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ComputerLand is one of the UK's leading providers of IT services and products to business users. Founded in 1988, the Company successfully floated on AIM in September 1997, since when it has completed its first acquisitions, enhancing its IT services business and increasing geographic coverage.

Management are committed to enhancing shareholder value through the continued organic development of the Group, supplemented by suitable acquisitions which meet strict pre-determined criteria.

Highlights of the Year

September 1997
Flotation on AIM raising £1.3m net to fund continued expansion.

December 1997
Record results for the six months to 31October 1997.

March 1998
Acquisition of Netman and appointment of Andrew Porter as IT Services Director.

April 1998
Acquisition of KDL and appointment of Michael Kent as Finance Director.

July 1998
Record full year results announced plus maiden dividend for the year of 1.75p per share.

Chairman's statement

The year to 30 April 1998 was the most important and eventful in ComputerLand's ten year history. Following admission to the Alternative Investment Market (AIM) in September we moved rapidly to strengthen our position in the IT market with the acquisitions of Netman Ltd and KDL Ltd. Our strategy of focusing on the services side of our business also bore fruit with growth in the existing operations in excess of 60%. I believe the flotation, acquisitions, and strategy of focusing on services puts the Group in a position to deliver continuing growth.

I am delighted to be able to report record turnover and profit in our maiden year as a Public Company. Our pre-tax profits grew 38.4% to £811,000 with turnover ahead by 12.9% to £20,451,000. Services performed particularly strongly whilst product turnover, which was affected by price deflation, was only marginally ahead of 1996/97. Earnings per share were 10.0p. The above figures include a 6 week contribution from Netman and 2 weeks from KDL.

The Group operates in two sectors of the IT market place; services and products. The market for IT services, our main target area, continues to show strong growth. This is driven by companies' increased reliance on IT systems to run their businesses and their need to ensure that their systems are Year 2000 and EMU compliant. Business IT users are also showing an increasing trend to "Outsourcing" basic services such as internal helpdesks and infrastructure support. The market for hardware and pre-packaged software for business users is continuing to show moderate growth in value terms despite price deflation and the delay, until next spring, of Microsoft NT5. The launch of Windows 98 in June of this year is expected to have more impact on the consumer market place than the business market place.

The acquisition of Netman, a company that specialises in high value professional services, has increased our capabilities and presence in the systems integration market place and enabled us to strengthen the management of our own IT services business. The acquisition of KDL, which operates in both the IT products and services markets, has enabled us both to improve our geographic coverage in the provision of IT services and to gain economies of scale in product distribution.

I am delighted to welcome two new Directors to the Board. Andrew Porter, who took Netman from start up to a thriving IT Services company, joined as IT Services Director in March. Michael Kent joined as Finance Director in April enabling Simon Oldfield to concentrate on developing our internal IT systems. I am continuing to seek an additional Non-Executive Director.

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"I believe the flotation, acquisitions, and strategy of focusing on services puts the Group in a position to deliver continuing growth."

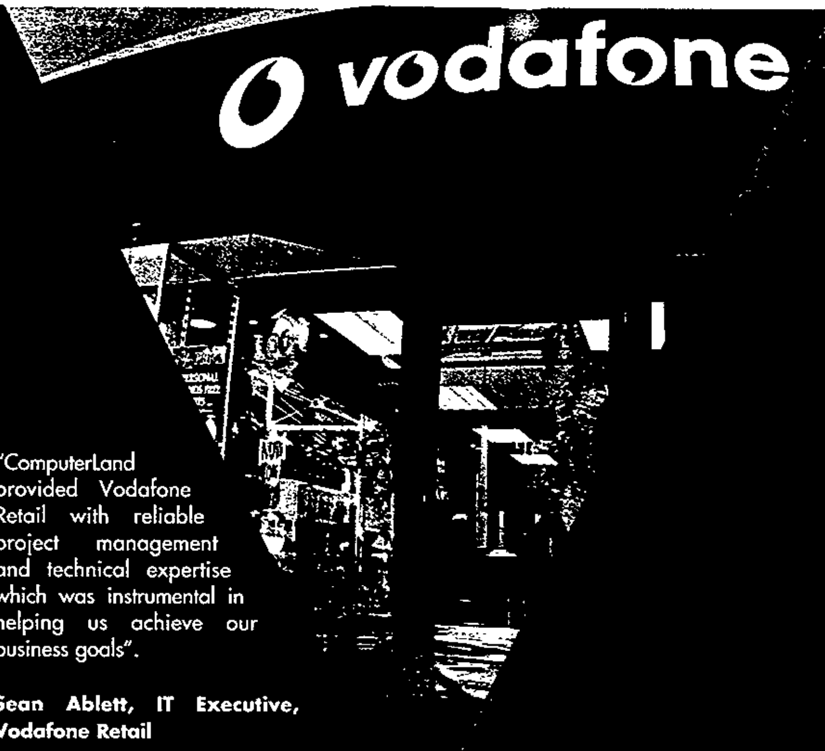
The greatest asset in our Group is our staff. I would like to personally thank all of our employees, many of whom became shareholders at the time of our flotation, for their contribution to the success of our business.

Looking further ahead I believe that our Remote Support division, which was launched in September last year and is showing great promise, will be a profit contributor in the 1999/2000 year and beyond. However, the business is expected to continue to absorb funds, albeit at a reducing rate, in the current year as we invest in building up this very exciting new service. We will continue to look for acquisition opportunities that will enable us to accelerate the development of our Group and enhance shareholder value.

During the past year the Board has been significantly strengthened and this together with the enhanced infrastructure that has been put in place, will allow the Group to continue to grow. The combined effect of the acquisitions has been to approximately double the size of our business. We expect that it will be the second half of the year before we have fully integrated the acquisitions and realised the expected cost savings.

I believe our Group has a very exciting future both in the current year and beyond.

