

# Registrar Of Companies

## Epoch Software Holdings Plc

### REPORT AND FINANCIAL STATEMENTS

31 December 1999



Company Registration No. 3676175

# Epoch Software Holdings Plc

## DIRECTORS AND OFFICERS

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### DIRECTORS

RC Cohen  
GK Cohen

### SECRETARY

R Allan

### REGISTERED OFFICE

Unit 1  
Technology Park  
Colindeep Lane  
London NW9 6BX

### AUDITORS

Baker Tilly  
Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST

# Epoch Software Holdings Plc

## DIRECTORS' REPORT

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The directors submit their report and the financial statements of Epoch Software Holdings Plc for the period from the date of incorporation on 30 November 1998 to 31 December 1999.

### PRINCIPAL ACTIVITIES

The principal activities of the group during the period are detailed in note 7 to the financial statements.

### CHANGE OF NAME

On 16 June 1999 the company changed its name from Hexagon 230 Limited to Epoch Software Holdings Limited and on 18 June 1999 the company re-registered as Epoch Software Holdings Plc.

### REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The directors are satisfied with the progress made by the group to date in creating an infrastructure suitable for the anticipated growth of the company.

### RESULTS AND DIVIDENDS

The group trading loss for the year after taxation was £1,189,009.

The company is precluded from the payment of a dividend.

### DIRECTORS

The following directors have held office since incorporation:

Hexagon Directors Limited	(appointed 20 November 1998 and resigned 16 June 1999)
RC Cohen	(appointed 16 June 1999)
GK Cohen	(appointed 16 June 1999)
E Evangelou	(appointed 16 June 1999 and resigned 20 March 2000)
MWB McCormack	(appointed 16 June 1999 and resigned 20 March 2000)
GH Chamberlain	(appointed 9 August 1999 and resigned 31 May 2000)

### DIRECTORS' INTERESTS IN SHARES

Directors' interests in the shares of the company, including family interests, were as follows:

	31 December 1999		On Incorporation *		
	Ordinary 'A' shares of 1p each	Ordinary shares of 1p each	Ordinary shares of 1p each	'A' Ordinary shares of 1p each	Ordinary shares of £1 each
RC Cohen	1,699,360	-	-	-	1
GK Cohen	3,553,864	-	-	-	-
E Evangelou	65,016	-	-	-	-
MWB McCormack	120,784	-	-	-	-
GH Chamberlain	-	-	-	-	-

\* or date of appointment, if later.

Details of share options are described in note 10.

# Epoch Software Holdings Plc

## DIRECTORS' REPORT

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### POLICY ON PAYMENT OF SUPPLIERS

All payments to suppliers and service providers are made on the basis of mutually agreed terms and conditions, which are established in advance of purchases. The amount due to creditors at the year end is not representative of actual number of days' purchases received from those creditors. This is due to the fluctuations in the level of purchases throughout the year.

### YEAR 2000

The group did not experience any problems associated with year 2000 issues.

### INTRODUCTION TO THE EURO

All relevant parts of the group will be able to handle euro transactions when required.

### AUDITORS

Baker Tilly, Chartered Accountants, were appointed as auditors by the directors during the year. A resolution to reappoint Baker Tilly, Chartered Accountants, as auditors will be put to the members at the annual general meeting.

By order of the board



Secretary

7 June 2000

# Epoch Software Holdings Plc

## DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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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 the group and of the profit or loss of the group for that year. In preparing those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. 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 the group and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## AUDITORS' REPORT TO THE MEMBERS OF EPOCH SOFTWARE HOLDINGS PLC

We have audited the financial statements on pages 6 to 19.

### **Respective responsibilities of directors and auditors**

As described on page 4 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 judgements made by the directors in the preparation of the financial statements, and of 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 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.

