loss accounts is stated in note 1. The pro forma statements are unaudited.

*The Notes on pages 38 to 51 form part of these Financial Statements*

	Notes	£	Group 30.9.96 £	£	Company 30.9.96 £
<b>FIXED ASSETS</b>					
Intangible Assets	11		4,445,130		5,000
Tangible Assets	12		2,041,335		-
Investments	13		-		5,449,609
			<u>6,486,465</u>		<u>5,454,609</u>
<b>CURRENT ASSETS</b>					
Stocks	14	1,924,541		-	
Debtors	15	2,768,571		1,000,517	
Cash at Bank and in Hand		1,898,737		1,209,779	
			<u>6,591,849</u>	<u>2,210,296</u>	
<b>CREDITORS</b>					
Amounts falling due within one year	16	(4,046,439)		(199,482)	
<b>NET CURRENT ASSETS</b>			<u>2,545,410</u>		<u>2,010,814</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>9,031,875</u>		<u>7,465,423</u>
<b>CREDITORS</b>					
Amounts falling due after more than one year	16		(214,583)		-
			<u>8,817,292</u>	<u>7,465,423</u>	
<b>CAPITAL AND RESERVES</b>					
Share Capital	17, 18		3,108,709		3,108,709
Share Premium Account	18		3,885,011		3,885,011
Capital Redemption Reserve	18		12,500		12,500
Profit and Loss Account	18		1,811,072		459,203
<b>SHAREHOLDERS' FUNDS</b>	18		<u>8,817,292</u>		<u>7,465,423</u>

These Financial Statements were approved by the Board of Directors on

21st November 1996 and were signed on its behalf by:



K. Bollmann

*The Notes on pages 38 to 51 form part of these Financial Statements*

# Group Cash Flow Statement

	Notes	11.5.95 to 30.9.96	
		£	£
<b>Net cash inflow from operating activities</b>	20		2,740,844
<b>Returns on investments and servicing of finance</b>			
Interest received		27,531	
Interest paid		(41,405)	
Interest element of hire purchase payments		(6,571)	
Dividends		(348,072)	
<b>Net cash outflow from returns on investments and servicing of finance</b>			(368,517)
<b>Taxation</b>			
Corporation tax paid			(630,495)
<b>Investing activities</b>			
Cost of establishing overseas office		(203,999)	
Payments to acquire tangible fixed assets		(1,745,661)	
Payments to acquire intangible fixed assets		(192,871)	
Receipts from sales of fixed assets		452,092	
Payments to acquire subsidiary undertakings	24	(2,613,507)	
<b>Net cash outflow from investing activities</b>			(4,303,946)
<b>Financing</b>			(2,562,114)
Capital element of hire purchase repayment	21	(65,806)	
Repayment of bank loan	21	(409,000)	
New bank loan	21	109,767	
Issue of share capital	21	8,623,324	
Redemption of share capital	21	(3,231,933)	
Expenses set against share premium account	21	(697,669)	
<b>Net cash inflow from financing</b>			4,328,683
<b>Increase in cash and cash equivalents</b>	22		1,766,569

The Notes on pages 38 to 51 form part of these Financial Statements

### 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 Preparation

The pro forma statements have been prepared on the assumption that the subsidiary undertakings of Network Technology PLC were part of the same group for the years ended 30th September 1995 and 30th September 1996. Following the Group's flotation on the Alternative Investment Market and in addition to the statutory requirement for the holding company to report on the results of the Group over its first accounting period, the Directors have provided additional information in respect of the Group's profits on an annual basis. This has been provided to facilitate analysis and understanding of the Group's operations. The pro forma information, which is unaudited, has been derived from previously audited, subsidiary Financial Statements, the previously published prospectus and unaudited internal management accounts.

#### 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 supplied and services provided, excluding VAT and trade discount.

#### 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% straight line
Freehold Buildings	2% commencing from the date of use
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 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**

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

## **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 amortised through the profit and loss account over 20 years, being the Directors' estimate of its useful economic life.

Purchased goodwill is amortised on a straight line basis over its estimated useful life of 5 years.