Graham Gilbert
Chairman



"ComputerLand provided Vodafone Retail with reliable project management and technical expertise which was instrumental in helping us achieve our business goals".

Sean Ablett, IT Executive, Vodafone Retail

Companies are increasingly recognizing the importance of high quality project management to ensure the successful implementation of IT solutions.

Review of operations

ComputerLand is one of the UK's leading providers of IT services and products to business users, with a network of 8 offices throughout the UK. Our philosophy is to offer customers a range of services that will enable them to procure, implement and support the IT systems that they require to run their business. In order to achieve this goal we have organised our business into the following areas:

- Outsourcing: allows clients to "Out-Task" their longer-term support requirements
- Project Management: co-ordinates internal and external resources to ensure that projects are appropriately defined and implemented
- Technical Consultancy: provides highly qualified professional engineers to carry out complex systems integration tasks
- Field Engineering: carries out maintenance and hardware upgrades on our clients computer equipment
- Data Cabling: provides the complex cabling infrastructure our clients require to physically connect their computer systems together
- Training: helps both the users and technical staff of our clients to get the most out of their systems
- Remote Support: provides a service to support, monitor and administer our clients networks from a central ComputerLand location
- Product Supply: the supply of hardware and pre-packaged software

We can now offer clients a complete solution to their IT needs – with each Division integrating seamlessly.

Outsourcing had another strong year as companies seek to improve support capabilities and gain greater certainty on cost. Growth is expected to be enhanced in the coming year as KDL's and Netman's client bases are introduced to the Group's capabilities in providing long term managed support resources.

Over the past two years we have developed expertise in providing professional Project Management services to our clients. Companies are increasingly recognizing the importance of high quality project management to ensure the successful implementation of IT solutions. Our project managers have undertaken a wide variety of projects during the year and we expect this service to grow rapidly.

Demand for our Technical Consultancy services has been very strong. Companies are making greater use of the technologies in which we specialise. The acquisitions of Netman and KDL have brought valuable new resources and clients to the Group, enhancing our capabilities to undertake a wider range of larger and more complex projects.

The Group's Field Engineering capabilities have been greatly enhanced by the addition of KDL's contract base and engineering resources. We have also invested in new computer systems to provide greater operational control and enhance customer satisfaction. The business is expected to benefit in the coming year from increased economies of scale and improved geographic coverage.

The acquisition of KDL brought with it new capabilities, in the area of Data Cabling. In the past we have had to sub-contract the data cabling requirements of our clients to third parties. Following the acquisition we believe that we can grow the existing Data Cabling business and increase the level of customer satisfaction by carrying out our clients data cabling requirements in-house.

Training has had a good year with the London region showing particularly well. The addition of specialist →

Review of operations

technical training capabilities following the acquisition of Netman and the exposure of the Group's training capabilities to KDL's client base are expected to give a further boost in the current year.

During the past year we launched our Remote Support Division, marketed under the name Netcare. Netcare provides a complete IT infrastructure support solution to meet the needs of smaller and medium sized business as well as the remote offices of larger companies. We believe that the market for the provision of remote support services will become very important and we have therefore invested heavily in the development of this new service. Although the division has absorbed funds during the year we believe that its longer term prospects are very exciting.

The Marketplace

The market for the supply of IT products to business users has shown modest growth in value terms over the past year despite price deflation. Next year the market is expected to be given a boost as businesses upgrade their systems to take advantage of Microsoft NT5. The launch in June 1998 of Windows 98 is expected to have little impact on the business marketplace.

The market for IT Services has shown strong growth in the past year. Growth is being fuelled by customers increased reliance on IT systems to run their business, which is expected to continue for the foreseeable future, and the need to ensure their systems are Year 2000 compliant.

ComputerLand has developed a high level of expertise in the Microsoft NT and Novell IntraNetWare operating systems which is an area of particularly strong growth. The market for the provision of products and services associated with these operating systems is expected to remain strong as companies continue to move away from systems based on "legacy" architectures.

The following case studies demonstrate the application of our services to real customer requirements:

Vodafone Retail

Vodafone Retail was established in July 1997 as a result of the reorganisation of Vodafone Group's distribution channels. It was necessary to rapidly integrate the retail operations of four companies, Talkland, Peoples Phone, London Car Telephones and Astec, into a single Vodafone branded operation. In order to help achieve this goal it was necessary to replace the IT infrastructure in over 200 retail outlets within a very short period of time.

Vodafone Retail's business model requires that new customer applications can be processed rapidly in its stores to ensure that new customers are connected to the Vodafone network very quickly. The rapid processing of customer applications requires a complex IT infrastructure in each retail location. This business model, combined with the requirement to integrate all the companies into a single operation, meant that Vodafone Retail needed to work in close partnership with a computer products and services supplier that could deliver complete solutions on-time and to budget.

The combination of ComputerLand's project management, engineering and product supply capabilities led Vodafone to choose us as their partner on this critical project. ComputerLand's Project Managers worked with their counterparts at Vodafone to organise the supply of computer equipment, data cabling, technical consultancy, engineering resources and hardware configuration to over 200 locations in a 6 week period during September and October 1997.

ComputerLand delivered the project on-time and within budget, enabling Vodafone Retail to achieve its goals of integrating its businesses and delivering the highest levels of customer service.

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Review of operations

Ranger Oil

Ranger Oil is an international independent oil exploration and production company with its headquarters in Alberta, Canada. It has operational bases in several of the world's major oil exploration areas. Ranger Oil has significant assets in the UK sector of the North Sea. The operations are managed from the UK head office in Guildford, Surrey.

KDL has been the principal IT supplier to Ranger Oil (UK) Ltd since 1991. The initial project was to assist with the move of the Head Office from Central London to Guildford. Subsequent projects range from consultancy to cabling, in locations as diverse as Aberdeen and Angola. Key projects have been:

- The establishment of wide area communications links based on Cisco routing equipment.
- Network migration from Novell NetWare 2.x through 3.12 to the current IntraNetWare implementation.
- The planning and implementation of a rollout programme to introduce Windows 95 and NT across the organisation.
- All Ranger Oil's IT Training has been conducted through KDL.

