

**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 1998
FOR
ITK TELECOMMUNICATIONS LIMITED**



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for the Year Ended 30th June 1998

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COMPANY INFORMATION
for the Year Ended 30th June 1998

DIRECTORS: S J Shergold
W Schroder
K Rosenthal

SECRETARY: S J Shergold

REGISTERED OFFICE: 57 Grosvenor Street
Mayfair
London
W1X 9DA

REGISTERED NUMBER: 3138036 (England and Wales)

AUDITORS: De Warrenne Waller & Co. Limited
Chartered Accountants
& Registered Auditor
57 Grosvenor Street
Mayfair
London W1X 9DA

ITK TELECOMMUNICATIONS LIMITED

REPORT OF THE DIRECTORS for the Year Ended 30th June 1998

The directors present their report with the financial statements of the company for the year ended 30th June 1998.

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was that of a distributor of ITK products in the United Kingdom.

DIRECTORS

The directors during the year under review were:

S J Shergold
W Schroder
K Rosenthal

The beneficial interests of the directors holding office on 30th June 1998 in the issued share capital of the company were as follows:

	30.6.98	1.7.97
Ordinary Shares £1 shares		
S J Shergold	-	16,000
W Schroder	-	-
K Rosenthal	-	-

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

AUDITORS

The auditors, De Warrenne Waller & Co. Limited, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

ON BEHALF OF THE BOARD:

x S. S. L. x

S J Shergold - SECRETARY

Dated: 29th September 1998

**REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF
ITK TELECOMMUNICATIONS LIMITED**

We have audited the financial statements on pages four to eleven which have been prepared under the historical cost convention and the accounting policies set out on page six.

Respective responsibilities of directors and auditors

As described on page two the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

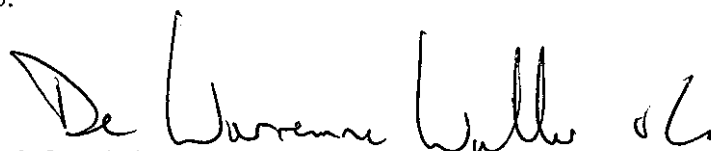
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Fundamental uncertainty

In forming our opinion, we have considered the additional finance requirements necessary to support the future operations of the company. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The financial statements do not include any adjustments that would result from a failure to obtain funding. Details of the circumstances relating to this fundamental uncertainty are described in note 20. 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 the company's affairs as at 30th June 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



De Warrenne Waller & Co. Limited
Chartered Accountants
& Registered Auditor
57 Grosvenor Street
Mayfair
London W1X 9DA

Dated: 29th September 1998

ITK TELECOMMUNICATIONS LIMITED
PROFIT AND LOSS ACCOUNT
for the Year Ended 30th June 1998

		Year Ended 30.6.98		Period 1.10.96 to 30.6.97	
	Notes	£	£	£	£
TURNOVER	2		919,688		163,396
Continuing operations		690,367		163,396	
Acquisitions		229,321		-	
		<u>919,688</u>		<u>163,396</u>	
Cost of sales	3		472,065		122,158
GROSS PROFIT	3		447,623		41,238
Net operating expenses	3		714,523		468,967
OPERATING LOSS	5		(266,900)		(427,729)
Continuing operations		(261,240)		(427,729)	
Acquisitions		(5,660)		-	
		<u>(266,900)</u>		<u>(427,729)</u>	
Interest receivable and similar income	6		250		2,866
			<u>(266,650)</u>		<u>(424,863)</u>
Interest payable and similar charges	7		41,063		(76,207)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			(307,713)		(348,656)
Tax on loss on ordinary activities	8		-		-
LOSS FOR THE FINANCIAL YEAR AFTER TAXATION			(307,713)		(348,656)
Deficit brought forward			(526,256)		(177,600)
DEFICIT CARRIED FORWARD			<u>£(833,969)</u>		<u>£(526,256)</u>

TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the losses for the current year or previous period.