## **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 year which it is incurred.

Development costs are also charged to the profit and loss account in the year 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 5 years commencing in the year 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 2 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. 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:

Turnover	11.5.95 to 30.9.96 £
United Kingdom	2,522,410
Other EC Countries	1,479,223
United States of America	807,232
Japan	10,625,454
Rest of the World	1,329,997
	<u>16,764,316</u>

The Group does not maintain separate accounting records for each geographical area. The profit before tax for each area has been established on the basis of turnover as follows:

Profit Before Tax	11.5.95 to 30.9.96 £
United Kingdom	531,504
Other EC Countries	311,691
United States of America	170,094
Japan	2,238,920
Rest of World	280,249
	<u>3,532,458</u>

Net Assets	30.9.96 £
United Kingdom	8,784,105
United States of America	33,187
	<u>8,817,292</u>

# Notes to the Financial Statements



## 3. STAFF COSTS

	11.5.95 to 30.9.96
	£
Salaries and Wages	3,223,634
Social Security Costs	258,470
Other Pension Costs	122,000
	<u>3,604,104</u>

The average monthly number of employees during the period, including Directors, was 139.

## 4. DIRECTORS' REMUNERATION

	11.5.95 to 30.9.96
	£
Management remuneration	681,409
Fees	16,777
	<u>698,186</u>

Of this amount £651,012 has been charged in the profit and loss account and £47,174 relates to research and development works which has been capitalised.

Details of individual remuneration excluding pension contributions are as follows:

Chairman	5,943
Highest Paid Director	279,740

The emoluments of the other Directors fell within the ranges:

	No.
£10,001 - £15,000	1
£40,001 - £45,000	1
£235,001 - £240,000	1

## 5. OPERATING PROFIT

The Operating Profit is stated after charging/(crediting) :

	11.5.95 to 30.9.96
	£
Depreciation of Tangible Assets (note 12)	
Owned assets	297,347
Assets held under hire purchase contracts	82,072
Amortisation of Intangible Assets (note 11)	343,502
Profit on Sale of Fixed Assets	(16,796)
Directors' Remuneration	651,012
Auditors' Remuneration	31,436
Hire of Plant and Equipment	32,813

In addition, the auditors received remuneration of £104,449 relating to non-audit services. As part of the costs of issue of shares, the fees were charged to the share premium account (see note 18).



## Notes to the Financial Statements

<b>6.</b>	<b>INTEREST PAYABLE</b>	<b>11.5.95 to 30.9.96</b>
		<b>£</b>
	Loan Interest	36,223
	Bank Interest	4,251
	Other Interest	7,502
		<u>47,976</u>
<b>7.</b>	<b>TAXATION</b>	<b>11.5.95 to 30.9.96</b>
		<b>£</b>
	Corporation Tax	<u>1,193,821</u>
<b>8.</b>	<b>DIVIDENDS</b>	
	<b>Prior to flotation on the Alternative Investment Market</b>	<b>11.5.95 to 30.9.96</b>
		<b>£</b>
	<b>Preference dividend paid on:</b>	
	'A' Preference Shares (non equity)	221,630
	'B' Preference Shares (non equity)	56,481
	<b>Ordinary dividend paid on:</b>	
	'A' Ordinary Shares (of 9p per share per annum pro rated)	81,519
		<u>359,630</u>
	<b>After Flotation</b>	
	<b>Ordinary dividend proposed on:</b>	
	Ordinary Shares (of 0.5p per share)	155,435
		<u>515,065</u>
<b>9.</b>	<b>EARNINGS PER ORDINARY SHARE</b>	

Earnings per Ordinary Share have been calculated using the weighted average number of Ordinary Shares in issue during the period. The weighted average number of equity shares in issue is 23,593,902 and the earnings, being profit after tax, and preference dividends, are £2,060,526.

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:

- amortisation of goodwill; and
- profits or losses on the disposal of fixed assets.

**11.5.95 to 30.9.96**  
**(pence)**

The directors believe this gives a better view of ongoing maintainable earnings.

Earnings per Ordinary Share	8.73
Amortisation of goodwill	1.15
Profit on disposal of fixed assets	(0.07)
Headline earnings per Ordinary Share	<u>9.81p</u>

# Notes to the Financial Statements

**NT**

## 10. PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

The Company has taken advantage of the exemption allowed under Section 230(3) of the Companies Act 1985 from presenting its own profit and loss account. The profit for the period available for distribution dealt with in the Financial Statements of the Company was £614,638, prior to the payment of the final dividend.