In total Ranger Oil have entrusted KDL with projects valued in excess of £2million and the relationship continues to flourish.

Lotus Development

Lotus Development is one of the world's foremost suppliers of office automation and Groupware software.

Lotus have a policy of working with partners for the provision of in-house IT support services, allowing them to focus on overall strategy. They recognise the need to work with partners who are able to deliver a high quality service at a reasonable price and when the time came for Lotus to choose a new partner they picked ComputerLand.

During the past 18 months ComputerLand have worked with Lotus to provide Help Desk, Maintenance, Project Management and Procurement services. ComputerLand's support team, based at Lotus Developments headquarters in Staines, work with Lotus staff to ensure a consistently high service is delivered to all Lotus internal users. ComputerLand have also been able to respond to peaks in demand through the provision of additional highly qualified personnel at short notice.

Financial review

AIM flotation

On 19 September 1997, the Company joined the Alternative Investment Market of the London Stock Exchange (AIM), increasing the issued share capital by one third, and raising £1,273,000 net.

Acquisitions

On 20 March 1998 the Company acquired the entire share capital of Netman Limited, an IT services company, for a consideration of £3,600,000 and on 17 April 1998 the entire share capital of KDL Limited, an IT products and services company, was acquired for a consideration of £3,384,000. The total consideration of £6,984,000 was satisfied by share issues of £3,472,000, cash of £2,928,000 and deferred consideration and contingent share capital totalling £584,000. A Placing and Open offer raised net funds of £2,753,000.

The goodwill arising on the acquisitions has been taken to reserves. Your Directors are recommending that the share premium account is cancelled, with the resultant special reserve then being available to eliminate the goodwill arising on these acquisitions.

Results for the year

Turnover on continuing operations increased year on year by 7.6% from £18,119,000 to £19,497,000, primarily from growth in IT services. Operating profits on continuing operations benefited from the growth in IT services, advancing by 9.4% to £765,000, this despite a loss from Remote Support in its initial trading period, of £210,000. In the coming year the loss in Remote Support is expected to reduce substantially as activity levels increase.

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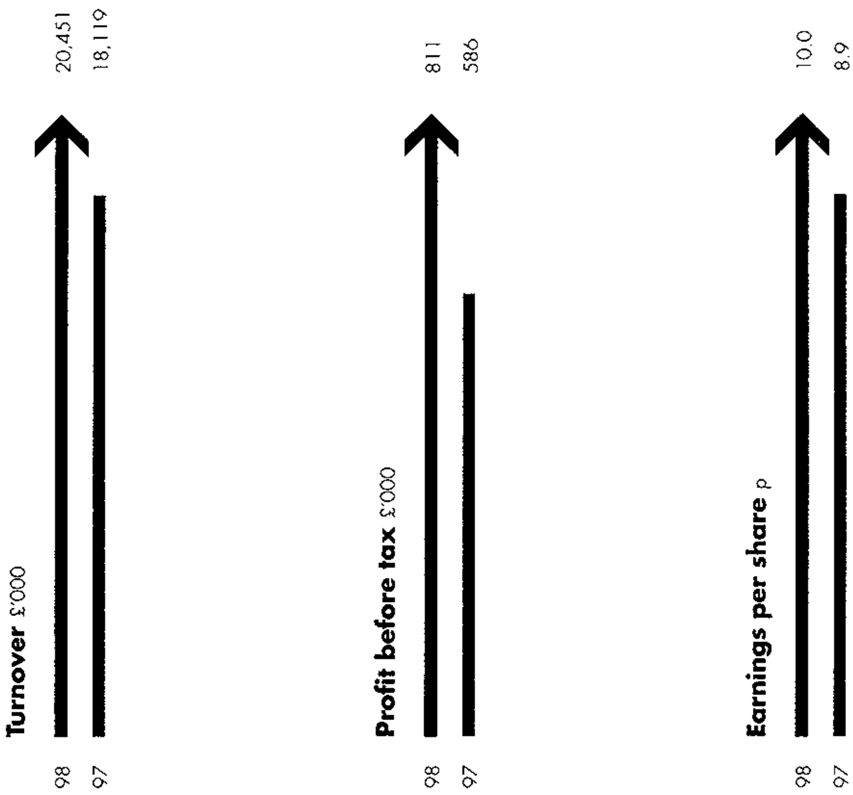
Financial record

	Growth 1998/97	**1998 £'000**	1997 £'000	1996 £'000	1995 £'000
Turnover					
Continuing operations	7.6%	**19,497**	18,119	8,389	6,722
Acquisitions	—	**954**	—	—	—
Total	12.9%	**20,451**	18,119	8,389	6,722
Operating profit					
Continuing operations	9.4%	**765**	699	212	165
Acquisitions	—	**105**	—	—	—
Total	24.4%	**870**	699	212	165
Profit before taxation	38.4%	**811**	586	151	122
Earnings per share	12.4%	**10.0p**	8.9p	2.4p	1.9p
Net assets per share	94.2%	**26.6p**	13.7p	6.7p	5.1p



The newly acquired subsidiaries contributed £954,000 to turnover and £105,000 to operating profit, their results being included from the date of acquisition.

The interest charge has reduced from £113,000 to £59,000 giving a significant increase in interest cover from 6 times to 15 times. The Placing on flotation has reduced the average debt during the year.

A reduction in the main corporation tax rate has led to a lower effective rate of tax in the year of 30.5%.

Earnings per share has increased by 12.4% from 8.9 pence to 10.0 pence.

A second interim dividend in lieu of a final dividend was paid on 1 June 1998. This dividend of 1.1 pence, taken together with the first interim dividend of 0.65 pence paid on 11 February 1998, gives a total of 1.75 pence per share.

