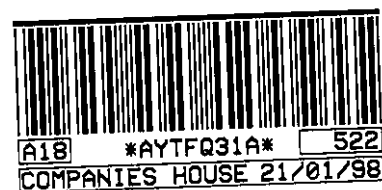


Akhter Group plc

**Directors' report and consolidated
financial statements**

30 June 1997

Registered number 1435835



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the fifteen month period ended 30 June 1997.

Principal activities

The group is an established manufacturer, systems integrator and supplier of PC network and database technology to a broad base of predominantly public sector customers in the UK. The group principally serves the networked PC and workstation market offering customers complete turnkey systems solutions, comprising hardware, software, installation, networking, training and after sales support. The group sells mainly into niche markets in which it can differentiate itself and gain a competitive advantage.

The group also assembles branded personal computers for another manufacturer and assembles and distributes switch mode power supply units.

Business review

The group's consolidated profit and loss account is shown on page 6 and the consolidated balance sheet on page 7.

Future developments

The group is continuing to investigate new products and markets and will be endeavouring to expand trading activities of the group.

The group's management team is dedicated to maintaining and extending the improvements in customer services, quality and productivity.

Research and development

Research and development is an important part of the groups' operations. The directors intend to continue their policy of investment in Research and Development as an essential aspect of the continuing commitment to product and quality improvements.

Dividend

An interim dividend of 16p (net) per share, amounting to £739,807 was paid in the period ended 30 June 1997. The directors propose a final dividend of 24p (net) per ordinary share which, together with the interim dividend, makes a total net dividend of 40p per ordinary share for the period. The final dividend, if approved, will be paid on 19 December 1997 to ordinary shareholders registered at the close of business on 18 December 1997.

Directors' report *(continued)*

Directors and directors' interests

Directors who served during the period are as follows:

HA Mughal - Chief Executive
 MS Awan - resigned 29 May 1997
 Mrs YA Mughal - resigned 29 May 1997
 AG Laffoley - Group Technical Director
 AM Tillbrook - Group Sales and Marketing Director
 DF Osborne - Non-Executive Chairman - appointed 9 June 1997
 Dr B Steiner - Non-Executive Director - appointed 9 June 1997
 S Swan - Group Finance Director - appointed 29 May 1997

The beneficial interests in the ordinary share capital of the company of the persons who were directors at the end of the financial period were as follows:

	30 June 1997	31 March 1996
HA Mughal	3,900,000	3,900,000
AM Tillbrook	60,000	60,000
AG Laffoley	120,000	122,899

Included in the above interests are shares held by spouses and children who are not directors of the company.

Mr Swan holds share options over 15,000 ordinary shares of 10p each in the company exercisable at £5.00 each at any time from 1 May 2000 to 1 May 2002.

There has been no change to the above holdings from the balance sheet date to the date of this report.

Employee Consultation

The group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings.

Disabled Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort will be made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Political and charitable contributions

The group made no political contributions during the period (1996: £nil). Charitable donations amounted to £700 (1996: £405,217).

Payment policy

It is the group's policy to negotiate terms with its suppliers and to ensure that they know the terms on which payment will be made when business is agreed. It is the directors policy to abide by such terms. The group does not follow any specified code or standard on payment practice due to the diverse nature of its supplier base.

At 30 June 1997 trade creditors represented approximately 38 days purchases for the group. The company did not have any trade creditors at 30 June 1997.

Auditors

In accordance with Section 388 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

MS Awan
Secretary



Akhter House
Perry Road
Harlow
Essex CM18 7PN

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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



KPMG Audit Plc

PO Box 695
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Report of the auditors to the members of Akhter Group plc

We have audited the financial statements on pages 6 to 24.

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.

Opinions

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 June 1997 and of the profit of the group for the 15 month period then ended and have been properly prepared in accordance with the Companies Act 1985.

