

**DATARANGE
COMMUNICATIONS PLC**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 1999



DATARANGE COMMUNICATIONS PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1999

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DATARANGE COMMUNICATIONS PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1999

Company Registration Number:	1949601
Registered Office:	Kingsmead House Abbey Barn Road High Wycombe Bucks HP11 1XG
Directors:	Dr W C Moyer J D Robinson
Secretary:	A Johnston
Bankers:	Barclays Bank Plc Cardinal Point Newall Road Heathrow Airport Hounslow TW6 2AH
Solicitors:	Crowell & Moring 180 Fleet Street London EC4A 2HD
Auditors:	Grant Thornton Chartered Accountants Edinburgh House Windsor Road Slough Berks SL1 2EE

DATARANGE COMMUNICATIONS PLC

REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 31 March 1999.

Principal activities

The company's principal activity during the period was the supply, integration and associated technical support services for complex enterprise wide local and wide area networks for major corporate users.

Results and dividends

The turnover for the year was £13.65m and profit before tax £0.5m.

Interim dividends totalling £1 per share were paid in the year. The directors recommend payment of a final dividend of 33p per share giving a total for the year of £400,000 (1998 - £600,000). Retained losses of £86,506 were transferred from reserves.

Business review

During the year Datarange continued to focus on corporate enterprise networking as a leading UK systems integrator for Nortel Networks, Cisco, IBM, Shiva and 3Com.

The directors have a confident outlook for the future given the market in which the company operates.

Directors

The directors in office during and at the end of the year are listed below.

The interests of the directors and their families in the shares of the parent company at 1 April 1998 and at 31 March 1999 were as follows:

	Ordinary shares	
	1999	1998
Dr W C Moyer	54,196	54,196
J D Robinson	4,500	4,500

No director had, during or at the end of the year, any material interest in a contract which was significant in relation to the company's business.

Payment policy

The company's policy with regard to the payment of suppliers is to agree terms and conditions for transactions with suppliers.

Payment is generally made on these terms, providing the suppliers meet their obligations to the company's satisfaction.

Trade creditors at the year end amount to 40 days of average supplies for the year.

DATARANGE COMMUNICATIONS PLC

REPORT OF THE DIRECTORS

Directors' responsibilities for the financial statements

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 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 company will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Euro

The Company has considered the impact of the Euro in both financial and operational terms, and does not consider that any disruption, nor material costs, are likely to be incurred by the Company as a result of its introduction. The Company already maintains multi currency capabilities and will observe the development of the currency with interest.

Year 2000 Compliance

Many computer systems which express dates using only the last two digits of the year may malfunction due to the date change to the Year 2000. This risk to the business relates not only to the company's computer systems, but also to some degree on those of our customers and suppliers.

The company has reviewed its computer systems for the impact of the Year 2000 date change. An impact analysis has been prepared to identify the major risks, and actions have been implemented to address these. Any non compliant systems have been replaced and compliant systems installed

The main systems which were affected were:

- the accounting and management information system, which was replaced in January 1999 with a Year 2000 compliant system;
- the stock purchasing and inventory management system which was replaced in January 1999 with a Year 2000 compliant system.

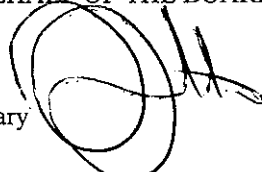
The company has received from major customers, suppliers and other trading partners with whom information is exchanged electronically, confirmation that their relevant systems are Year 2000 compliant.

The issue is complex, and no business can guarantee that there will be no Year 2000 problems. However, the Board believes that its plans and the resources allocated are appropriate and adequate to address the issue.

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

Secretary 

3 June 1999

DATARANGE COMMUNICATIONS PLC

REPORT OF THE AUDITORS TO THE MEMBERS OF DATARANGE COMMUNICATIONS PLC

We have audited the financial statements on pages 4 to 15 which have been prepared under the accounting policies set out on pages 4 and 5.

Respective responsibilities of directors and auditors

As described on page 2 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 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.

Opinion

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

Grant Thornton

**GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
THAMES VALLEY OFFICE
SLOUGH**

7 June 1999

DATARANGE COMMUNICATIONS PLC

PRINCIPAL ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 1999

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention.

The principal accounting policies of the company have remained unchanged from the previous year and are set out below.

Turnover

Turnover is the total amount receivable by the company in the ordinary course of business with outside customers for goods supplied as a principal and for services provided, excluding VAT and trade discounts.

Depreciation

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives.