Cashflow

The net cash inflow from operating activities increased by £128,000 to £486,000. Share issues raised net funds of £4,111,000 and acquisitions gave a net cash outflow of £3,433,000. The year end showed a net cash position of £386,000 compared to net debt of £148,000 in 1997.

Year 2000

The Group has reviewed the effect of the Year 2000 on its operations. Recent capital and revenue expenditure has ensured that information systems are substantially Year 2000 compliant. Further plans will complete the compliance process, the costs of which are not expected to be of a material nature. A review process is in place to ensure the business infrastructure is Year 2000 compliant.

EMU impact

Having reviewed its commercial and accounting transactions, the Group will be ready to manage the impact of the single currency.

Michael Kent
Finance Director

Board of directors & company information

Graham Gilbert
Chairman and Managing Director

Graham Gilbert graduated from Leicester University with an Electrical and Electronic Engineering Degree. Gaining experience with Hewlett-Packard, he founded ComputerLand in 1988.

Michael Kent
Finance Director

Michael Kent is a Chartered Accountant. He joined ComputerLand as finance director in April 1998, from Sherwood Group PLC, where he was finance director of the Lace Division.

Simon Lawless
Sales Director

Simon Lawless has 20 years experience in the computer industry. Before joining the company in 1992, he worked for Compaq, Northamber and Apricot. He was appointed sales director in 1994.

Simon Oldfield
Information Systems Director

Simon Oldfield joined ComputerLand in December 1996 from Pannell Kerr Forster, where he was a senior consultant in the business advisory and consultancy group, specialising in computer systems. He was appointed to the board in May 1997.

Andrew Porter
IT Services Director

Andrew Porter founded Netman Ltd in 1992 and joined the board in March 1998 following the acquisition of Netman by ComputerLand.

Gary Raymond
Regional Director

Gary Raymond joined the company in August 1995 as director of its London office. He was previously divisional director of specialist IT recruitment and training of Hayes IT Plc.

Ben Martin
Non-executive Director

Ben Martin joined ComputerLand in September 1997 and is a former executive director of Barclays de Zoete Wedd Limited. He has over 25 years experience of corporate finance and holds a number of other non-executive positions.

Secretary and registered office
MWB Kent ACA
The Albert Einstein Centre
Highfields Science Park
University Boulevard
Nottingham NG7 2TN
Registered number 2275625

Bankers
National Westminster Bank Plc
Radford House
Radford Boulevard
Nottingham NG7 5QG

Stockbrokers
Charles Stanley & Company Limited
25 Luke Street
London EC2A 4AR

Auditors
BDO Stoy Hayward
Foxhall Lodge
Gregory Boulevard
Nottingham NG7 6LH

Solicitors
Field Fisher Waterhouse
41 Vine Street
London EC3N 2AA

Registrars
Moorgate Registrars plc
Dukesmead House
39 High Street
Chelmsford
Essex CM1 1DE

Report of the directors

The directors present their report and the audited financial statements for the year ended 30 April 1998.

Registration as a public limited company

On 18 July 1997, the company was re-registered as a public limited company, changing its name from ComputerLand UK Limited to ComputerLand UK PLC.

Admission to the Alternative Investment Market of the London Stock Exchange ("AIM")

On 19 September 1997, the ordinary shares of the company were admitted to trading on AIM.

Statement of directors' responsibilities

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

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 accounts 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.

Principal activity and business review

The principal activity of the group is the provision of computer services and products. A review of the group's development during the year and its prospects are given in the Chairman's Statement and the Operating Review.

Results

The profit on ordinary activities after tax for the year was £564,000 (1997: £402,000).

Dividends

An interim dividend of 0.65 pence per share was paid on 11 February 1998. A second interim dividend in lieu of a final dividend of 1.1 pence per share was paid on 1 June 1998 to shareholders on the register on 3 April 1998, giving a total dividend of 1.75 pence per share.

Directors and their interests

The directors of the company who served during the year are shown in note 5. S Oldfield, B J Martin, A D Porter and M W B Kent were appointed during the year. All hold office until the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. In accordance with the Articles of Association, S M Lawless retires by rotation and, being eligible, offers himself for re-election.

The interests of the directors in the capital of the company, including share options, are set out in note 5 to the financial statements.

Report of the directors

Substantial interests

At 22 June 1998 the company had been notified of the following interests (excluding the interests of the directors) which amounted to 3% or more of the issued capital of the company:

Shareholder	No of shares	Percentage holding
Pilgrim Nominees Limited	462,950	5.05%
GIL Nominees Limited	300,000	3.27%

Acquisitions

On 20 March 1998 the company acquired the entire share capital of Netman Limited and on 17 April 1998 the company acquired the entire share capital of KDL Limited.

Details of the acquisitions are given in note 12 to the financial statements.

Employees

The group's management has an open policy on the communication of information to employees concerning factors affecting their interests and the development of the group.

Employees share directly in the success of the group through participation in share option schemes and the SAYE scheme.

It is the group's policy to encourage the employment, training and career development of disabled persons. If employees become disabled every effort is made to enable them to continue in employment.

Payment policy

It is the group's policy to make payment in accordance with terms agreed with suppliers. The number of days represented by year end trade creditors was 60 days.

Auditors

A resolution to reappoint BDO Stoy Hayward as auditors will be proposed at the Annual General Meeting.

By order of the Board

M W B Kent ACA
Secretary
17 July 1998

Corporate governance

Code of best practice

The board has reviewed the company's compliance, following the listing of its shares on AIM, with the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance.

Board composition

The board comprises an executive chairman, five executive directors and one independent non-executive director. The board intends to appoint a second non-executive director.

Board committees

The board has established a Remuneration Committee and an Audit Committee. Each committee is chaired by Ben Martin and the other director is Graham Gilbert.

Internal financial control

The directors acknowledge their responsibility for the group's system of internal financial control.