## 11. INTANGIBLE FIXED ASSETS

<b>GROUP</b>	<b>At 30.9.96 £</b>
<b>COST</b>	
Office Set Up Costs	203,999
Goodwill Arising on Consolidation	4,348,012
Purchased Goodwill	23,750
Intellectual Property	62,259
Research and Development	150,612
	<u>4,788,632</u>
<b>AMORTISATION</b>	
Office Set Up Costs	-
Goodwill Arising on Consolidation	271,799
Purchased Goodwill	9,500
Intellectual Property	36,797
Research and Development	25,406
	<u>343,502</u>
<b>NET BOOK VALUE</b>	<b>£</b>
Office Set Up Costs	203,999
Goodwill Arising on Consolidation	4,076,213
Purchased Goodwill	14,250
Intellectual Property	25,462
Research and Development	125,206
	<u>4,445,130</u>

All movements occurred during the period.

## COMPANY

<b>Purchased</b>	<b>Goodwill £</b>
<b>COST</b>	
Additions	5,000
At 30th September 1996	<u>5,000</u>
<b>NET BOOK VALUE</b>	
At 30th September 1996	<u>5,000</u>

### 12. TANGIBLE FIXED ASSETS

GROUP	Assets Acquired (note 23) £	Additions £	Disposals £	At 30.9.96 £
<b>COST</b>				
Freehold Property				
Improvements	-	21,491	-	21,491
Freehold Property	408,216	200,000	(408,216)	200,000
Plant and Equipment	578,387	1,209,142	(19,259)	1,768,270
Computer Software	-	372,722	-	372,722
Motor Vehicles	25,689	-	(7,821)	17,868
Fixtures and Fittings	32,776	7,627	-	40,403
	<u>1,045,068</u>	<u>1,810,982</u>	<u>(435,296)</u>	<u>2,420,754</u>
		<b>Charge</b> £	<b>Disposals</b> £	<b>At</b> 30.9.96 £
<b>DEPRECIATION</b>				
Freehold Property				
Improvements		320	-	320
Freehold Property		-	-	-
Plant and Equipment		367,099	-	367,099
Computer Software		-	-	-
Motor Vehicles		5,430	-	5,430
Fixtures and Fittings		6,570	-	6,570
		<u>379,419</u>	<u>-</u>	<u>379,419</u>
<b>NET BOOK VALUE</b>				<b>At</b> 30.9.96 £
Freehold Property				
Improvements				21,171
Freehold Property				200,000
Plant and Equipment				1,401,171
Computer Software				372,722
Motor Vehicles				12,438
Fixtures and Fittings				33,833
				<u>2,041,335</u>

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

Neither the freehold property nor the computer software above had been brought into use during the period and consequently have not been depreciated.

# Notes to the Financial Statements



## 13. FIXED ASSET INVESTMENTS

	COMPANY 1996 £
Shareholdings in Subsidiary Undertakings	5,449,609

The following were the 100% subsidiary undertakings of the company at 30th September 1996.

Name	Principal Activity
H. Bollmann Manufacturers Limited	Network connectivity products
H. Bollmann Manufacturers Inc.	Network connectivity products
A. B. Semicon (UK) Limited	Dormant
AB Semicon Limited	Dormant
International Technology Consultants Limited	Intermediate holding company and holder of intellectual property rights
Ringdale UK Limited	Network connectivity products
N & R Circuits UK Limited	Printed Circuit Board Manufacturer
Megaswitch Limited	Dormant
NCRYPTON PLC	Dormant

H. Bollmann Manufacturers Inc. is incorporated in the USA and AB Semicon Limited is incorporated in the Republic of Ireland. On the 1st October 1996 the Company acquired 25% of the Ordinary Share capital of Ringdale GmbH which is incorporated in Germany.

## 14. STOCKS

	GROUP 1996 £
Raw Materials and Consumables	959,001
Work in Progress	430,604
Finished Goods	534,936
	<u>1,924,541</u>

The Directors consider that the replacement cost of stock is not materially different to the amount included above.