The rates generally applicable are:

Leasehold premises and improvements	straight line over the term of the lease
Motor vehicles	25% straight line
Office fixtures and fittings	15% reducing balance/25% straight line
Computer equipment and demonstration equipment	between 20% and 33 1/3% dependent on equipment type

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value.

Deferred tax

Deferred tax is the tax attributable to timing differences between profits or losses as computed for tax purposes and results as stated in the financial statements.

Deferred tax is provided to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability.

Deferred tax is computed under the liability method using the rates at which it is estimated that the tax will be paid (or recovered) when the timing differences reverse.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Where exchange differences relate to the translation of foreign currency borrowings raised to acquire foreign assets they are taken to reserves and offset against the difference arising from the translation of those assets. All other exchange differences are dealt with through the profit and loss.

PRINCIPAL ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 1999

Leased assets

Where assets are financed by leasing agreements which give risks and rewards approximate to ownership ("finance leases") they are treated as if they had been purchased outright on credit. They are therefore initially recorded as a fixed asset and a liability at a sum equal to the fair value of the asset. Leasing payments on such assets are regarded as consisting of a capital element which reduces the outstanding liability and an interest charge (calculated using the "rule of 78").

All other leases are regarded as operating leases and the total payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

DATARANGE COMMUNICATIONS PLC

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 1999

	Note	1999 £	1998 £
Turnover	1	13,646,630	15,699,149
Cost of sales		<u>(8,131,857)</u>	<u>(9,612,933)</u>
Gross Profit		5,514,773	6,086,216
Administrative expenses		(5,103,129)	(5,058,932)
Other operating income	1	<u>-</u>	<u>24,375</u>
Operating profit		411,644	1,051,659
Other interest receivable and similar income	1	100,017	109,598
Interest payable and similar charges	2	<u>(16,645)</u>	<u>(8,281)</u>
Profit on ordinary activities before taxation	1	495,016	1,152,976
Tax on profit on ordinary activities	5	<u>(181,522)</u>	<u>(384,432)</u>
Profit on ordinary activities after taxation		313,494	768,544
Equity dividends	6	(400,000)	(600,000)
(Loss)/profit for the financial year retained		<u><u>(86,506)</u></u>	<u><u>168,544</u></u>

There were no recognised gains or losses other than the (loss)/profit for the financial year.

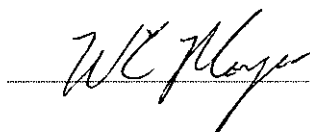
DATARANGE COMMUNICATIONS PLC

BALANCE SHEET AT 31 MARCH 1999

	Note	£	1999 £	£	1998 £
Fixed assets					
Tangible assets	7		473,756		480,011
Current assets					
Stocks	8	637,874		924,040	
Debtors	9	2,993,125		2,307,068	
Cash at bank and in hand		<u>2,249,981</u>		<u>1,444,001</u>	
		5,880,980		4,675,109	
Creditors: amounts falling due within one year					
Creditors (excluding deferred income)	10	(3,059,603)		(2,382,472)	
Deferred income	10	<u>(1,731,882)</u>		<u>(1,175,459)</u>	
		(4,791,485)		(3,557,931)	
Net current assets			<u>1,089,495</u>		<u>1,117,178</u>
Total assets less current liabilities			1,563,251		1,597,189
Creditors: amounts falling due after more than one year					
	11		<u>(94,803)</u>		<u>(42,235)</u>
			<u>1,468,448</u>		<u>1,554,954</u>
Capital and reserves					
Called up share capital	13		300,000		300,000
Profit and loss account	13		<u>1,168,448</u>		<u>1,254,954</u>
Equity shareholders' funds			<u>1,468,448</u>		<u>1,554,954</u>

The financial statements were approved by the Board of Directors on 3 June 1999.

W C Moyer



Director

DATARANGE COMMUNICATIONS PLC

CASHFLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 1999

	Note	£	1999 £	£	1998 £
Net cash inflow from operating activities	14		1,516,955		1,267,521
Returns on investments and servicing of finance					
Interest received		100,017		109,598	
Interest paid		-		-	
Interest element on hire purchase contracts		(16,645)		(8,281)	
Net cash inflow from returns on investments and servicing of finance			83,372		101,317
Taxation					
UK corporation tax paid			(405,197)		(217,087)
Capital expenditure & financial investment					
Purchase of tangible fixed assets		(238,051)		(220,348)	
Receipts from sale of tangible assets		255,897		103,780	
Net cash outflow from investing activities			17,846		(116,568)
Net cash inflow before financing			1,212,976		1,035,183
Equity dividends paid			(300,000)		(600,000)
Financing					
Repayment of capital on hire purchase Contracts			(106,996)		(55,790)
Net cash outflow from Financing	15		(106,996)		(55,790)
Increase in cash	15		805,980		379,393