The financial statements also include a profit and loss account for the year ended 30 June 1997 prepared to facilitate comparison. In our opinion the illustrative profit and loss account gives a true and fair view of the profit of the group for the year ended 30 June 1997.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

18 November 1997

Consolidated profit and loss account for the 15 month period ended 30 June 1997

Note

		15 months to 30 June 1997 £000	Year to 30 June 1997 £000 (Non-statutory)	Year to 31 March 1996 £000 Restated (note 19)
Turnover - Continuing operations	1-2	42,238	38,209	34,989
Cost of Sales		(29,162)	(26,189)	(26,460)
Gross profit		13,076	12,020	8,529
Selling and distribution costs		(5,089)	(4,413)	(2,570)
Administrative expenses				
Excluding exceptional items		(1,836)	(1,426)	(796)
Exceptional items	8	(1,815)	(938)	(3,119)
		(3,651)	(2,364)	(3,915)
Operating profit - continuing operations	3-8	6,151	6,181	5,163
Excluding exceptional items		(1,815)	(938)	(3,119)
Exceptional items	8			
		4,336	5,243	2,044
Interest receivable and similar income	4	58	46	57
Interest payable and similar charges	5	(232)	(213)	(102)
Profit on ordinary activities before taxation	2-8	5,977	6,014	5,118
Excluding exceptional items		(1,815)	(938)	(3,119)
Exceptional items	8	4,162	5,076	1,999
Tax on profit on ordinary activities	9	(2,162)	(2,175)	(1,567)
Excluding exceptional items		319	310	943
Exceptional items	8	(1,843)	(1,865)	(624)
Profit on ordinary activities after taxation		2,319	3,211	1,375
Equity minority interests		140	140	-
Profit for the financial period		2,459	3,351	1,375
Equity dividends	10	(1,856)	(1,856)	(369)
Retained profit for the financial period	19	603	1,495	1,006

Following the change in the year end to 30 June 1997 a profit and loss account for the year ended 30 June 1997 has been provided for illustrative purposes.

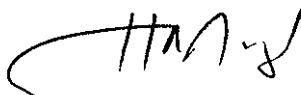
Consolidated balance sheet

at 30 June 1997

		30 June		31 March	
	Note	1997 £000	1997 £000	1996 £000 Restated (note 19)	1996 £000 Restated (note 19)
Fixed assets					
Tangible assets	11		5,612		3,650
Current assets					
Stocks	13	4,574		3,857	
Debtors	14	5,038		4,020	
Cash at bank and in hand		659		4,391	
		<u>10,271</u>		<u>12,268</u>	
Creditors: amounts falling due within one year	15	<u>(10,107)</u>		<u>(10,924)</u>	
Net current assets			<u>164</u>		<u>1,344</u>
Total assets less current liabilities			<u>5,776</u>		<u>4,994</u>
Creditors: amounts falling due after one year	16		(302)		-
Provisions for liabilities and charges	17		(5)		(94)
Net assets			<u>5,469</u>		<u>4,900</u>
Capital and reserves					
Called up share capital	18		470		461
Share premium account	19		69		10
Revaluation reserve	19		95		95
Profit and loss account	19		4,835		4,334
Equity shareholders' funds			<u>5,469</u>		<u>4,900</u>

These financial statements were approved by the board of directors on 18/11/97 and were signed on its behalf by:

HA Mughal
Chief Executive



S Swan
Group Finance Director



Company Balance sheet
at 30 June 1997

	Note	30 June		31 March	
		1997	1997	1996	1996
		£000	£000	£000	£000
				Restated (note 19)	Restated (note 19)
Fixed assets					
Tangible assets	11		830		851
Investments	12		1,694		650
			<hr/>		<hr/>
			2,524		1,501
Current assets					
Debtors	14	3,014		1,161	
Cash at bank and in hand		-		2	
		<hr/>		<hr/>	
		3,014		1,163	
Creditors: amounts falling due within one year	15	(4,073)		(859)	
		<hr/>		<hr/>	
Net current (liabilities) / assets			(1,059)		304
			<hr/>		<hr/>
Total assets less current liabilities			1,465		1,805
			<hr/>		<hr/>
Provisions for liabilities and charges	17		(3)		-
			<hr/>		<hr/>
Net assets			1,462		1,805
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	18		470		461
Share premium account	19		69		10
Revaluation reserve	19		95		95
Profit and loss account	19		828		1,239
			<hr/>		<hr/>
Equity shareholders' funds			1,462		1,805
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 18/6/97 and were signed on its behalf by:

HA Mughal
Chief Executive



S Swan
Group Finance Director



Consolidated cash flow statement
for the 15 month period ended 30 June 1997

	<i>Note</i>	1997 £000	1996 £000
Cash flow statement			
Cash flow from operating activities	22	339	4,792
Returns on investments and servicing of finance	23	(174)	(45)
Taxation		(873)	(555)
Capital expenditure and financial investment	23	(3,060)	(2,014)
Acquisitions and disposals	23	(100)	-
Equity dividends paid		(1,109)	(220)
		<hr/>	<hr/>
Cash (outflow)/inflow before management of liquid resources and financing		(4,977)	1,958
Financing	23	759	3
		<hr/>	<hr/>
(Decrease)/increase in cash in the period		(4,218)	1,961
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net debt			
		<hr/>	<hr/>
(Decrease)/increase in cash in the period		(4,218)	1,961
Cash inflow from increase in debt and lease financing		(302)	-
		<hr/>	<hr/>
Movement in net cash/(debt) in the period		(4,520)	1,961
Net cash at the start of the period		4,391	2,430
		<hr/>	<hr/>
Net (debt)/cash at the end of the period	24	(129)	4,391
		<hr/>	<hr/>

Consolidated statement of total recognised gains and losses
for the 15 month period ended 30 June 1997

	1997 £000	1996 £000 Restated
Profit for the financial period	2,319	1,375
Total recognised gains relating the financial period	2,319	1,375
Prior year adjustments (as explained in note 19)	(260)	
Total gains and losses recognised since last annual report	2,059	

Note of consolidated historical cost profits and losses
for the 15 month period ended 30 June 1997

	1997 £000	1996 £000 Restated
Reported profit on ordinary activities before taxation	4,162	1,999
Realisation of property revaluation gains of previous years	-	400
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	(1)	(1)
Historical cost profit on ordinary activities before taxation	4,161	2,398
Historical cost profit for the period retained after taxation, minority interests and dividends	1,693	1,405

Reconciliation of movement in shareholders' funds
for the 15 month period ended 30 June 1997

	Group		Company	
	1997 £000	1996 £000 Restated	1997 £000	1996 £000 Restated
Profit for the financial period	2,459	1,375	1,445	77
Dividends	(1,856)	(369)	(1,856)	(369)
New share capital subscribed (notes 18 and 20)	106	3	68	3
Goodwill arising on acquisition written off (note 20)	(140)	-	-	-
Net addition to shareholders' funds	569	1,009	(343)	(289)
Opening shareholders' funds (as restated, note 19)	4,900	3,891	1,805	2,094
Closing shareholders' funds	5,469	4,900	1,462	1,805

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable accounting standards under the historical cost convention modified by the revaluation of certain land and buildings.

The prior year figure for administration expenses has been restated to reflect an underprovision in respect of the group's liability accruing under its' Profit Related Pay scheme in the statutory accounts for the year ended 31 March 1996. The taxation charge has also been restated to reflect this.

In addition, the prior year profit has been restated to include the profit arising on sale of properties by reference to carrying value rather than historic cost; the balance sheet has also been restated to reflect adjustments to correct the level of depreciation charged on revalued assets in prior years.

These prior year adjustments are detailed in note 19.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 June 1997.

Company accounts

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account. The amount of profit for the financial period dealt with in the accounts of the company is £1,445,000.

Turnover

Turnover represents the invoiced value of goods sold and services provided and is stated net of value added tax. The turnover is attributable to the principal activities of the group which all represent continuing operations. For equipment supplied under rental agreements, turnover is recognised on an accruals basis.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date and any exchange differences arising are taken to the profit and loss account.

Leases

Rentals under operating leases are charged on a straight line basis over the lease term.

Research and Development expenditure

Expenditure on research and development is written off against profits in the period in which it is incurred.

Notes (continued)

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

Fixed assets and depreciation

Depreciation is provided on all tangible fixed assets except freehold land, to write off the cost, less estimated residual value, of each asset over its expected useful life on a reducing balance basis, except where stated, as follows:

Fixtures, fittings and equipment	15 per cent, per annum
Motor vehicles	25 per cent, per annum
Buildings	2 per cent, per annum on cost or valuation on a straight line basis
Equipment for rental	On a systematic basis so as to spread profit evenly over the period of the rental agreements.
Leasehold improvements	Over life of lease on a straight line basis

Stocks

Stock is valued at the lower of cost, including all relevant overhead expenditure, and net realisable value.