The notes form part of these financial statements

ITK TELECOMMUNICATIONS LIMITED

BALANCE SHEET

30th June 1998

		1998		1997	
	Notes	£	£	£	£
FIXED ASSETS:					
Intangible assets	9		123,762		-
Tangible assets	10		36,176		15,364
			<u>159,938</u>		<u>15,364</u>
CURRENT ASSETS:					
Stocks	11	212,785		442,370	
Debtors	12	312,558		245,218	
Cash at bank and in hand		6,096		3,069	
		<u>531,439</u>		<u>690,657</u>	
CREDITORS: Amounts falling due within one year	13	1,425,346		1,132,277	
NET CURRENT LIABILITIES:			<u>(893,907)</u>		<u>(441,620)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES:			<u>£(733,969)</u>		<u>£(426,256)</u>
CAPITAL AND RESERVES:					
Called up share capital	15		100,000		100,000
Profit and loss account			(833,969)		(526,256)
Shareholders' funds	18		<u>£(733,969)</u>		<u>£(426,256)</u>

ON BEHALF OF THE BOARD:



W Schroder - DIRECTOR

Approved by the Board on 29th September 1998

The notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 30th June 1998

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention.

Financial Reporting Standard Number 1

Exemption has been taken from preparing a cash flow statement on the grounds that the company qualifies as a small company.

Turnover

Turnover represents net invoiced sales of goods, excluding value added tax.

Goodwill

Goodwill, being the amount arising in connection with the acquisition of a business in 1998, is being written off evenly over its estimated useful life of twenty years.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Plant and machinery	- 20 % on cost
Fixtures and fittings	- 20 % on cost
Computer and office equipment	- 33 % on cost

Stocks

Stock is valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Deferred taxation

Provision is made at current rates for taxation deferred in respect of all material timing differences except to the extent that, in the opinion of the directors, there is reasonable probability that the liability will not arise in the foreseeable future.

Pensions

The company operates a defined contribution pension scheme. Contributions payable for the year are charged in the profit and loss account.

2. TURNOVER

The turnover and loss before taxation are attributable to the one principal activity of the company.

NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 30th June 1998

3. ANALYSIS OF OPERATIONS

	Continuing	1998 Acquisitions	Total
	£	£	£
Cost of sales	<u>360,774</u>	<u>111,291</u>	<u>472,065</u>
Gross profit	<u>329,593</u>	<u>118,030</u>	<u>447,623</u>
Net operating expenses:			
Administrative expenses	800,033	123,690	923,723
Other operating income	(209,200)	-	(209,200)
	<u>590,833</u>	<u>123,690</u>	<u>714,523</u>

	Continuing	1997 Acquisitions	Total
	£	£	£
Cost of sales	<u>122,158</u>	<u>-</u>	<u>122,158</u>
Gross profit	<u>41,238</u>	<u>-</u>	<u>41,238</u>
Net operating expenses:			
Administrative expenses	<u>468,967</u>	<u>-</u>	<u>468,967</u>

4. STAFF COSTS

	Year Ended 30.6.98 £	Period 1.10.96 to 30.6.97 £
Wages and salaries	474,166	169,447
Social security costs	57,992	17,630
Other pension costs	5,990	8,944
	<u>538,148</u>	<u>196,021</u>

The average monthly number of employees during the year was as follows:

	Year Ended 30.6.98	Period 1.10.96 to 30.6.97
Sales and administration	<u>14</u>	<u>6</u>

ITK TELECOMMUNICATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 30th June 1998**

5. OPERATING LOSS

The operating loss is stated after charging:

	Year Ended 30.6.98	Period 1.10.96 to 30.6.97
	£	£
Hire of plant and machinery	2,617	2,158
Depreciation - owned assets	9,040	6,237
Goodwill written off	1,567	-
Auditors' remuneration	2,500	1,850
	<u>22,724</u>	<u>10,245</u>
Directors' emoluments	62,000	41,750
	<u>124,724</u>	<u>151,995</u>

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year Ended 30.6.98	Period 1.10.96 to 30.6.97
	£	£
Deposit account interest	250	2,866
	<u>250</u>	<u>2,866</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	Year Ended 30.6.98	Period 1.10.96 to 30.6.97
	£	£
Bank interest	4,275	-
Loan	36,788	-
Profit on foreign exchange	-	(76,207)
	<u>41,063</u>	<u>(76,207)</u>

8. TAXATION

No liability to UK Corporation tax arose on ordinary activities for the year ended 30th June 1998 nor for the period ended 30th June 1997.