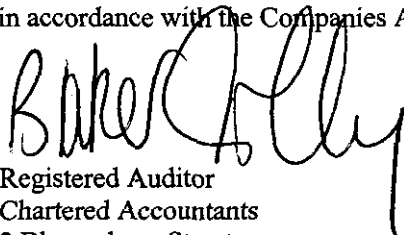
### **Going concern**

As explained in note 16, at 31 December 1999 the group had net current assets and positive shareholders' funds. Subsequent to that date, the group has continued to trade at a loss while its business is being established. The directors are seeking to raise approximately £5 million of new equity share capital under the Placing and Offer which, in the opinion of the directors, will provide sufficient working capital to allow the Group to continue to trade until December 2000. The directors are being advised on the Placing and Offer by Durlacher Limited, who have confirmed that they have received subscriptions from institutional investors for the full amount of the Placing of £4.5 million. During the fourth quarter of 2000, the directors intend to raise further funds through an issue of shares and a listing on a Recognised Investment Exchange.

Statement of Auditing Standard 130 "Going Concern" issued by the Auditing Practices Board requires that financial statements be prepared on the assumption that the "entity will continue in operational existence for the foreseeable future". The going concern concept has been applied on the assumption that there will be a successful outcome of the further fund raising referred to above.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company and the group affairs at 31 December 1999 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Registered Auditor  
Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST

7 June 2000

**Epoch Software Holdings Plc**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 1999

	<i>Notes</i>	1999 £	1998 £
TURNOVER	1	41,997	27,427
Cost of sales		(58,754)	-
Gross (loss)/profit		(16,757)	27,427
Administrative expenses		(1,187,415)	(70,092)
OPERATING LOSS		(1,204,172)	(42,665)
Interest receivable		15,118	136
Interest payable	2	(186)	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(1,189,240)	(42,529)
Taxation	5	231	(159)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	11	(1,189,009)	(42,688)

The operating loss for the year arises from the group's continuing operations.

No separate statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the profit and loss account.

# Epoch Software Holdings Plc

## BALANCE SHEET

31 December 1999

		Group		Company
	Notes	1999 £	1998 £	1999 £
<b>FIXED ASSETS</b>				
Tangible assets	6	206,893	8,883	-
Investments	7	-	-	74,428
		<u>206,893</u>	<u>8,883</u>	<u>74,428</u>
<b>CURRENT ASSETS</b>				
Debtors	8	180,091	9,189	1,351,288
Cash at bank and in hand		689,807	7,411	641,482
		<u>869,898</u>	<u>16,600</u>	<u>1,992,770</u>
CREDITORS: Amounts falling due within one year	9	(684,453)	(69,739)	(515,646)
NET CURRENT ASSETS/(LIABILITIES)		<u>185,445</u>	<u>(53,139)</u>	<u>1,477,124</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>392,338</u>	<u>(44,256)</u>	<u>1,551,552</u>
<b>CAPITAL AND RESERVES</b>				
Called up share capital	10	98,770	74,428	98,770
Share premium account	11	1,438,491	-	1,438,491
Merger reserve	11	89,442	(73,328)	-
Profit and loss account	11	(1,234,365)	(45,356)	14,291
EQUITY SHAREHOLDERS' FUNDS/(DEFICIT)	11	<u>392,338</u>	<u>(44,256)</u>	<u>1,551,552</u>

Approved by the board on

7 June 2000

Director



**Epoch Software Holdings Plc**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**for the year ended 31 December 1999**

	<i>Notes</i>	1999 £	1998 £
Cash flow from operating activities	12a	(740,167)	(13,061)
Returns on investments and servicing of finance	12b	14,932	136
Taxation		(289)	-
Capital expenditure and financial investment	12b	(217,685)	(9,243)
CASH OUTFLOW BEFORE FINANCING		<u>(943,209)</u>	<u>(22,168)</u>
Financing	12b	1,625,605	-
INCREASE/(DECREASE) IN CASH IN THE YEAR		<u>682,396</u>	<u>(22,168)</u>

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN FUNDS**

	1999 £	1998 £
Increase/(decrease) in cash in the year	<u>682,396</u>	<u>(22,168)</u>
MOVEMENT IN NET FUNDS IN YEAR	682,396	(22,168)
NET FUNDS AT 1 JANUARY 1999	7,411	29,579
NET FUNDS AT 31 DECEMBER 1999	<u>689,807</u>	<u>7,411</u>

# Epoch Software Holdings Plc

## ACCOUNTING POLICIES

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### BASIS OF ACCOUNTING

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

### BASIS OF CONSOLIDATION

The consolidated financial statements merge the financial statements of Epoch Software Group Limited and its subsidiaries with the financial statements of Epoch Software Holdings Plc as if they had always been so owned. Accordingly, the whole results, assets, liabilities and shareholders' funds of the merged companies are consolidated, regardless of the actual merger date. Results are time apportioned where accounting periods do not match that of Epoch Software Holdings Plc.