The group maintains systems of internal financial control to provide reasonable but not absolute assurance against material misstatement or loss.

During the period, key controls were:

- day to day supervision of the business by the executive directors
- comparison of monthly management accounts with budgets
- defined responsibilities and authority limits

Going concern

After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the financial statements.

Report of the Remuneration Committee

Remuneration policy

The committee determines the overall remuneration packages for executive directors, which are designed to attract and retain executive directors of the quality required to manage the business of the group. In establishing the level of remuneration for each director, the committee has regard to packages offered by comparable companies.

It is the committees' intention to seek to align the interests of the executive directors with those of the shareholders through appropriate performance related bonuses and share option schemes.

Directors' remuneration

An analysis of remuneration and share options is given in note 5 to the accounts. The individual components of the remuneration package are detailed below.

Salary/fees

Executive directors are paid a basic salary for their work as executives and are not paid fees in respect of their positions as directors. Basic salaries are reviewed annually and when an individual changes position or responsibility.

The remuneration of non-executive directors is determined by the board as a whole.

Benefits

Benefits comprise a fully expensed car and private healthcare.

Performance related bonuses

Executive directors are eligible for a performance related bonus. Each director has specific performance objectives which are appropriate to their executive responsibilities.

Pension contributions

Contributions are made to a defined contribution scheme or to the directors nominated personal pension plan. Only basic salary is pensionable.

Share options

The company has an approved savings related share option scheme, an approved company share option scheme and share option agreements with certain directors.

The company's policy is to issue share options at appropriate intervals in order to motivate and retain executive directors and employees and to align their interests to those of the shareholders. Grants of options are approved by the remuneration committee.

Service contracts

Executive directors have a two year service contract terminable by the company or director giving three months notice expiring on or after the initial two year period.

The only non-executive director at present is B J Martin who has a fixed two year contract which expires on 10 September 1999.

Ben Martin
Committee Chairman
17 July 1998

Auditors' report

To the shareholders of ComputerLand UK PLC

We have audited the financial statements on pages 18 to 31 which have been prepared under the accounting policies set out on page 21.

Respective responsibilities of directors and auditors

As described on page 13 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 30 April 1998 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward BDO Stoy Hayward
Chartered Accountants
and Registered Auditor
Nottingham
17 July 1998

Consolidated profit & loss account

for the year ended 30 April 1998

	Note	1998 £'000	1997 £'000
Turnover			
Continuing operations		19,497	18,119
Acquisitions		954	—
	2	20,451	18,119
Operating costs	3	(19,581)	(17,420)
Operating profit			
Continuing operations	3	765	699
Acquisitions	3	105	—
		870	699
Net interest payable	6	(59)	(113)
Profit on ordinary activities before taxation		811	586
Taxation on profit on ordinary activities	7	(247)	(184)
Profit on ordinary activities after taxation		564	402
Dividends	8	(105)	(87)
Retained profit for the financial year		459	315
Earnings per share – basic	9	10.0p	8.9p
– fully diluted	9	8.6p	7.4p

ComputerLand UK PLC has no recognised gains nor losses in the year other than those passing through the profit & loss account. The movement on reserves is shown in note 19.

Balance sheets

as at 30 April 1998

	Note	1998 Group £'000	1998 Company £'000	1997 Company £'000
Fixed assets				
Intangible asset	10	90	90	95
Tangible assets	11	1,043	573	425
Investments	12	—	7,166	—
		1,133	7,829	520
Current assets				
Stocks	13	1,206	591	490
Debtors	14	7,179	4,201	3,400
Cash at bank and in hand		730	680	77
		9,115	5,472	3,967
Creditors falling due within one year	15	(7,712)	(4,409)	(3,690)
Net current assets		1,403	1,063	277
Creditors falling due after more than one year	16	(92)	(83)	(156)
Provisions for liabilities and charges	17	—	—	(25)
Net assets		2,444	8,809	616
Capital and reserves				
Called up share capital	18	183	183	90
Contingent share capital	18	300	300	—
Share premium	19	7,405	7,405	—
Goodwill reserve	19	(6,429)	—	—
Profit & loss account	19	985	921	526
Shareholders' funds		2,444	8,809	616
Comprising: Equity		2,444	8,809	546
Non-equity		—	—	70
		2,444	8,809	616

Approved by the board on 17 July 1998 and signed on its behalf by:

G M Gilbert

M W B Kent

Consolidated cash flow statement

for the year ended 30 April 1998

	Note	1998 £'000	1997 £'000
Net cash inflow from operating activities	22	486	358
Returns on investments and servicing of finance			
Interest received		17	1
Interest paid		(76)	(114)
Dividend to non-equity shareholders		—	(7)
		(59)	(120)
Taxation paid		(171)	(47)
Capital expenditure			
Purchase of intangible fixed asset		(45)	(50)
Purchase of tangible fixed assets		(316)	(159)
Proceeds on sale of tangible fixed assets		—	31
		(361)	(178)
Acquisitions			
Purchase of subsidiary undertakings		(2,928)	—
Acquisition expenses		(37)	—
Net cash acquired		157	—
		(2,808)	—
Equity dividends paid		(39)	(80)
Net cash outflow before financing		(2,952)	(67)
Financing			
Issues of shares		4,460	—
Expenses paid in connection with share issues		(349)	—
Bank loan		(46)	16
Capital repayments of hire purchase contracts		(19)	(48)
Short term loan		(445)	—
		3,601	(32)
Increase/(decrease) in cash		649	(99)

Reconciliation of net cash flow to movement in net cash/(debt)			
Increase/(decrease) in cash		649	(99)
Debt acquired with subsidiary		(625)	—
Cashflow from decrease in debt		510	32
New hire purchase contracts		—	(54)
Movement in the year		534	(121)
Net debt at 1 May		(148)	(27)
Net cash/(debt) at 30 April	23	386	(148)

Notes to the financial statements

1. Accounting policies

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

a) Change of profit & loss account format

The format of the profit & loss account has been changed to present the profit of the group in a more appropriate manner.

b) Basis of consolidation

The group financial statements incorporate the accounts of ComputerLand UK PLC and its subsidiary undertakings to 30 April 1998.