Pensions

The group does not operate any occupational pension schemes other than for HA Mughal, his wife and the company secretary. The arrangements for Mr Mughal are an approved defined contribution scheme (in which his wife is a member) and a funded unapproved defined contribution scheme. The arrangement for the company secretary is an individual approved defined contribution scheme.

Contributions are made to personal pension plans for certain employees and directors.

All contributions are paid on an agreed basis as an alternative to salary and are charged to the profit and loss account on an accruals basis.

Notes (continued)

2 Segmental analysis

Turnover is all attributable to the principal activities of the group and arises solely from the UK.

The distribution of external sales by geographic region is as follows:

	1997 £000	1996 £000
Africa	72	106
Middle East and Asia	38	8
Europe	47	191
United Kingdom	42,081	34,671
USA	-	13
Total	<u>42,238</u>	<u>34,989</u>

The directors believe that the group has only one business segment and accordingly no further segmental analysis is provided.

3 Operating profit

	1997 £000	1996 £000
<i>Operating profit is stated after charging/(crediting)</i>		
Depreciation and other amounts written off tangible fixed assets	1,098	496
Research and development expenditure	176	108
Auditors' remuneration:		
Audit services - Gross Klein & Co	-	33
- KPMG Audit Plc	25	-
Other services - Gross Klein & Co	17	10
- KPMG Audit Plc	391	-
Income from rental of fixed assets	(1,113)	(569)

£5,000 (1996: £nil) of the remuneration of the auditors for audit services relates to the audit of the company. £377,000 of the £391,000 charged by KPMG Audit Plc for other services in the period ended 30 June 1997 has been charged within exceptional administration costs.

4 Interest receivable and similar income

	1997 £000	1996 £000
Bank interest	56	54
Rental income	2	3
	<u>58</u>	<u>57</u>

Notes (continued)

5 Interest payable and similar charges

	1997 £000	1996 £000
On bank loans and overdrafts	69	42
Other interest paid	126	35
Interest on loan from pension fund	25	-
Interest paid to related party (note 26)	12	25
	<hr/>	<hr/>
	232	102
	<hr/>	<hr/>

6 Staff numbers and costs

The average weekly number of persons employed by the group (including directors) during the period, analysed by category, was as follows:

	Number of employees	
	1997	1996
Administration and technical	56	37
Selling and distribution	123	90
	<hr/>	<hr/>
	179	127
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	1997 £000	1996 £000
Wages and salaries	2,944	2,747
Social security costs	463	191
Other pension costs	416	869
Exceptional profit related pay	964	781
	<hr/>	<hr/>
	4,787	4,588
	<hr/>	<hr/>

Included within wages and salaries and other pension costs in the period ended 30 June 1997 is £nil in respect of discretionary bonuses to directors and employees (1996: £1,938,000). These have been disclosed as exceptional items within administration expenses (note 8).

The Group has cancelled its profit related pay scheme with effect from 1 April 1997. Exceptional profit related pay relates to amounts paid in the periods ended 30 June 1997 and 31 March 1996 which, by virtue of the cancellation of the scheme, are non-recurring.

Notes (continued)

7 Remuneration of directors

The remuneration of the directors is as follows:

	1997		1996	
	Directors	Highest paid director	Directors	Highest paid director
	£000	£000	£000	£000
Emoluments:				
Salary	293	91	227	65
Benefits in kind	-	-	3	-
Bonus	519	431	521	476
Exceptional payments under PRP scheme	139	-	135	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total emoluments	951	522	886	541
Pension contributions	416	416	869	869
	<hr/>	<hr/>	<hr/>	<hr/>
	1,367	938	1,755	1,410
	<hr/>	<hr/>	<hr/>	<hr/>

Mr Mughal was the highest paid director in the period ended 30 June 1997 and the year ended 31 March 1996.