### 15. DEBTORS

	Group 1996 £	Company 1996 £
<b>Amounts falling due within one year</b>		
Trade Debtors	2,332,654	-
Amounts Owed by Subsidiary Undertakings	-	940,495
Amounts Owed by Related Undertakings (see note 27)	154,335	-
Other Debtors	69,521	-
Prepayments	66,980	-
Value Added Tax	145,081	60,022
	<u>2,768,571</u>	<u>1,000,517</u>

### 16. CREDITORS

	Group 1996 £	Company 1996 £
<b>Amounts falling due within one year</b>		
Bank Overdraft (secured)	132,168	-
Hire Purchase and Finance Leases	76,935	-
Trade Creditors	2,084,575	12,057
Taxation	1,008,134	2,243
Other Taxation and Social Security	144,589	-
Other Creditors	71,997	22,247
Proposed Dividend	155,435	155,435
Accruals	372,606	7,500
	<u>4,046,439</u>	<u>199,482</u>

#### Amounts falling due after more than one year

	£
Bank Loan (secured)	100,767
Hire Purchase and Finance Leases	113,816
	<u>214,583</u>

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

	£
Within one to two years	76,935
Within two to five years	36,881
	<u>113,816</u>

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

# Notes to the Financial Statements

**NT**

## 17. CALLED UP SHARE CAPITAL

	1996 £
<b>Authorised</b>	
53,000,000 Ordinary Shares of 10p each	5,300,000
<b>Allotted, Issued and Fully Paid</b>	
31,087,093 Ordinary Shares of 10p each	3,108,709

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

On 30th 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 11th August 1995, 25,000 'B' Preference Shares of 50p each were redeemed at a premium of 50p per share (see note 18).

On 17th 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 24th 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 30th July 1996 and to provide working capital for the Group.

On 30th 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.



## 18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital £	Share Premium £	Capital Redemption £	Profit & Loss Account £	Total £
Subscriber Shares	2	-	-	-	2
<b>ISSUE OF:</b>					
'A' Ordinary £1 Shares	968,067	-	-	-	968,067
'A' Preference 50p Shares	1,315,967	1,315,966	-	-	2,631,933
'B' Preference 50p Shares	300,000	300,000	-	-	600,000
Ordinary £1 Shares	1,699,998	-	-	-	1,699,998
Ordinary 10p Shares	3,108,709	4,582,680	-	-	7,691,389
<b>REDEMPTION/CONVERSION OF:</b>					
'A' Ordinary £1 Shares	(968,067)	-	-	-	(968,067)
'A' Preference 50p Shares	(1,315,967)	(1,315,966)	-	-	(2,631,933)
'B' Preference 50p Shares	(300,000)	(300,000)	12,500	(12,500)	(600,000)
Ordinary £1 Shares	(1,700,000)	-	-	-	(1,700,000)
Costs of Issue of Shares	-	(697,669)	-	-	(697,669)
Retained Profit for the period	-	-	-	1,823,572	1,823,572
	<u>3,108,709</u>	<u>3,885,011</u>	<u>12,500</u>	<u>1,811,072</u>	<u>8,817,292</u>

The Capital Redemption Reserve arose on the redemption of 25,000 'B' Preference Shares on 11th August 1995 (see note 17). To enable redemption out of retained profits, a dividend was paid from a subsidiary to Network Technology PLC.

## 19. DEFERRED TAXATION

### GROUP

	Provided £	Unprovided £
Accelerated Capital Allowances	-	84,533

There was no unprovided deferred taxation in the Company.

# Notes to the Financial Statements

**NT**

## 20. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES 11.5.95 to 30.9.96 £

Operating Profit	3,552,903
Depreciation and Amortisation Charges	451,122
Consolidated Goodwill Amortisation	271,799
Profit on Sale of Fixed Assets	(16,796)
Increase in Stocks	(811,578)
Increase in Debtors	(817,024)
Increase in Creditors	110,418
<b>Net Cash Inflow from Operating Activities</b>	<b>2,740,844</b>

## 21. ANALYSIS OF CHANGES IN FINANCING 11.5.95 to 30.9.96

	Notes	Share Capital Including Premium £	Loans & Finance Lease Obligations £
Inception of hire purchase			65,321
New bank loan			109,767
Bank loan acquired	23		400,000
Repayment of bank loan acquired			(400,000)
Repayment of bank loan taken out in year			(9,000)
Hire purchase agreements acquired			191,236
Capital element of hire purchase payments			(65,806)
Issue of share capital		8,623,324	
Redemption of share capital		(3,231,933)	
Expenses set against share premium account		(697,669)	
Shares issued in satisfaction of acquisition of subsidiaries	23	2,299,998	
		<u>6,993,720</u>	<u>291,518</u>