Acquisitions are included from the date of acquisition. Goodwill, being the excess of purchase consideration over the fair value of the underlying net assets, is eliminated against reserves on acquisition.

c) Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties.

d) Amortisation

Amortisation is calculated to write off the cost of licences and trademarks over their economic lives.

e) Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets over their expected useful lives using the following rates:

Leasehold improvements	– 33% straight line
Computer equipment	– 33% straight line
Fixtures and fittings	– 15% reducing balance
Motor vehicles	– 20% reducing balance

f) Investments

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

g) Stocks

Goods for resale are valued at the lower of cost and net realisable value.

Net realisable value is based on estimated selling price less further costs to completion and disposal.

h) Pension costs

Pension costs represent the contributions payable for the accounting period to defined contribution schemes and employees personal pension plans.

i) Hire purchase contracts and leasing agreements

Assets acquired under hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element is charged to the profit & loss account over the term of the contract.

Rentals in respect of operating leases are charged to the profit & loss account on a straight line basis over the term of the agreement.

j) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit & loss account.

k) Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes to the extent that it is probable that liabilities will crystallise.

Notes to the financial statements

2. Turnover

	1998 £'000	1997 £'000
United Kingdom	19,940	18,119
Continental Europe	511	—
Total	20,451	18,119

Turnover relates to the provision of IT services and products. There are no separate business segments.

3. Operating profit

Operating costs are stated as follows:

	1998			1997
	Continuing operations £'000	Acquisitions £'000	Total £'000	Total £'000
Increase in stock of goods for resale	(101)	(6)	(107)	(16)
Goods for resale and consumables	13,591	514	14,105	13,810
Cost of goods sold	13,490	508	13,998	13,794
Staff costs	3,280	181	3,461	2,167
Other operating charges	1,962	160	2,122	1,459
	18,732	849	19,581	17,420

Operating profit is stated after charging:

		1998 £'000	1997 £'000
Amortisation		5	4
Depreciation	– owned assets	165	40
	– assets held under hire purchase contracts	13	12
Operating lease rentals	– motor vehicles and equipment	171	124
	– other	208	162
Auditors' remuneration	– audit	13	6
	– other	3	—

In addition the auditors carried out corporate finance work which has been charged to the financial statements as follows:

£58,000 in respect of the flotation of the company, charged to the share premium account.

£72,000 in respect of the acquisitions of Netman Limited and KDL Limited, charged to the cost of investment.

4. Staff numbers and costs

The average number of employees (including directors) during the year was as follows:

	1998 Number	1997 Number
Sales	19	14
Technical and administration	105	66
	124	80

Staff costs including directors were as follows:

	1998 £'000	1997 £'000
Salaries	3,103	1,953
Social security costs	297	196
Pensions	61	18
	3,461	2,167

5. Directors' remuneration and interests in shares

Directors' remuneration

The remuneration received by each director is as follows:

	Salary/fees £'000	Performance related bonus £'000	Taxable benefits in kind £'000	Pension contributions £'000	Total 1998 £'000	Total 1997 £'000
Executive directors						
G M Gilbert	105	—	13	16	134	110
R L Brookes*	—	—	—	—	—	71
M W B Kent**	4	—	—	—	4	—
S M Lawless	75	60	7	1	143	108
S Oldfield**	40	10	6	1	57	—
A D Porter**	8	—	1	—	9	—
G J Raymond	75	32	9	1	117	132
Non-executive director						
B J Martin	10	—	—	—	10	—
	317	102	36	19	474	421

*resigned 30 April 1997.
**the remuneration of M W B Kent, S Oldfield, A D Porter and B J Martin covers the period from which they joined the board.

Directors' interests in shares

The interests of the directors in the ordinary share capital of the company are as follows:

	Ordinary shares of 2p each 1998 Number	1997 *Number
G M Gilbert	4,275,000	4,500,000
M W B Kent	—	—
S M Lawless	—	—
S Oldfield	1,200	—
A D Porter	1,000,000	—
G J Raymond	1,200	—
B J Martin	18,000	—

*The number of shares for 1997 has been adjusted to take account of the re-designation of the cumulative non-redeemable preference shares as ordinary shares and the share division.

Notes to the financial statements

5. Directors' remuneration and interests in shares continued

An analysis of the share options held by each director is set out below:

		Granted during the year	At 30 April 1998	Exercise price (pence)	Exercise period
S Oldfield	Approved company scheme	20,000	20,000	100.0	10 September 2000 and 9 September 2007
	SAYE scheme	10,273	10,273	90.0	1 December 2002 and 1 June 2003
S M Lawless	Option agreement	450,000	450,000	6.7	1 August 2000 and 31 July 2001
G J Raymond	Option agreement	450,000	450,000	6.7	1 August 2000 and 31 July 2001
	SAYE scheme	1,126	1,126	90.0	1 December 2000 and 1 June 2001

Options granted to S M Lawless and G J Raymond formalise existing verbal arrangements between the company and each option holder which have been in place since 1 June 1995. The exercise price of 6.7 pence represents the fair value of the shares on 1 June 1995, the date on which the commitment was made.

The company's share price at close of business on 30 April 1998 was 252.5p. The price range during the year was 100p to 274p. There has been no change in the directors' interests or options between the end of the year and 22 June 1998.