General discretionary bonuses were provided in the years ended 31 March 1996 and 31 March 1995. £743,000 of the remuneration of Mr Mughal paid in the period ended 30 June 1997 and £378,000 paid in the year ended 31 March 1996 was allocated against the general discretionary bonuses charged to profit in the years ended 31 March 1996 and 31 March 1995 respectively.

The emoluments, excluding pension contributions, of the directors (including the chairman) were within the following ranges:

	1997	1996
	Number of directors	
£0 to £5,000	2	-
£10,001 to £15,000	1	-
£45,001 to £50,000	1	1
£100,001 to £105,000	-	2
£115,001 to £120,000	2	-
£120,001 to £125,000	-	1
£135,001 to £140,000	1	-
£520,001 to £525,000	1	-
£540,001 to £545,000	-	1

Notes (continued)

8 Exceptional items

	1997 £000	1996 £000
Discretionary bonuses	-	1,938
Charitable donations	-	400
Exceptional profit related pay	964	781
Non-recurring advisory costs	851	-
	<hr/> 1,815 <hr/>	<hr/> 3,119 <hr/>

Discretionary bonuses were paid in the year ended 31 March 1996 to employees and directors. These were non-contractual payments and are not expected to recur.

Charitable donations were made to the 'Akhter Educational Trust', a registered charity, in the year ended 31 March 1996. These are non-contractual payments and are not expected to recur.

The group cancelled its profit related pay scheme with effect from 1 April 1997. Exceptional profit related pay relates to amounts paid in the period ended 30 June 1997 and the year ended 31 March 1996 which, by virtue of the cancellation of the scheme, are non-recurring.

Non-recurring advisory costs represents costs incurred by the group, including accounting and taxation advice, in relation to the proposed flotation of the group and other business development opportunities.

9 Taxation

	1997 £000	1996 £000
UK corporation tax on the profit on ordinary activities		
- excluding exceptional items	2,060	1,489
- tax on exceptional items	(319)	(739)
Deferred taxation		
- excluding exceptional items	115	64
- deferred tax on exceptional items	-	(204)
Adjustments relating to an earlier year	(13)	14
	<hr/> 1,843 <hr/>	<hr/> 624 <hr/>

The tax charge for the year ended 31 March 1996 is lower than the standard UK rate due to the utilisation of losses brought forward. The tax charge for the period ended 30 June 1997 is higher than the standard UK rate due to the incomplete utilisation of initial trading losses at Micrology Limited.

Tax on exceptional items has been calculated at the effective rate for each period in line with the requirements of FRS3.

10 Equity dividends

	1997 £000	1996 £000
Interim dividend paid	740	-
Final dividend paid	1,116	369
	<hr/> 1,856 <hr/>	<hr/> 369 <hr/>

Notes (continued)

11 Tangible fixed assets

	Fixtures and fittings £000	Motor vehicles £000	Equipment for rental £000	Leasehold improvements £000	Freehold land and buildings £000	Total £000
Group						
<i>Cost or valuation</i>						
At 1 April 1996	1,303	106	1,635	799	850	4,693
Additions	756	375	55	445	1,429	3,060
Transfers	-	-	-	(1,126)	1,126	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 1997	2,059	481	1,690	118	3,405	7,753
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>						
At 1 April 1996	638	46	327	19	13	1,043
Charge for period	232	66	716	49	35	1,098
Transfers	-	-	-	(64)	64	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 1997	870	112	1,043	4	112	2,141
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>						
At 30 June 1997	1,189	369	647	114	3,293	5,612
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 April 1996	665	60	1,308	780	837	3,650
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
				Fixtures and fittings £000	Freehold land and buildings £000	Total £000
Company						
<i>Cost</i>						
At 1 April 1996 and 30 June 1997				49	850	899
				<hr/>	<hr/>	<hr/>
<i>Depreciation</i>						
At 1 April 1996				35	13	48
Charge for period				3	18	21
				<hr/>	<hr/>	<hr/>
At 30 June 1997				38	31	69
				<hr/>	<hr/>	<hr/>
<i>Net book value</i>						
At 30 June 1997				11	819	830
				<hr/>	<hr/>	<hr/>
At 31 March 1996				14	837	851
				<hr/>	<hr/>	<hr/>

Freehold land and buildings comprises:

- Akhter House, 11 Perry Road and Micrology House carried at cost;
- freehold property in Burnley at a revalued amount. The property was revalued by independent valuers at an open market value of £850,000 at January 1995.