DATARANGE COMMUNICATIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1999

1 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The turnover and profit before taxation are attributable to one activity, which is carried on in the following geographical markets:

	1999 £	1998 £
United Kingdom	13,606,750	15,367,891
Rest of Europe	38,717	289,731
United States of America	1,163	41,527
	<u>13,646,630</u>	<u>15,699,149</u>

The profit on ordinary activities is stated after:

	1999 £	1998 £
Auditors' remuneration		
- audit services	10,000	10,000
- non audit services	1,725	1,000
Depreciation of tangible fixed assets	204,711	233,954
Operating leases		
- land and buildings	234,790	232,518
- equipment and motor vehicles	210,118	221,614
Rents receivable	-	(24,375)
Interest receivable from group undertakings	-	(22,212)
	<u>-</u>	<u>(22,212)</u>

2 INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £	1998 £
Finance charges in respect of finance leases	<u>16,645</u>	<u>8,281</u>

3 DIRECTORS AND EMPLOYEES

The average number of employees of the company during the year and their aggregate emoluments are shown below:

	1999 £	1998 £
Wages and salaries	2,924,004	2,858,528
Social security	291,935	293,075
Pension costs	-	7,769
	<u>3,215,939</u>	<u>3,159,372</u>

DATARANGE COMMUNICATIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1999

3 DIRECTORS AND EMPLOYEES (Continued...)

The average number of employees of the company during the year was:

	1999	1998
Office management	16	17
Sales, technical and distribution	63	57
	<u>79</u>	<u>74</u>

Staff costs include remuneration in respect of directors, as follows:

	1999 £	1998 £
Remuneration for management services (including pension contributions)	<u>-</u>	<u>211,957</u>

4 PENSION COSTS

The company had operated a defined contribution pension scheme which was terminated on 31 March 1998. The assets of the scheme had been held separately from those of the company in an independently administered fund. Contributions payable by the company amounted to £NIL (1998 : £7,769).

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is based on the profit for the year and represents:

	1999 £	1998 £
United Kingdom corporation tax @ 31% (1998 : 31%)	180,630	379,305
Under provision in respect of prior years	892	5,127
	<u>181,522</u>	<u>384,432</u>

6 EQUITY DIVIDENDS

	1999 £	1998 £
Ordinary shares – 1 st interim dividend of 33p per share paid 9 July 1998 (1998 200p)	100,000	600,000
-- 2 nd interim dividend of 66p per share paid 26 February 1999	200,000	-
-- Final proposed dividend of 33p per share	100,000	-
	<u>400,000</u>	<u>600,000</u>

DATARANGE COMMUNICATIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1999

7 TANGIBLE FIXED ASSETS

	Leasehold property and improvements £	Computer and demonstration equipment £	Office fixtures and fittings £	Motor Vehicles £	Total £
Cost					
At 1 April 1998	244,555	497,430	103,936	88,546	934,467
Additions	6,321	230,513	1,217	-	238,051
Disposals	-	(6,991)	-	(73,271)	(80,262)
Transfers	-	(18,712)	-	-	(18,712)
At 31 March 1999	250,876	702,240	105,153	15,275	1,073,544
Depreciation					
At 1 April 1998	150,793	194,115	60,802	48,746	454,456
Provided in the year	27,077	148,386	9,116	20,132	204,711
Disposals	-	(2,466)	-	(53,603)	(56,069)
Transfers	-	(3,310)	-	-	(3,310)
At 31 March 1999	177,870	336,725	69,918	15,275	599,788
Net book value					
At 31 March 1999	73,006	365,515	35,235	-	473,756
Net book value					
At 31 March 1998	93,762	303,315	43,134	39,800	480,011

The figures stated above include assets held under finance leases as follows:

	Total £	Computer Equipment £	Motor Vehicles £
Net book value at 31 March 1999	196,410	196,410	-
Net book value at 31 March 1998	101,768	88,353	13,415
Depreciation charge for year in respect of leased assets at 31 March 1999	61,366	61,366	-
Depreciation charge for year in respect of leased assets at 31 March 1998	29,779	20,839	8,940

DATARANGE COMMUNICATIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1999

8 STOCKS

	1999 £	1998 £
Finished goods and goods for resale	637,874	924,040

9 DEBTORS

	1999 £	1998 £
Trade debtors	2,810,463	2,076,085
Other debtors	21,591	100,794
Prepayments and accrued income	161,071	130,189
	2,993,125	2,307,068

10 CREDITORS; AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £	1998 £
Trade creditors	1,745,467	1,309,129
Amounts owed to group undertakings	19,120	12,006
Current taxation	155,630	379,305
Dividend payable	100,000	-
Other taxes and social security costs	565,821	208,020
Accruals	384,833	428,754
Deferred income	1,731,882	1,175,459
Amounts due under finance leases	88,732	45,258
	4,791,485	3,557,931

Deferred income relates to revenue received in advance in respect of maintenance contracts taken out during the year.