### TANGIBLE FIXED ASSETS

Fixed assets are stated at cost less depreciation. Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

Leasehold improvements	over the lease term
Fixtures and fittings	20% on cost
Computer hardware	25% on cost
Plant and equipment	25% on cost
Software	25% on cost
Motor vehicles	25% on cost

### INVESTMENTS

Fixed asset investments are stated at cost less provision for any permanent diminution in value.

### DEFERRED TAXATION

Provision is made for taxation deferred or accelerated by the effect of timing differences, to the extent that it is probable that a liability will crystallise, at the rate expected to be ruling at that date.

### LEASED ASSETS AND OBLIGATIONS

All leases are "operating leases" and the annual rentals are charged to the profit and loss account on a straight line basis over the lease term.

### PENSIONS CONTRIBUTIONS

Pension costs charged against profits represent amounts paid to schemes which are administered outside the group.

### TURNOVER

Turnover represents the invoiced value, net of Value Added Tax, of goods sold and services provided to customers.

# Epoch Software Holdings Plc

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 1999

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#### 1 TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The group's turnover and loss before taxation were all derived from its principal activity, wholly undertaken in the United Kingdom.

	1999	1998
	£	£
2 INTEREST PAYABLE		
On bank loans and overdrafts	186	-
	<hr/>	<hr/>

	1999	1998
	£	£
3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		
Loss on ordinary activities before taxation is stated after charging:		
Depreciation and amounts written off tangible fixed assets:		
Charge for the year - owned assets	19,675	2,927
Operating lease rentals:		
Motor vehicles	6,290	-
Land and buildings	28,722	-
Auditors' remuneration	20,000	-
	<hr/>	<hr/>

	1999	1998
	No.	No.
4 EMPLOYEES		
The average monthly number of persons (including directors) employed by the company during the year was:		
Office and management	22	5
	<hr/>	<hr/>

	1999	1998
	£	£
Staff costs for the above persons:		
Wages and salaries	442,388	13,270
Social security costs	23,871	994
Other pension costs	20,690	-
	<hr/>	<hr/>
	486,949	14,264
	<hr/>	<hr/>

**Epoch Software Holdings Plc**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 1999

	1999 £	1998 £
4 EMPLOYEES ( <i>continued</i> )		
DIRECTORS' REMUNERATION		
Emoluments	118,803	-
Pension contributions	20,178	-
Total emoluments	<u>138,981</u>	<u>-</u>

Pension contributions were made by TAB Systems International Limited and Landau & Cohen on behalf of the group in respect of three directors.

	1999 £	1998 £
5 TAXATION		
UK corporation tax	<u>(231)</u>	<u>159</u>

6 TANGIBLE FIXED ASSETS				
GROUP	<i>Leasehold improvements</i>	<i>Fixtures, fittings and equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	£	£	£	£
Cost				
1 January 1999	-	13,586	-	13,586
Additions	26,974	186,961	3,750	217,685
31 December 1999	<u>26,974</u>	<u>200,547</u>	<u>3,750</u>	<u>231,271</u>
Depreciation				
1 January 1999	-	4,703	-	4,703
Charged in the year	-	19,362	313	19,675
31 December 1999	<u>-</u>	<u>24,065</u>	<u>313</u>	<u>24,378</u>
Net book value				
31 December 1999	<u>26,974</u>	<u>176,482</u>	<u>3,437</u>	<u>206,893</u>
31 December 1998	<u>-</u>	<u>8,883</u>	<u>-</u>	<u>8,883</u>