ITK TELECOMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 30th June 1998

9. INTANGIBLE FIXED ASSETS

	Goodwill
	£
COST:	
Additions	125,329
At 30th June 1998	<u>125,329</u>
AMORTISATION:	
Charge for year	1,567
At 30th June 1998	<u>1,567</u>
NET BOOK VALUE:	
At 30th June 1998	<u><u>123,762</u></u>

10. TANGIBLE FIXED ASSETS

	Plant and machinery	Fixtures and fittings	Computer and office equipment	Totals
	£	£	£	£
COST:				
At 1st July 1997	8,889	738	12,938	22,565
Additions	17,382	5,666	6,804	29,852
At 30th June 1998	<u>26,271</u>	<u>6,404</u>	<u>19,742</u>	<u>52,417</u>
DEPRECIATION:				
At 1st July 1997	1,810	147	5,244	7,201
Charge for year	3,559	361	5,120	9,040
At 30th June 1998	<u>5,369</u>	<u>508</u>	<u>10,364</u>	<u>16,241</u>
NET BOOK VALUE:				
At 30th June 1998	<u><u>20,902</u></u>	<u><u>5,896</u></u>	<u><u>9,378</u></u>	<u><u>36,176</u></u>
At 30th June 1997	<u><u>7,079</u></u>	<u><u>591</u></u>	<u><u>7,694</u></u>	<u><u>15,364</u></u>

11. STOCKS

	1998 £	1997 £
Stocks for resale	<u><u>212,785</u></u>	<u><u>442,370</u></u>

ITK TELECOMMUNICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 30th June 1998

12. DEBTORS: AMOUNTS FALLING
DUE WITHIN ONE YEAR

	1998 £	1997 £
Trade debtors	286,911	233,616
Amounts due from Group undertakings	9,801	-
Prepayments	15,846	11,602
	<u>312,558</u>	<u>245,218</u>

13. CREDITORS: AMOUNTS FALLING
DUE WITHIN ONE YEAR

	1998 £	1997 £
Bank loans and overdrafts (see note 14)	66,990	10,642
Trade creditors	32,230	56,664
Amounts owed to group under- takings	1,174,437	1,028,277
Social security & other taxes	29,043	15,134
Taxation	10,846	-
Accrued expenses	111,800	21,560
	<u>1,425,346</u>	<u>1,132,277</u>

14. LOANS AND OVERDRAFTS

An analysis of the maturity of loans and overdrafts is given below:

	1998 £	1997 £
Amounts falling due within one year or on demand:		
Bank overdrafts	<u>66,990</u>	<u>10,642</u>

15. CALLED UP SHARE CAPITAL

Authorised, allotted, issued and fully paid:

Number:	Class:	Nominal value:	1998 £	1997 £
100,000	Ordinary Shares	£1	<u>100,000</u>	<u>100,000</u>

16. ULTIMATE PARENT COMPANY

The parent undertaking is ITK Telekommunikation AG, a company incorporated in Germany and registered in Germany. The ultimate parent undertaking is DiGi International, a company incorporated in the USA, and registered in the USA. Copies of the financial statements of the parent undertaking may be obtained from 11001 Bren Road E. Minnetonka, MN 55343, USA.

NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 30th June 1998

17. OTHER FINANCIAL COMMITMENTS

The Company had property lease obligations at the year end amounting to £30,000, (1997: £54,000).

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Loss for the financial year	(307,713)	(348,656)
NET REDUCTION OF SHAREHOLDERS' FUNDS	(307,713)	(348,656)
Opening shareholders' funds	(426,256)	(77,600)
CLOSING SHAREHOLDERS' FUNDS	(733,969)	(426,256)
Equity interests	(733,969)	(426,256)

19. ACQUISITION OF BUSINESS

On 1st April 1998 the Company acquired the trading activities and net assets of Telebit Europe Limited. The assets and liabilities were acquired at net book value, which approximated to fair value. Goodwill arose on the acquisition of the trade amounting to £125,329. Telebit Europe Limited achieved a profit before tax of £152,070 in the year ended 31st December 1996 and a loss of £28,307 in the 15 month period to 31st March 1998.

20. GOING CONCERN

The ultimate parent company has declined an undertaking to guarantee the future funding requirements of the business. If adequate funding is not made available the company may be forced to cease trading and incur further liabilities not provided for in the financial statements.