## 22. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET At 30.9.96 £

Cash at Bank and in Hand	1,898,737
Bank Overdraft	(132,168)
	<u>1,766,569</u>



## Notes to the Financial Statements

### 23. ACQUISITIONS

On 30th June 1995 the Company acquired the entire share capital of H. Bollmann Manufacturers Limited and International Technology Consultants Limited and its subsidiary undertakings for £5,449,606 satisfied by the issue of Ordinary and 'B' Preference Shares and cash. Following the acquisition, K. Bollmann, H. Schlieker-Bollmann and D. Mould, (Directors of H. Bollmann Manufacturers Limited) joined the Board. In calculating the goodwill arising on acquisition, the fair value of net assets of the companies acquired have been assessed and no adjustments from book value were deemed necessary. The book value acquired by the Company is summarised in the following table:

	Book and fair value to the Group £
<b>Fixed assets</b>	
Intangible	43,750
Tangible (see note 12)	1,045,068
<b>Current Assets</b>	
Stocks	1,112,963
Debtors	1,951,547
Cash (see note 24)	556,876
<b>Total assets</b>	4,710,204
<b>Liabilities</b>	
Creditors	(3,187,835)
Bank overdraft (see note 24)	(20,775)
Bank loan (see note 21)	(400,000)
<b>Net assets</b>	1,101,594
	£
<b>Consideration -</b>	
Cash (see note 24)	3,149,608
Shares (see note 21)	2,299,998
<b>Net assets acquired</b>	(1,101,594)
<b>Goodwill arising on acquisition (see note 11)</b>	4,348,012

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

Profit and loss account	9 Months ended 30th June 1995 £
Turnover	6,661,706
Operating profit	931,195
Net interest	(50,998)
Profit on ordinary activities before taxation	880,197
Taxation on profit from ordinary activities	(306,112)
Profit for the period	574,085

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

# Notes to the Financial Statements



## 24. NET INFLOWS OF CASH AND CASH EQUIVALENTS ARISING FROM ACQUISITIONS

	11.5.95 to 30.9.96
	£
Cash consideration (see note 23)	3,149,608
Cash acquired (see note 23)	(556,876)
Overdraft acquired (see note 23)	20,775
	<hr/>
Net inflow of cash and cash equivalents in respect of the acquisition of H. Bollmann Manufacturers Limited and International Technology Consultants Limited	2,613,507
	<hr/>

## 25. CASH FLOWS RELATING TO ACQUIRED UNDERTAKINGS

	11.5.95 to 30.9.96
	£
Operating cash flows	2,729,145
Returns on investments and servicing of finance	(25,243)
Taxation	(632,738)
Investing activities	(1,149,335)
Financing	(365,039)
	<hr/>
Net cash inflow for the period from acquisition	556,790
	<hr/>

## 26. COMMITMENTS UNDER OPERATING LEASES

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

	Land & Buildings
	£
Operating leases which expire after 5 years	94,926
	<hr/>

## 27. RELATED PARTY TRANSACTIONS

During the period the Group made payments of £122,000 to the Directors' Executive Pension Scheme, The Woodgate Trust, in respect of pension contributions. During the period The Woodgate Trust purchased H. Bollmann Manufacturer's freehold property (net book value £408,216) for £425,000. During the period The Woodgate Trust received £114,993 in respect of rent from H. Bollmann Manufacturers Limited.

H. Bollmann Manufacturers Pty Limited ("HBM Pty Ltd"), a company registered in Australia, was considered to be a related party as it was controlled by H. Bollmann. During the period, sales amounting to £67,370 were made to HBM Pty Ltd. The balance outstanding to the Group at the end of the period was £154,335.

Messe and Weberservice GmbH, a company registered in Germany is considered to be a related party as K. Bollmann has a substantial interest. During the period, sales amounting to £5,460 were made to Messe and Weberservice GmbH. During the period, purchases of £16,405 were made from this company. No monies were outstanding at the year end.

PRB Martin Pollins, Chartered Accountants, is considered to be a related party as it is controlled by M. Pollins who is a Director of the Group. During the period, fees of £144,447 were paid in respect of professional fees. At 30th September 1996, £567 was outstanding to PRB Martin Pollins.

Maltrace PLC is considered to be a related party as K. Bollmann and M. Pollins are Directors. During the period Maltrace PLC loaned the Company monies which were converted into 'A' Ordinary and 'A' Preference Shares on 17th May 1996 (see note 17). On flotation, these shares were converted into Ordinary Shares. At the balance sheet date an amount of £22,247 included in other creditors was payable by the Company in respect of interest and pre-flotation dividends. Maltrace PLC continues to hold an interest in the Group as disclosed on page 28.