6. Net interest payable

	1998 £'000	1997 £'000
Interest on bank overdraft and loan	16	19
Interest on hire purchase contracts	5	5
Other interest	55	90
	76	114
Interest receivable	(17)	(1)
	59	113

7. Taxation on profit on ordinary activities

	1998 £'000	1997 £'000
UK corporation tax	272	169
Deferred tax	(25)	15
	247	184

8. Dividends

	1998 £'000	1997 £'000
Ordinary shares – equity		
First interim paid – 0.65 pence (1997: 400.0 pence)	39	80
Second interim proposed – 1.1 pence	66	—
	105	80
Preference shares – non-equity		
Dividend paid – nil (1997: 10.0 pence)	—	7
	105	87

9. Earnings per share

The calculation of earnings per ordinary share is based on profits of £564,000 (1997: £402,000) and on a weighted average of 5,614,806 (1997: 4,500,000) ordinary shares in issue during the year. The profit and ordinary shares for 1997 have been adjusted for the re-designation of the cumulative non-redeemable preference shares as ordinary shares and the share division. The calculation of fully diluted earnings per ordinary share is based on a profit of £564,000 (1997: £402,000) and weighted average ordinary shares of 6,585,954 (1997: 5,400,000).

10. Intangible asset

Group and Company	£'000
Trademark	
At 1 May 1997	95
Amortisation	5
At 30 April 1998	**90**

11. Tangible assets

Group	Leasehold improvements £'000	Fixtures, fittings and computer equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 May 1997	29	413	82	524
Acquisitions	159	616	396	1,171
Additions	9	307	—	316
At 30 April 1998	**197**	**1,336**	**478**	**2,011**
Depreciation				
At 1 May 1997	2	87	10	99
Acquisitions	135	396	160	691
Charge for the year	14	147	17	178
At 30 April 1998	**151**	**630**	**187**	**968**
Net book value				
At 30 April 1998	**46**	**706**	**291**	**1,043**

Included in the net book value is £210,000 in respect of assets held under hire purchase contracts.

Company				
Cost				
At 1 May 1997	29	413	82	524
Additions	9	307	—	316
At 30 April 1998	**38**	**720**	**82**	**840**
Depreciation				
At 1 May 1997	2	87	10	99
Charge for the year	13	141	14	168
At 30 April 1998	**15**	**228**	**24**	**267**
Net book value				
At 30 April 1998	**23**	**492**	**58**	**573**
At 30 April 1997	27	326	72	425

Included in the net book value is £56,000 (1997: £69,000) in respect of assets held under hire purchase contracts.

Notes to the financial statements

12. Investments

	£'000
Investments in subsidiaries at cost:	
Additions during the year	7,166
At 30 April 1998	7,166

ComputerLand UK PLC has the following wholly owned subsidiaries:

Name	Nature of Business
Netman Limited	Computer services
KDL Limited	Computer products and services

The fair values of the assets, liabilities and consideration of the subsidiaries acquired are as follows:

	Tangible fixed assets £'000	Stock £'000	Debtors £'000	Creditors falling due within one year £'000	Hire purchase contracts & short term loan £'000	Cash/(bank overdraft) £'000	Net assets £'000
Netman Limited							
Book value and fair value	49	8	337	(369)	—	332	357
KDL Limited							
Book value	515	601	3,139	(2,948)	(625)	(175)	507
Fair value adjustments	(84)	—	(42)	—	—	—	(126)
KDL Limited fair value	431	601	3,097	(2,948)	(625)	(175)	381

The fair value adjustments represent alignment of deprecation rates on tangible fixed assets and valuation adjustments in respect of trade debtors.

	Netman Limited £'000	KDL Limited £'000	Total £'000
Purchase consideration comprises:			
Shares allotted	2,300	1,172	3,472
Cash	1,000	1,928	2,928
Contingent share capital	300	—	300
Deferred consideration	—	284	284
Total consideration	3,600	3,384	6,984
Costs of acquisition	63	120	183
Total cost	3,663	3,504	7,167
Fair value of net assets acquired	357	381	738
Goodwill	3,306	3,123	6,429

Deferred consideration

The deferred consideration is in respect of KDL Limited and is payable in cash on 1 November 1998.

Contingent share capital

Contingent share capital represents consideration due to AD Porter, who is a director of the company, in respect of the acquisition of Netman Limited. The total sum due is £300,000, payable as follows:

20 March 1999 £150,000
20 March 2000 £75,000
20 March 2001 £75,000

The consideration will be satisfied at the option of ComputerLand UK PLC, by either the issue of new ordinary shares in ComputerLand UK PLC or the issue of loan notes.

The subsidiary undertakings contributed £154,000 to the group's net operating cash flows, paid £2,000 in respect of net returns on investments and servicing of finance and utilised £445,000 for financing activities.

12. Investments continued

Summary of subsidiary profit & loss accounts for the period from 1 January to the date of acquisition:

	Netman Limited £'000	KDL Limited £'000
Turnover	357	5,045
Operating profit	24	18
Profit/(loss) before taxation	24	(20)
Taxation	7	2
Profit/(loss) after taxation	17	(22)
Profit on ordinary activities after taxation for the year ended 31 December 1997	321	203

In the 12 months prior to acquisition no provisions were made by either subsidiary for reorganisation and restructuring costs.

13. Stocks

	1998 Group £'000	1998 Company £'000	1997 Company £'000
Goods for resale	1,206	591	490

14. Debtors

	1998 Group £'000	1998 Company £'000	1997 Company £'000
Due within one year:			
Trade debtors	6,879	3,569	3,319
Prepayments and accrued income	245	106	77
Other debtors	14	9	4
Amount owed by subsidiary undertaking	—	500	—
	7,138	4,184	3,400
Due after one year:			
Advance corporation tax	41	17	—
	7,179	4,201	3,400

Notes to the financial statements

15. Creditors: amounts falling due within one year

	1998 Group £'000	1998 Company £'000	1997 Company £'000
Trade creditors	5,065	2,652	2,995
Accruals and deferred income	904	252	17
Other taxation and social security	504	281	401
Other creditors	525	525	45
Corporation tax	396	239	163
Proposed dividend	66	66	—
Bank overdraft	4	—	—
Bank loan	48	48	50
Obligations under hire purchase contracts	101	28	19
Short term loan	99	—	—
Amount owed to subsidiary undertaking	—	318	—
	7,712	4,409	3,690

The short term loan was secured by a floating charge which had first call over certain trade debtors.