# Epoch Software Holdings Plc

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1999

### 7 FIXED ASSET INVESTMENTS

COMPANY	£
Cost and net book value	
Acquired in year	74,428
31 December 1999	<u>74,428</u>

<i>Name of subsidiary</i>	<i>Class of holding</i>	<i>Proportion held directly</i>	<i>Proportion held indirectly</i>	<i>Nature of business</i>
Epoch Software Group Ltd	Ordinary	100%	-	Intermediate Holding company
Desktop Lawyer (Dormant) Ltd	Ordinary	-	100%	Note 1
Desktop Lawyer Ltd	Ordinary	-	100%	Note 2
Direct Lawyer Ltd	Ordinary	-	100%	Note 3
Epoch Software Development Ltd	Ordinary	-	100%	Note 4
Epoch Software Distribution Ltd	Ordinary	-	100%	Note 3
Epoch Software (Dormant) Ltd	Ordinary	-	100%	Note 5
Desktop Lawyer (Leeds) Ltd	Ordinary	-	100%	Note 2
Desktop Lawyer (Onsenior) Ltd	Ordinary	-	100%	Non-trading
Desktop Lawyer (Services) Ltd	Ordinary	-	100%	Note 2
Desktop Lawyer Skipton Ltd	Ordinary	-	100%	Non-trading
Desktop Lawyer Maiden Ltd	Ordinary	-	100%	Non-trading
Desktop Lawyer Newgate Ltd	Ordinary	-	100%	Non-trading
Desktop Lawyer Blackfriars Ltd	Ordinary	-	100%	Non-trading
Epoch Software Pty Ltd	Ordinary	100%	-	Note 2

Note 1 - Computer consultancy

Note 2 - Electronic publishing

Note 3 - Marketing and distribution of computer and electronic publishing software

Note 4 - Development of computer and electronic publishing software

Note 5 - Software consultancy and supply

All subsidiaries were incorporated in England and Wales, except for Epoch Software Pty Ltd which was incorporated in New South Wales, Australia.

Epoch Software Group Limited and its subsidiaries were acquired on 18 June 1999, but have been merger accounted for, so the whole year's results, assets, liabilities and shareholders' funds of the merged companies are consolidated regardless of the actual merger date.

# Epoch Software Holdings Plc

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1999

8	DEBTORS		Group	Company
		1999	1998	1999
		£	£	£
	Due within one year:			
	Trade debtors	17,458	4,649	-
	Amounts owed by group undertakings	-	-	1,313,888
	Other debtors	138,445	4,540	24,007
	Prepayments and accrued income	24,188	-	13,393
		<u>180,091</u>	<u>9,189</u>	<u>1,351,288</u>
9	CREDITORS: Amounts falling due within one year		Group	Company
		1999	1998	1999
		£	£	£
	Trade creditors	145,494	15,013	10,650
	Amounts owed to group undertakings	-	-	162,770
	Corporation tax	-	217	-
	Other taxation and social security costs	153,413	261	28,827
	Other creditors	342,936	51,459	303,937
	Accruals and deferred income	42,610	2,789	9,462
		<u>684,453</u>	<u>69,739</u>	<u>515,646</u>
10	SHARE CAPITAL		Group and Company	Group
			1999	1998
			£	£
	Authorised:			
	13,200,000 ordinary shares of 1p each		132,000	132,000
	1,800,000 'A' ordinary shares of 1p each		18,000	18,000
			<u>150,000</u>	<u>150,000</u>
	Allotted, issued and fully paid:			
	8,126,959 (1998: 7,442,784) ordinary shares of 1p each		81,270	74,428
	1,750,001 (1998: Nil) 'A' ordinary shares of 1p each		17,500	-
			<u>98,770</u>	<u>74,428</u>
	Shares issued during the year:			

The company was incorporated with one issued ordinary share of £1 and an authorised share capital of 100 ordinary shares of £1 each.

On 18 June 1999, the company increased the authorised share capital to £150,000 by the creation of 131,900 ordinary shares of £1 each and 18,000 'A' ordinary shares of £1 each. All £1 shares were then subdivided into 100 1p shares.