11 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1999 £	1998 £
Amounts due under finance leases	94,803	42,235

DATARANGE COMMUNICATIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1999

12 BORROWINGS

Borrowings are repayable as follows:

Net obligations under finance leases and hire purchase contracts are repayable as follows:

	1999 £	1998 £
Within one year	87,298	45,258
Between one and two years	87,195	26,758
Between two and five years	7,608	15,477
	<u>182,101</u>	<u>87,493</u>

13 SHAREHOLDERS' FUNDS

	Share Capital £	Profit and loss account £	Total £
At 1 April 1997	300,000	1,086,410	1,386,410
Profit for the financial year	-	768,544	768,544
Dividends	-	(600,000)	(600,000)
At 31 March 1998	<u>300,000</u>	<u>1,254,954</u>	<u>1,554,954</u>
Profit for the financial year	-	313,494	313,494
Dividends	-	(400,000)	(400,000)
At 31 March 1999	<u>300,000</u>	<u>1,168,448</u>	<u>1,468,448</u>

The share capital consists of 1,000,000 authorised, ordinary shares of £1 each, of which 300,000 are allotted, called up and fully paid.

14 NET CASH INFLOW FROM OPERATING ACTIVITIES

	1999 £	1998 £
Operating profit	411,644	1,051,659
Depreciation	204,711	233,954
Profit on sale of tangible fixed assets	(13,264)	(818)
Decrease in stocks	286,166	317,638
(Increase)/decrease in debtors	(686,057)	1,140,417
Increase/(decrease) in creditors	<u>1,313,755</u>	<u>(1,475,329)</u>
Net cash inflow from operating activities	<u>1,516,955</u>	<u>1,267,521</u>

DATARANGE COMMUNICATIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1999

15 ANALYSIS OF CHANGES IN NET DEBT

	At 1 April 1998 £	Cash flows £	Other non-cash changes £	At 31 March 1999 £
Cash in hand and at bank	1,444,001	805,980	-	2,249,981
HP/finance lease debt	(87,493)	106,996	(203,038)	(183,535)
	<u>1,356,508</u>	<u>912,976</u>	<u>(203,038)</u>	<u>2,066,446</u>

16 CAPITAL COMMITMENTS

The company had no capital commitments at 31 March 1999 or 31 March 1998.

17 CONTINGENT LIABILITIES

The following contingent liabilities existed at 31 March 1999:

A negotiation of foreign currency cheques payable abroad balance of £NIL

There is a HM Customs & Excise Duty Deferment Guarantee maximum liability of £250,000 counter indemnity held with full recourse to the business.

18 PENSIONS

The company does not operate a pension scheme.

19 LEASING COMMITMENTS

Operating lease payments amounting to £422,737 (1998 : £393,798) are due within one year. The leases to which these amounts relate expire as follows:

	1999		1998	
	Land and Building £	Other £	Land and Building £	Other £
In one year or less	97,928	14,377	77,792	33,423
Between two and five years	130,000	180,432	130,000	152,583
	<u>227,928</u>	<u>194,809</u>	<u>207,792</u>	<u>186,006</u>

DATARANGE COMMUNICATIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1999

20 RELATED PARTY TRANSACTIONS

The directors of the company had an interest in the following transactions by virtue of their shareholdings in the parent company SFA Inc:

SFA Datacomm

Purchases in the year amounted to £5,034 and there was a balance due to SFA Datacomm outstanding at the year end of £1,415.

The transactions related to arms length purchases of equipment for resale as trading stock in Datarange.

SFA Inc

Management charges of £220,545 were incurred in the year and there was a balance due to SFA Inc. of £19,120.

The transactions in the year comprised of management charges levied by and recharges of expenses incurred by Datarange to the parent company.

21 ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking is SFA Inc., a company incorporated in the State of Maryland, in the United States of America. Datarange Communications PLC is a wholly owned subsidiary of that company.