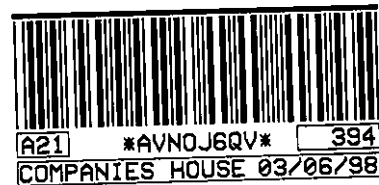


26177291

LanBase plc

Report and Accounts

Year ended 31 December 1997



LanBase plc

Registered No. 2617729

DIRECTORS

K Berry
L Needs

SECRETARY

L Needs

AUDITORS

Ernst & Young
Old Town Court
10-14 High Street
Swindon
Wiltshire
SN1 3EP

BANKERS

National Westminster Bank
30 Market Place
Newbury
Berkshire
RG14 5AJ

SOLICITORS

S C Bourge
Pembroke House
7 Brunswick Square
Bristol
Avon
BS2 8PE

REGISTERED OFFICE

Unit 6 Pipers Court
Berkshire Drive
Thatcham
Newbury
Berkshire
RG19 4ER

DIRECTORS' REPORT

The directors present the report and accounts for the year ended 31 December 1997.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £861,359 (1996 - profit £563,358). The directors recommend a dividend of £170,000, leaving a retained profit of £691,359.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activity during the period continued to be the supply and installation of data networking products for value added Local Area Networks and Wide Area Networks.

Combining technical expertise with project management skills and a unique range of products and services, we offer a single source solution for the provision of flexible, technology advanced networks that are specifically designed to meet our corporate customers exact requirements. Network services are becoming an increasing part of our business. The LanBase philosophy has been to provide a one-stop shop approach to network infrastructures.

Our services include:

- Consultancy
- Network Design
- Network Installation
- Project Management
- Maintenance
- Remote Network Management

FIXED ASSETS

Movements in fixed assets for the period are summarised in note 9 to the accounts.

DIRECTORS AND THEIR INTERESTS

The directors have no interests in the share capital of the company. Their interests in the share capital of the parent undertaking, LanBase European Holdings Limited, are disclosed in the accounts of that company.

AUDITORS

A resolution to re-appoint Ernst & Young as auditors will be submitted at the Annual General Meeting.

By order of the board



L Needs
Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

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 the company and of the profit or loss of the company 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; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

REPORT OF THE AUDITORS
to the members of LanBase plc

We have audited the accounts on pages 6 to 18, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

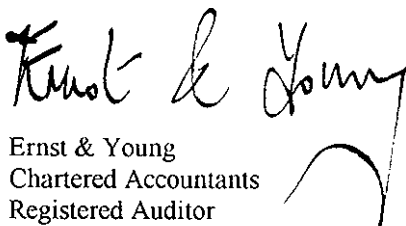
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young
Chartered Accountants
Registered Auditor
Swindon

2 June 1998

LanBase plc

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1997

	Notes	1997 £	1996 £
TURNOVER	2	18,346,576	13,683,739
Cost of sales		11,079,535	8,455,487
Gross profit		7,267,041	5,228,252
Distribution costs		274,421	191,815
Administrative expenses		5,595,747	4,013,321
OPERATING PROFIT	3	1,396,873	1,023,116
Interest payable and similar expense	6	138,990	154,625
Interest receivable		-	(2,439)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,257,883	870,930
Tax on profit on ordinary activities	7	396,524	307,572
PROFIT FOR THE FINANCIAL YEAR	17	861,359	563,358
Dividends	8	170,000	400,000
PROFIT RETAINED FOR THE FINANCIAL YEAR		691,359	163,358

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £861,359 for the year ended 31 December 1997 and the profit of £563,358 for the year ended 31 December 1996.