Notes (continued)

If land and buildings had not been revalued the following amounts would have been included in the balance sheet:

	Group 1997 £000	Company 1997 £000
Historical cost	3,481	926
Depreciation	(229)	(148)
	<hr/>	<hr/>
Net book value at 30 June 1997	3,252	778
	<hr/>	<hr/>
Net book value at 1 April 1996	797	797
	<hr/>	<hr/>

The consolidated depreciation charge for the year, based on the historic cost, would have been £36,000 (1996: £19,000).

12 Fixed asset investments - investment in subsidiaries

	Company 1997 £000	Company 1996 £000
At start of period	650	650
Additions	1,044	-
	<hr/>	<hr/>
At end of period	1,694	650
	<hr/>	<hr/>

The principal subsidiary undertakings, all of which are wholly owned, have an accounting year end of 30 June and are registered in England and Wales are as follows:

Akhter Computers Limited (issued share capital £1,000,000) - Established manufacturer, system integrator and supplier of PC network and database technology

Microsales Distribution Limited (issued share capital £400,000) - Supply of power supplies and computer peripheral components and the final assembly of power supply products for the electronic manufacturing sector

Micrology Limited (issued share capital £332,500) - designs, assembles and distributes specialist high performance multimedia and CD-ROM products for commercial users and distributors

13 Stocks

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Raw materials and consumables	1,331	1,687	-	-
Work in progress	1	80	-	-
Finished goods and goods for resale	3,242	2,090	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	4,574	3,857	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

14 Debtors - due within one year

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
Trade debtors	4,010	2,917	-	-
Called up share capital not paid	-	251	-	251
Amounts owed by group undertakings	-	-	2,712	910
Prepayments and sundry debtors	541	648	-	-
Deferred tax asset	-	204	-	-
ACT recoverable	464	-	279	-
Corporation taxation	23	-	23	-
	<u>5,038</u>	<u>4,020</u>	<u>3,014</u>	<u>1,161</u>

15 Creditors: amounts falling due within one year

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
Trade creditors	3,195	4,776	-	-
Corporation tax	1,673	702	-	13
ACT payable	464	92	279	92
Other taxes and social security	687	1,360	-	-
Other creditors:				
Discretionary bonuses	-	922	-	-
Final payments under profit related pay scheme	1,183	845	-	-
Other creditors and accruals	1,303	1,858	658	-
Dividends proposed	1,116	369	1,116	369
Bank overdraft	486	-	-	-
Amounts due to subsidiary undertakings	-	-	2,020	385
	<u>10,107</u>	<u>10,924</u>	<u>4,073</u>	<u>859</u>

16 Creditors: amounts falling due after one year

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
Bank loan	302	-	-	-
	<u>302</u>	<u>-</u>	<u>-</u>	<u>-</u>

The bank loan, which is repayable in monthly instalments to 2011, bears interest at 1.75% over the Barclays Bank Plc base rate and is secured by a fixed charge over Micrology House, Egham.

Notes (continued)

17 Provisions for liabilities and charges - deferred taxation

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
Group				
At beginning of period	94	30	-	-
Utilised during period	(89)	-	-	-
Charge for the period	-	64	3	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of period	5	94	3	-
	<hr/>	<hr/>	<hr/>	<hr/>

There are no amounts unprovided in respect of deferred tax. All amounts provided in respect of deferred tax relate to accelerated capital allowances.

18 Called up share capital

	1997	1996
	£	£
Authorised		
10,000,000 Ordinary shares of 10p each	1,000,000	1,000,000
	<hr/>	<hr/>
	£'000	£'000
Issued		
At start of period	461	461
Issued during period (85,695 ordinary shares of 10p each)	9	-
	<hr/>	<hr/>
At end of period	470	461
	<hr/>	<hr/>

In accordance with Section 131 of the Companies Act 1985 no share premium has been recognised on the issue of 20,000 ordinary shares of 10p each as part consideration for the acquisition of the minority interest in Micrology Limited during the period (see note 20).