# Epoch Software Holdings Plc

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 1999

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#### 10 SHARE CAPITAL (*continued*)

On 18 June 1999, the company issued 7,442,684 1p ordinary shares to acquire 21,636 1p ordinary shares of Epoch Software Group Limited, representing 100% of the issued share capital. In accordance with the provisions of s131 of the Companies Act 1985, no share premium has been recognised as the transaction has been accounted for as a merger.

On 18 June 1999, following the merger with Epoch Software Group Limited, a series of Deeds of Novation were signed to transfer the obligations of Double Option Agreements to Epoch Software Holdings Plc. Under the terms of these Double Option Agreements, five investors were obliged to subscribe for ordinary shares on a monthly basis. Under these agreements the company issued a total of 140,696 1p ordinary shares for total consideration of £40,693 during the year. This was settled by a reduction in the trading loan from TAB Systems International Limited, a company whose directors exercise significant influence in the group.

On 30 June 1999, the company issued 1,750,001 'A' ordinary shares of 1p each for total cash consideration of £1,225,001.

On 9 August 1999, the company issued 543,479 1p ordinary shares for total cash consideration of £500,001.

#### Share rights:

'A' ordinary shares and ordinary shares rank *pari passu* in all respects, apart from rights in respect of the appointment and removal of directors.

#### Mergers during the year:

On 9 February 1999 Epoch Software Group Limited acquired 100% of the issued share capital of Epoch Software (Dormant) Limited (formerly Epoch Software Limited) and Desktop Lawyer Limited (formerly Desktop Lawyer (Holdings) Limited), by way of a share for share exchange.

On 18 June 1999, as described above, Epoch Software Holdings plc acquired 100% of the issued share capital of Epoch Software Group Limited.

Both business combinations have been accounted for as mergers and the accounts have been prepared as if the subsidiaries had always been so owned.

The 1998 group comparatives reflect an adjusted share capital calculated by reference to the 1999 group share capital as follows:

	Nominal value £
Share capital at 31 December 1999	98,770
Less: nominal value of shares issued in year	(24,342)
Adjusted share capital at 31 December 1999	74,428
Less: original nominal value of two merged companies	(1,100)
Adjusted merger reserve at 31 December 1998	73,328

# Epoch Software Holdings Plc

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1999

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### 10 SHARE CAPITAL (*continued*)

#### Share options:

##### *Double options*

At 31 December 1999, the company was obliged to issue 990,720 1p ordinary shares under double option agreements for an allotment price of 28.92p per share.

##### *Current Options*

Also at 31 December 1999, the Company had an unapproved share option scheme and options have been granted to E Evangelou, M McCormack and G Friedman. Under the terms of the Current Options the option holders are entitled to subscribe for Ordinary Shares at a price of £0.01 per share ("Option Shares") if the Company is sold at a valuation greater than £20,000,000. Mr Evangelou and Mr McCormack are entitled to receive a number of Option Shares equal in value to 4.6 per cent and Mr Friedman is entitled to receive Option Shares equal in value to 2 per cent, of the amount by which the valuation of the entire issued share capital of the Company exceeds £20,000,000 on any sale.

In the event that the Company declares a dividend in any year in which the auditors certify that the Company has a valuation exceeding £20,000,000, Mr Evangelou, Mr McCormack and Mr Friedman are entitled to receive a bonus equal to the dividend that they would have received had they held a number of Option Shares calculated on the same basis set out above substituting the valuation of the Company certified by the auditors for the sale valuation.

The Company, Mr Evangelou, Mr McCormack and Mr Friedman have agreed non-binding heads of terms relating to options to replace the Current Options ("The Replacement Options"). This agreement is subject to the final documentation being prepared by legal advisers and approved by the parties. The main terms of these non-binding heads of agreement are as follows:

- Mr Evangelou, Mr McCormack and Mr Friedman will each waive their Current Options and each be granted an option to subscribe for 163,015, 163,015 and 171,709 respectively Ordinary Shares in the Company at £0.01 per Ordinary Share;
- Mr Friedman's option will vest immediately and Mr Evangelou and Mr McCormack's options will vest on the earlier of 6 months from the date of the grant or an IPO of the Company;
- Mr Friedman's option will be exercisable immediately on an IPO of the Company and Mr Evangelou and Mr McCormack's options will become exercisable 12 months after an IPO of the Company;
- exercise of the options will be subject to the option holder meeting performance criteria to be set by the Company's Remuneration Committee; and,
- options will lapse 10 years after the date of grant, 5 years after an IPO of the Company or on the cessation of the option holder's employment with the Group (save that if the option has vested, the Remuneration Committee shall have the discretion to allow the option holder to retain the option).