LanBase plc

BALANCE SHEET at 31 December 1997

	Notes	1997 £	1996 £
FIXED ASSETS			
Tangible assets	9	391,227	173,487
		<u>391,227</u>	<u>173,487</u>
CURRENT ASSETS			
Stocks	10	1,190,814	895,970
Debtors	11	6,970,067	3,747,596
		<u>8,160,881</u>	<u>4,643,566</u>
CREDITORS: amounts falling due within one year	12	7,165,899	4,161,757
NET CURRENT ASSETS		<u>994,982</u>	<u>481,809</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,386,209</u>	<u>655,296</u>
CREDITORS: amounts falling due after more than one year			
Finance lease obligations	13	51,954	12,400
		<u>1,334,255</u>	<u>642,896</u>
CAPITAL AND RESERVES			
Called up share capital	15	25,100	25,100
Profit and loss account	16	1,309,155	617,796
Equity shareholders' funds		<u>1,334,255</u>	<u>642,896</u>

L Needs

L Needs
Director

2 June 1998.

STATEMENT OF CASH FLOWS
for the year ended 31 December 1997

	<i>Notes</i>	<i>1997</i> £	<i>1996</i> £
NET CASH INFLOW FROM OPERATING ACTIVITIES	17(a)	627,431	681,726
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	17(b)	(654,871)	(220,186)
TAXATION	17(b)	(332,527)	(224,293)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	17(b)	(223,423)	(67,032)
FINANCING	17(b)	522,993	(509,434)
DECREASE IN CASH		<u>(60,397)</u>	<u>(339,219)</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
		<i>1997</i> £	<i>1996</i> £
Decrease in cash		(60,397)	(339,219)
Cash used to repay capital element of finance leases		42,600	28,438
Change in net debt resulting from cash flows	17(c)	(17,797)	(310,781)
New finance leases and hire purchase contracts		(94,018)	-
Net movement in advances from factors		(565,593)	480,996
MOVEMENT IN NET DEBT		<u>(677,408)</u>	<u>170,215</u>
NET DEBT AT 1 JANUARY	17(c)	(607,993)	(778,208)
NET DEBT AT 31 DECEMBER	17(c)	<u>(1,285,401)</u>	<u>(607,993)</u>

NOTES TO THE ACCOUNTS
at 31 December 1997

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Plant and machinery	-	over 4 years
Fixtures and fittings	-	over 5 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Finished goods and goods for resale	-	purchase cost on a first in, first out basis
Work in progress	-	incorporates any material and sub-contract costs incurred on site for installations that are in progress. No overheads are incorporated within work in progress.

Foreign currencies

Transactions in foreign currencies are recorded at the 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. All differences are taken to the profit and loss account.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Maintenance contracts

Revenue for maintenance contracts is recognised on a time apportioned basis over the period for which maintenance is to be provided. The related expense is recognised on an as-incurred basis.

NOTES TO THE ACCOUNTS
at 31 December 1997

2. TURNOVER

Turnover represents the invoiced amount of goods sold and services provided, stated net of value added tax. The geographical split of turnover is as follows:

	1997 £	1996 £
United Kingdom	18,270,876	13,573,652
Eire	20,316	29,172
Other EEC countries	55,384	80,915
	<u>18,346,576</u>	<u>13,683,739</u>

3. OPERATING PROFIT

This is stated after charging/(crediting):

	1997 £	1996 £
Auditors' remuneration: - audit services	11,800	10,810
- other services	10,560	11,515
Depreciation of tangible fixed assets:		
- owned	67,137	48,578
- held under finance leases	26,409	21,552
Operating lease rentals - hire of plant and machinery	16,782	12,238
- other	318,180	227,099
Gain on exchange	<u>(121,813)</u>	<u>(83,652)</u>

4. DIRECTORS' REMUNERATION

	1997 £	1996 £
Emoluments	<u>203,772</u>	<u>225,398</u>

	1997 £	1996 £
The amounts in respect of the highest paid director are as follows:		

Emoluments	<u>129,815</u>	<u>111,098</u>
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NOTES TO THE ACCOUNTS
at 31 December 1997

5. STAFF COSTS

	1997 £	1996 £
Wages and salaries	3,249,913	2,236,528
Social security costs	303,765	200,092
	<u>3,553,678</u>	<u>2,436,620</u>