19 Reserves

	Merger	Revaluation	Group	Share
	reserve	reserve	Profit	premium
	£000	£000	and loss	account
			account	£000
At 31 March 1996	-	-	4,689	10
Prior year adjustment	-	95	(355)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1996, as restated	-	95	4,334	10
Merger reserve arising on acquisition (note 20)	38	-	-	-
Goodwill arising on acquisition of minority interest (note 20)	(38)	-	(102)	-
Issue of share capital	-	-	-	59
Retained profit for the financial period	-	-	603	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 1997	-	95	4,835	69

Notes (continued)

	Share premium account £000	Company Revaluation reserve £000	Profit and loss account £000
At 31 March 1996	10	-	1,179
Prior year adjustment	-	95	60
	<hr/>	<hr/>	<hr/>
At 31 March 1996 as restated	10	95	1,239
Issue of shares	59	-	-
Retained profit for the financial period	-	-	(411)
	<hr/>	<hr/>	<hr/>
At 30 June 1997	69	95	828
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Prior year adjustment

The opening reserves at 1 April 1997 have been restated to reflect an underprovision of £619,000 in relation to the group's liabilities in respect of its profit related pay scheme for the year ended 31 March 1996. A deferred taxation asset has been set up in respect of this and this has also been adjusted for in the restated reserves. In addition, certain entries have been made to adjust the level of depreciation charged on revalued properties in prior years. The restatement to the previously published figures for the year ended 31 March 1996 is:

	Group £000	Company £000
Balance sheet		
Fixed assets - adjustments to historic depreciation charges	155	155
Current assets - creation of a deferred tax asset within debtors	204	-
Current liabilities - increase in liability in respect of profit related pay scheme	(619)	-
	<hr/>	<hr/>
Movement in net assets	(260)	155
	<hr/> <hr/>	<hr/> <hr/>
Revaluation reserve - adjustments to historic depreciation charges	95	95
Profit and loss account - adjustment in respect of historic depreciation charges	60	60
Profit and loss account - net adjustment in respect of additional liability on profit related pay scheme	(415)	-
	<hr/>	<hr/>
Movement in shareholders' funds	(260)	155
	<hr/> <hr/>	<hr/> <hr/>
Profit and loss account		
Decrease in profit before interest	(619)	-
Decrease in profit on sale of revalued property	(364)	(364)
Reduction in charge to taxation	204	-
	<hr/>	<hr/>
Decrease in retained profit for the year ended 31 March 1996	(779)	(364)
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

20 Minority interests

	Group	
	1997 £000	1996 £000
At beginning of period	-	-
Investment in subsidiary by minority interest	140	-
Share of loss for period	(140)	-
	<hr/>	<hr/>
At end of period	-	-
	<hr/>	<hr/>

During the period ended 30 June 1997 third parties acquired a minority stake in Micrology Limited when that company was established. Under a sale and purchase agreement dated 6 June 1997 between these third parties and the company the company acquired the issued ordinary and redeemable preference share capital of Micrology not then held by the company. The consideration for the ordinary shares of Micrology was the allotment and issue of 20,000 ordinary shares of 10p each in the company credited as fully paid to the third parties and potential deferred consideration. This deferred consideration comprises an amount of up to £400,000 in cash by reference to warranted profits of Micrology for the period ended 30 June 1998 and an amount of up to £1,000,000 in shares of the company by reference to an earn-out formula on profits of Micrology for the financial year ending 1999. The consideration for the redeemable preference shares was the sum of £100,000 in cash (equal to the par value of the redeemable preference shares). Goodwill arising on the acquisition of £140,000 has been written off to reserves:

	£000
<i>Consideration granted:</i>	
Cash	100
Shares (at fair value)	40
Less: minorities share of net assets of Micrology	-
	<hr/>
Goodwill	140
	<hr/>

Goodwill of £38,000 has been written off against the merger reserve arising on consolidation. The remaining goodwill of £102,000 has been written off to the consolidated profit and loss reserve.

21 Commitments

Other than the potential deferred consideration set out in note 20 the group has no material capital commitments at 30 June 1997. The group has not provided for any of the potential deferred consideration on the basis that management do not consider any further consideration will need to be paid under this agreement.