# Epoch Software Holdings Plc

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 1999

#### 10 SHARE CAPITAL (*continued*)

Under a Deed of Waiver, dated 18 June 1999, the Company on the one hand and Mr Evangelou, Mr McCormack and Mr Friedman on the other have the right to require that, if agreement of the terms of the Replacement Options cannot be reached, then Baker Tilly may be appointed to decide the terms of the Replacement Options as experts.

The Company is currently considering whether to grant an unapproved share option to another key employee on the same terms as the Replacement Options save that it is proposed to grant that employee options to subscribe for 154,321 Ordinary Shares.

Share options granted since 31 December 1999 are detailed in note 16.

#### 11 RESERVES AND RECONCILIATION OF EQUITY SHAREHOLDERS' FUNDS/(DEFICIT)

	Called up share capital £	Share premium account £	Merger reserve £	Profit and loss account £	Equity shareholders' funds/ (deficit) £
GROUP					
1 January 1999 (note 10)	74,428	-	(73,328)	(45,356)	(44,256)
Shares issued in year by Epoch Software Holdings plc (net of expenses of £302,860) (note 10)	24,342	1,438,491	-	-	1,462,833
Shares issued in year by Epoch Software Group Limited	-	-	162,770	-	162,770
Loss for the financial year	-	-	-	(1,189,009)	(1,189,009)
31 December 1999	98,770	1,438,491	89,442	(1,234,365)	392,338

During the year, Epoch Software Group Limited, a wholly owned subsidiary, issued 1,636 1p ordinary shares for total consideration of £162,770 under a series of Double Option Agreements. This was settled by a reduction in the trading loan from TAB Systems International Limited, a company whose directors exercise significant influence in the group.

As described in note 10, following the merger between Epoch Software Holdings plc and Epoch Software Group Limited on 18 June 1999, a series of Deeds of Novation were signed to transfer the remaining obligations of the Double Option Agreements to Epoch Software Holdings plc.

COMPANY	Called up share capital £	Share premium account £	Profit and loss account £	Equity shareholders' funds £
Shares issued since incorporation (net of expenses of £302,860)	98,770	1,438,491	-	1,537,261
Profit for the financial year	-	-	14,291	14,291
31 December 1999	98,770	1,438,491	14,291	1,551,552

**Epoch Software Holdings Plc**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 1999

12	CASH FLOWS	1999 £	1998 £
a	Reconciliation of operating loss to net cash outflow from operating activities		
	Operating loss	(1,204,172)	(42,665)
	Depreciation	19,675	2,927
	(Increase)/decrease in debtors	(170,591)	1,356
	Increase in creditors	614,921	25,321
	Net cash flow from operating activities	(740,167)	(13,061)
		1999 £	1998 £
b	Analysis of cash flows for headings netted in the cash flow		
	<b>Returns on investments and servicing of finance</b>		
	Interest received	15,118	136
	Interest paid	(186)	-
	Net cash inflow for returns on investments and servicing of finance	14,932	136
	<b>Capital expenditure and financial investment</b>		
	Purchase of tangible fixed assets	(217,685)	(9,243)
	Net cash outflow for capital expenditure and financial investment	(217,685)	(9,243)
	<b>Financing</b>		
	Issue of ordinary share capital	1,928,465	-
	Issue expenses	(302,860)	-
	Net cash inflow from financing	1,625,605	-
c	Analysis of net funds	At 1 January 1999 £	At 31 December 1999 £
	Cash in hand, at bank	7,411	689,807

# Epoch Software Holdings Plc

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 1999

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#### 13 COMMITMENTS UNDER OPERATING LEASES

At 31 December 1999 the company had annual commitments under non-cancellable operating leases as follows:

	1999 £	1998 £
Motor vehicles expiring in the second to fifth year	8,387	-
Land and buildings expiring in the second to fifth year	49,236	-
	<u>57,623</u>	<u>-</u>

#### 14 RELATED PARTY DISCLOSURES

The company has taken advantage of the exemptions provided by Financial Reporting Standard 8 in not disclosing transactions with group companies.