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

	1997 No.	1996 No.
Sales and technical		
Administration	66	44
	13	12
	<u>79</u>	<u>56</u>

6. INTEREST PAYABLE AND SIMILAR EXPENSE

	1997 £	1996 £
Bank overdraft	4,763	10,217
Finance charges payable under finance leases	7,146	6,927
Factoring charges	127,081	137,481
	<u>138,990</u>	<u>154,625</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1997 £	1996 £
Based on the profit for the year:		
Corporation tax at 31% (1996 - 33%)	408,108	308,000
Corporation tax over provided in previous years	(11,584)	(428)
	<u>396,524</u>	<u>307,572</u>

8. DIVIDENDS

	1997 £	1996 £
Equity dividends on ordinary shares:		
Final proposed	170,000	400,000

NOTES TO THE ACCOUNTS
at 31 December 1997

9. TANGIBLE FIXED ASSETS

	<i>Fixtures and fittings</i> £	<i>Plant and equipment</i> £	<i>Total</i> £
Cost:			
At 1 January 1997	95,419	273,998	369,417
Additions	121,892	201,127	323,019
Disposals	-	(26,932)	(26,932)
At 31 December 1997	217,311	448,193	665,504
Depreciation:			
At 1 January 1997	52,487	143,443	195,930
Provided during the year	14,308	79,238	93,546
Disposals	-	(15,199)	(15,199)
At 31 December 1997	66,795	207,482	274,277
Net book value:			
At 31 December 1997	150,516	240,711	391,227
At 31 December 1996	42,932	130,555	173,487

The net book values of fixtures and fittings and plant and equipment above include amounts of £88,609 (1996 - £17,849) and £39,867 (1996 - £43,067) respectively in relation to assets held under finance leases and hire purchase contracts.

10. STOCKS

	<i>1997</i> £	<i>1996</i> £
Work in progress	44,990	50,153
Finished goods and goods for resale	1,145,824	845,817
	1,190,814	895,970

NOTES TO THE ACCOUNTS
at 31 December 1997

11. DEBTORS

	1997	1996
	£	£
Trade debtors	6,213,218	3,476,219
Amount due from parent company	364,828	119,157
Amount due from fellow subsidiary	3,772	18,939
Rent deposit	26,200	29,750
Prepayments and accrued income	362,049	103,531
	<u>6,970,067</u>	<u>3,747,596</u>

12. CREDITORS: amounts falling due within one year

	1997	1996
	£	£
Bank overdraft (secured)	459,976	399,579
Advances from factors	729,750	164,157
Obligations under finance leases and hire purchase contracts (note 13)	43,721	31,857
Trade creditors	3,366,042	1,732,018
Corporation tax	371,997	308,000
Other taxes and social security	422,858	379,785
Accruals and deferred income	1,601,555	746,361
Proposed dividend	170,000	400,000
	<u>7,165,899</u>	<u>4,161,757</u>

The bank overdraft is secured by a debenture over the company's assets.

The "advances from factors" are secured by the trade debtors which they are financing.

NOTES TO THE ACCOUNTS
at 31 December 1997

13. **OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS**

The maturity of these amounts is as follows

	1997	1996
	£	£
Amounts payable:		
Within one year	51,877	35,365
In two to five years	59,919	12,853
	<u>111,796</u>	<u>48,218</u>
Less: finance changes allocated to future periods	(16,121)	(3,961)
	<u>95,675</u>	<u>44,257</u>

Finance leases and hire purchase contracts are analysed as follows:

Amounts payable:		
Current obligations (note 12)	43,721	31,857
Non-current obligations	51,954	12,400
	<u>95,675</u>	<u>44,257</u>

14. **DEFERRED TAXATION**

The deferred taxation asset provided and not provided is:

	<i>Provided</i>		<i>Not provided</i>	
	1997	1996	1997	1996
	£	£	£	£
Capital allowances in advance of depreciation	-	-	4,471	(11,738)
	<u>-</u>	<u>-</u>	<u>4,471</u>	<u>(11,738)</u>

NOTES TO THE ACCOUNTS
at 31 December 1997

15. SHARE CAPITAL

	<i>Authorised 1997 No.</i>	<i>Allotted and called up 1997 £</i>	<i>Authorised 1996 No.</i>	<i>Allotted and called up 1996 £</i>
Ordinary shares of £1 each	100,100	25,100	100,100	25,100

Allotted and called up share capital comprises 49,999 Ordinary shares of £1 called as to 50p per share, and 101 fully paid Ordinary shares of £1 each.

16. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital £</i>	<i>Profit and loss account £</i>	<i>Total £</i>
At 1 January 1996	25,100	454,438	479,538
Profit for the year	-	563,358	563,358
Dividend	-	(400,000)	(400,000)
At 1 January 1997	25,100	617,796	642,896
Profit for the year	-	861,359	861,359
Dividend	-	(170,000)	(170,000)
At 31 December 1997	25,100	1,309,155	1,334,255

NOTES TO THE ACCOUNTS
at 31 December 1997

17. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow from operating activities

	1997 £	1996 £
Operating profit	1,396,873	1,023,116
Depreciation	93,546	70,130
Loss on disposal of tangible fixed assets	6,155	1,659
Increase in debtors	(3,106,590)	(839,247)
Increase in stocks	(294,844)	(52,809)
Increase in creditors	2,532,291	478,877
Net cash inflow from operating activities	627,431	681,726

(b) Analysis of cash flows for headings netted in the statement of cash flows

	1997 £	1996 £
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Advances to LanBase Asia	(515,881)	(68,750)
Factoring charges paid	(127,081)	(137,481)
Interest element of finance lease payments	(7,146)	(6,927)
Interest paid	(4,763)	(9,467)
Interest received	-	2,439
	(654,871)	(220,186)

	1997 £	1996 £
TAXATION		
UK Corporation Tax Paid	(332,527)	(224,293)

	1997 £	1996 £
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Payment to acquire tangible fixed assets	(229,001)	(69,890)
Receipts from sales of fixed assets	5,578	2,858
	(223,423)	(67,032)

NOTES TO THE ACCOUNTS
at 31 December 1997

17. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

	1997 £	1996 £
FINANCING		
Net movement in advances from factors	565,593	(480,996)
Repayments of capital elements of finance leases and hire purchase contracts	(42,600)	(28,438)
	<u>522,993</u>	<u>(509,434)</u>

(c) Analysis of changes in net debt

	<i>At</i> <i>1 January</i> <i>1997</i> £	<i>Cash</i> <i>flow</i> £	<i>Other</i> <i>Changes</i> £	<i>At</i> <i>31 December</i> <i>1997</i> £
Bank overdrafts	(399,579)	(60,397)	-	(459,976)
Advances from factors	(164,157)	-	(565,593)	(729,750)
Finance leases	(44,257)	42,600	(94,018)	(95,675)
	<u>(607,993)</u>	<u>(17,797)</u>	<u>(659,611)</u>	<u>(1,285,401)</u>

(d) Non-cash transactions

During the year the company entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of £94,018 (1996 - £NIL).

18. OTHER FINANCIAL COMMITMENTS

At 31 December 1997 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and</i> <i>buildings</i>		<i>Other</i>
	<i>1997</i>	<i>1996</i>	<i>1997</i>
	£	£	£
Operating leases which expire:			
Within one year	-	-	76,572
Within two to five years	60,000	-	235,193
In over five years	64,750	64,750	-
	<u>124,750</u>	<u>64,750</u>	<u>311,765</u>
			<u>205,599</u>

NOTES TO THE ACCOUNTS
at 31 December 1997

19. **ULTIMATE HOLDING COMPANY**

The parent undertaking of the smallest and largest group of which the company is a member and for which group accounts are prepared is LanBase European Holdings Limited, a company incorporated in England and Wales. Copies of the group accounts are available to the public from Unit 6 Pipers Court, Berkshire Drive, Thatcham, Newbury, Berkshire, RG19 4ER.