16. Creditors: amounts falling due after more than one year

	1998 Group £'000	1998 Company £'000	1997 Company £'000
Bank loan			
Repayable in one to two years	53	52	63
Repayable in two to five years	28	28	62
Obligations under hire purchase contracts			
Repayable in one to two years	9	1	28
Repayable in two to five years	2	2	3
	92	83	156

The bank loan is secured by a mortgage debenture.

17. Provisions for liabilities and charges

Deferred taxation

	1998 Group £'000	1998 Company £'000	1997 Company £'000
Accelerated capital allowances:			
Provided	—	—	25
Unprovided	—	—	—

18. Share capital

Ordinary shares – equity

Ordinary shares of £1 each	Shares Number	Nominal £'000	Premium £'000
At 1 May 1997 authorised, allotted, called up and fully paid	20,000	20	—
Cumulative non-redeemable preference shares re-designated as ordinary shares on 18 July 1997	70,000	70	—
	90,000	**90**	—
Division of each ordinary share into 50 ordinary shares of 2 pence each on 18 July 1997	4,500,000	90	—
Placing of 1,500,000 ordinary shares on 19 September 1997 at 100 pence per share	1,500,000	30	1,470
Issue in connection with acquisition of Netman Limited on 20 March 1998 at 230 pence per share	1,000,000	20	2,280
Issue in connection with acquisition of KDL Limited on 17 April 1998 at 205 pence per share	571,719	11	1,161
Placing and open offer on 17 April 1998 at 185 pence per share in connection with acquisition of KDL Limited and working capital requirements	1,600,000	32	2,928
Allotted, called up and fully paid shares at 30 April 1998	9,171,719	183	7,839
Outstanding share options	1,104,311	22	
Unissued shares – contingent share capital	118,812	3	
Unissued shares – other	1,605,158	32	
Authorised share capital at 30 April 1998	12,000,000	240	

The contingent share capital of £300,000 represents consideration due in respect of the acquisition of Netman Limited, as set out in note 12. The number of shares has been calculated using the company's share price at the close of business on 30 April 1998 of 252.5 pence per share.

At 22 June 1998 there were the following options outstanding over the company's ordinary shares:

Scheme	Shares	Exercise period	Option price
Approved company scheme	75,000	10 September 2000 and 9 September 2007	100p
Approved company scheme*	60,000	26 May 2001 and 25 May 2011	301.5p
SAYE scheme	129,311	1 December 2000 and 1 June 2003	90p
Option agreements	900,000	1 August 2000 and 31 July 2001	6.7p

*granted 26 May 1998

Preference shares – non-equity

10% cumulative non-redeemable preference shares of £1 each	Authorised £'000	Allotted, called up and fully paid £'000
At 1 May 1997	80	70
Re-designation as ordinary shares on 18 July 1997	(80)	(70)
At 30 April 1998	—	—

Notes to the financial statements

19. Reserves

Group	Share premium £'000	Goodwill reserve £'000	Profit & loss account £'000
At 1 May 1997	—	—	526
Premium on share issues	7,839	—	—
Expenses on share issues	(434)	—	—
Goodwill arising on acquisitions	—	(6,429)	—
Retained profit for the year	—	—	459
At 30 April 1998	7,405	(6,429)	985

Company	Share premium £'000	Profit & loss account £'000
At 1 May 1997	—	526
Premium on share issues	7,839	—
Expenses on share issues	(434)	—
Retained profit for the year	—	395
At 30 April 1998	7,405	921

The company has taken advantage of the exemption from presenting its own profit & loss account.

20. Reconciliation of movements in shareholders' funds

	1998 Group £'000	1998 Company £'000	1997 Company £'000
At 1 May 1997	616	616	301
Retained profit for the financial year	459	395	315
Issue of shares – nominal value	93	93	—
Issue of shares – premium less expenses	7,405	7,405	—
Contingent share capital	300	300	
Goodwill arising on acquisitions	(6,429)	—	—
At 30 April 1998	2,444	8,809	616
Comprises:			
Equity	2,444	8,809	546
Non-equity	—	—	70
	2,444	8,809	616

21. Commitments

At 30 April 1998 the group is committed to make the following payments under non-cancellable operating leases:

	1998 Land and buildings £'000	1998 Other £'000	1997 Land and buildings £'000	1997 Other £'000
Leases which expire:				
Within one year	—	38	—	3
Between two and five years	178	208	160	76
After five years	138	—	37	42
	316	246	197	121

At 30 April 1998 the group had capital commitments of £14,000 (1997: £nil).

22. Reconciliation of operating profit to net cash inflow from operating activities

	1998 £'000	1997 £'000
Operating profit	870	699
Amortisation and depreciation	183	56
Profit on disposal of tangible fixed assets	—	(2)
Increase in stocks	(107)	(16)
Increase in debtors	(351)	(1,373)
(Decrease)/increase in creditors	(109)	994
Net cash inflow from operating activities	486	358

23. Analysis of net cash/(debt)

	At 1 May 1997 £'000	Cash flow £'000	Acquisitions £'000	At 30 April 1998 £'000
Cash at bank and in hand net of overdraft	77	649	—	726
Bank loan	(175)	46	—	(129)
Obligations under hire purchase contracts	(50)	19	(81)	(112)
Short term loan	—	445	(544)	(99)
	(148)	1,159	(625)	386

Financial calendar

Annual general meeting	2 September 1998
1999 interim results announcement	December 1998
Payment of 1999 interim dividend	March 1999
1999 final results announcement	July 1999
Payment of 1999 final dividend	September 1999