Other related party transactions in the year were:

- i) expenses totalling £451,233 were recharged by TAB Systems International Limited ("TAB"), a company whose directors exercise significant influence in the group, of which £121,730 was capitalised within fixed assets and the remainder charged in the profit and loss account. The amount owed to TAB at 31 December 1999 was £300,594.
- ii) expenses totalling £51,556 were recharged by Landau & Cohen, a partnership in which R Cohen, a director, is a partner. The amount owed to Landau & Cohen at 31 December 1999 was £4,618.

#### 15 COMPANY PROFIT AND LOSS ACCOUNT

As permitted by s230 Companies Act 1985, the company has not presented its own profit and loss account.

#### 16 POST BALANCE SHEET EVENTS

- i) On 20 March 2000, Durlacher Corporation Plc made available to the Company a loan facility in the maximum principal amount of £1,000,000. The facility is interest-free and all amounts outstanding are due for repayment on 31 December 2000. As at 7 June 2000, the sum of £700,000 had been drawn down pursuant to the Durlacher facility. The amount outstanding is, in certain circumstances, convertible into Ordinary Shares at the option of Durlacher Corporation Plc pursuant to the terms of the Durlacher Warrant, as described below.

The Company has granted to Durlacher Corporation Plc a right to subscribe for Ordinary Shares at a price equivalent to 80 per cent of the Placing Price. The aggregate value of the shares for which Durlacher Corporation Plc is entitled to subscribe shall be not less than the aggregate principal amount drawn down pursuant to the Durlacher facility and not more than £1,000,000. The actual value, provided that it falls within these parameters, is to be specified by Durlacher Corporation Plc. The Durlacher Warrant may only be exercised in contemplation of a listing or equity fund raising of Epoch and may be exercised on the Placing.

# Epoch Software Holdings Plc

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1999

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### 16 POST BALANCE SHEET EVENTS (*continued*)

- ii) On 31 May 2000, the company entered into a conditional agreement with all the shareholders of Mylawyer.com, Inc. to acquire the whole of the issued common stock of Mylawyer.com, Inc. the consideration for which is to be satisfied by the allotment and issue of 452,820 Ordinary Shares of 1p each, credited as fully paid, in the company.
- iii) At 31 December 1999, the group had net current assets and positive shareholders' funds. Subsequent to that date, the group has continued to trade at a loss while it's business is being established.

The directors are seeking to raise approximately £5 million of new equity share capital under the Placing and Offer which, in the opinion of the directors, will provide sufficient working capital to allow the group to continue to trade until December 2000. The directors are being advised on the Placing and Offer by Durlacher Limited, who have confirmed that they have received subscriptions from institutional investors for the full amount of the Placing of £4.5 million.

The directors recognise that the group will require additional working capital to enable it to continue to trade beyond December 2000.

During the fourth quarter of 2000, the directors intend to raise further funds through an issue of shares and a listing on a Recognised Investment Exchange.

The going concern concept has been applied on the assumption that there will be a successful outcome of the further fund raising.

- iv) Pursuant to the proposed subscription agreement, the company intends to grant ARAG Insurance Company Inc ("ARAG") a right to subscribe for 68,901 ordinary shares in the company at par. In the event that these shares are valued at less than the sterling equivalent of \$1 million on a subsequent initial public offering of the company's shares on a Recognised Investment Exchange or a further equity fund raising of not less than £7.5 million, whichever is earlier, such additional shares would be issued so that the total shares issued to ARAG would equate to the total value of \$1 million at that time (calculated by reference to a fixed pre-determined exchange rate).