Annual commitments under non-cancellable operating leases in respect of land and buildings are as follows:

	1997 £000	1996 £000
Operating leases which expire		
- in more than five years	12	136
	<hr/>	<hr/>

Notes (continued)

22 Reconciliation of operating profit to operating cash flows

	1997 £000	1996 £000
Operating profit	4,336	2,044
Depreciation charge	1,098	496
Increase in stocks	(717)	(1,168)
Increase in debtors	(986)	(765)
(Decrease)/increase in creditors	(3,392)	4,185
Net cash inflow from operating activities	339	4,792

23 Analysis of cash flows

	1997 £000	1996 £000
Returns on investment and servicing of finance		
Interest received	58	57
Interest paid	(232)	(102)
Net cash outflow from returns on investment and servicing of finance	(174)	(45)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(3,060)	(2,843)
Sale of plant and machinery	-	829
Net cash outflow from capital expenditure and financial investment	(3,060)	(2,014)
Acquisitions and disposals		
Purchase of minority interest in subsidiary	(100)	-
Financing		
Issue of ordinary share capital	317	3
Funds invested by minority interest	140	-
Debt due after more than one year:		
New secured loan	302	-
Net cash inflow from financing	759	3

24 Analysis of net debt

	At beginning of period £000	Cash flow £00	At end of period £000
Cash in hand, at bank	4,391	(3,732)	659
Overdrafts	-	(486)	(486)
	4,391	(4,218)	173
Debt due after one year	-	(302)	(302)
Total	4,391	(4,520)	(129)

Notes (continued)

25 Transactions with directors

During the year ended 31 March 1996 the freehold interest in Akhter House, Perry Road, Harlow was sold to a pension fund of which HA Mughal and his wife are trustees and sole beneficiaries at its open market value of £815,000. Amounts of £99,000 and £49,000 were paid by Group companies during the period ended 30 June 1997 and 31 March 1996 respectively in relation to the lease of this property from this pension fund. On 3 October 1996 this pension fund advanced £500,000 to the group. This loan, which was interest bearing at 3% above base rate was repaid by the group on 3 April 1997. In the 15 month period to 30 June 1997 interest of £22,000 was paid on this loan. There was no interest outstanding at 30 June 1997.

The group repurchased the freehold interest in Akhter House from the pension fund for £815,000 on 6 June 1997. The property was independently valued prior to the repurchase. The group purchased 11 Perry Road, a manufacturing site also in Harlow from HA Mughal for £270,000 on 4 June 1997. This property, which houses the production operations of Microsales Distribution Limited and the group's customer support activities, was transferred by the group to HA Mughal by way of payment of a bonus in respect of the year ended 31 March 1995. Amounts of £47,000 and £40,000 were paid by Group companies during the period ended 30 June 1997 and 31 March 1996 respectively in relation to the lease of this property from HA Mughal. At both the date of the transfer to HA Mughal and the date of the repurchase the property was independently valued.

26 Related party disclosures

During the financial year ended 31 March 1996 UK Financial Services Limited, a company registered in England and Wales, became under the control of HA Mughal. At times during the year ended 31 March 1996 and the period ended 30 June 1997 funds were advanced, under interest bearing arrangements, to group companies by UK Financial Services Limited. In addition the group entered into car leasing arrangements with UK Financial Services Limited on an arm's length basis. These arrangements ceased on 3 June 1997 when the cars leased under the arrangements were purchased by group companies from UK Financial Services Limited for their open market value of £143,000. A summary of the amounts involved are set out below:

	1997 £000	1996 £000
Amounts charged to group companies in relation to car leasing arrangements	88	99
Interest charged to group companies on funds advanced	12	25
	<hr/>	<hr/>
Maximum amount owed by group companies at any point during financial period	314	359
Maximum amount owed to group companies at any point during financial period	191	401
	<hr/>	<hr/>
Amount owed by group companies at balance sheet date	-	154
Amount owed to group companies at balance sheet date	-	87
	<hr/>	<hr/>

All commercial arrangements between UK Financial Services Limited and group companies had ceased at 30 June 1997.