

Company Number: 2715377

Astea Service and Distribution Systems Limited

Financial Statements

for the year ended 31st December 1997



Astea Service and Distribution Systems Limited

Company Information

Company No: 2715377

Chairman

Mr J Keighley

Registered Office

Churchward House
Kemble Drive
Swindon
Wilts
SN2 2TA

Director

Mr J Keighley

Secretary

Mr C B Sunter

Auditors

Morris Owen
Morris Owen House
43-45 Devizes Road
Swindon
Wilts
SN1 4BG

Bankers

National Westminster Bank plc
84 Commercial Road
Swindon
Wilts
SN1 5NU

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3	Auditors' Report
4	Profit and Loss Account
5	Balance Sheet
6 to 10	Notes to the Financial Statements

The director submits his report together with the audited financial statements for the year ended 31st December 1997.

Director's Statement

Company law requires the director 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 loss for that year. In preparing those financial statements the director is required to:

Select suitable accounting policies and then apply them consistently;

Make judgements and estimates that are reasonable and prudent;

State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and to enable him to ensure the financial statements comply with the Companies Act 1985. He is 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.

Results and Dividends

The loss on the ordinary activities of the company before taxation amounted to £261,386. After deducting taxation, the loss of £264,376 has been transferred from reserves.

The director does not recommend a dividend.

Principal Activity and Business Review

The principal activity of the company continued to be that of distribution of computer software, licences and services.

The director is happy with the progress that the company is making to establish itself within the UK, and with the support from other members of the group is happy with the position at the balance sheet date.

Director

The director, who has no beneficial interest in the shares of the company, who served during the year was:

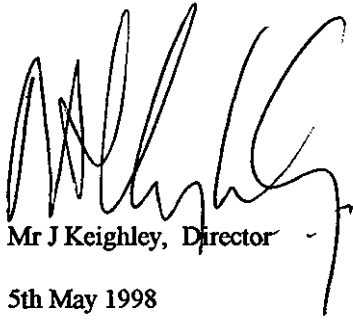
Mr J Keighley

The director has no beneficial interest in the share capital of the holding company, Astea Service and Distribution Systems B.V.

Auditors

The Auditors, Morris Owen Chartered Accountants, have indicated that they are willing to be reappointed at the forthcoming Annual General Meeting.

By Order of the Board:

A handwritten signature in black ink, appearing to be 'J Keighley', written over the printed name.

Mr J Keighley, Director

5th May 1998

Auditors' Report to the Shareholders

on the Financial Statements for the year ended 31st December 1997

We have audited the financial statements on pages 4 to 10, which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of the director and auditors

As described on page 1 the company's director is 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 director 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 information and explanations which we consider 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, other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the financial statements.

Fundamental uncertainty

In forming our opinion we have considered the adequacy of disclosures made in note 1 of the financial statements concerning the directors plans for operating with the company's current liabilities position. In view of the significance of the fact that the preparation of the financial statements on the going concern basis assumes the success of these plans, we consider that these disclosures should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

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



**Morris Owen
Chartered Accountants
and Registered Auditors**

2.6.98

Morris Owen House
43-45 Devizes Road
Swindon
Wilts
SN1 4BG

Astea Service and Distribution Systems Limited

Profit and Loss Account

for the year ended 31st December 1997

	Notes	1997 £	1997 £	1996 £	1996 £
Turnover :	2				
Continuing		1,616,936		1,024,634	
Acquisitions		-		405,509	
			1,616,936		1,430,143
Cost of sales	3		(632,199)		(614,368)
Gross profit			984,737		815,775
Distribution costs	3	(191,721)		(356,906)	
Administrative expenses	3	(1,081,231)		(1,278,203)	
Other operating income	3	29,428		-	
			(1,243,524)		(1,635,109)
Operating loss	5				
Continuing operations		(258,787)		(413,189)	
Acquisitions		-		(406,145)	
Operating loss total	5		(258,787)		(819,334)
Interest receivable			-		26
Interest payable	6		(2,599)		(1,745)
Loss on ordinary activities before Taxation			(261,386)		(821,053)
Tax on Loss on ordinary activities	8		(2,990)		18,168
Loss on ordinary activities after Taxation			(264,376)		(802,885)
Retained loss transferred from reserves			(264,376)		(802,885)
Retained (loss)/profit brought forward			(769,438)		33,447
Retained (loss) carried forward			(1,033,814)		(769,438)

There have been no recognised gains or losses, other than the results for the financial year, and all profits or losses have been accounted for on an historical cost basis.

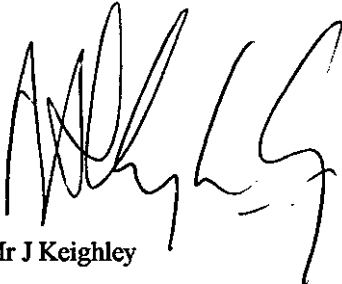
Astea Service and Distribution Systems Limited

Balance Sheet

as at 31st December 1997

	Notes	1997 £	1997 £	1996 £	1996 £
Fixed Assets					
Tangible fixed assets	9		45,058		70,552
Current Assets					
Debtors	10	456,714		428,314	
Cash at bank and in hand		5,096		134,678	
		<u>461,810</u>		<u>562,992</u>	
Creditors:					
Amounts falling due within one year	11	<u>(1,540,680)</u>		<u>(1,402,980)</u>	
Net Current (Liabilities)			<u>(1,078,870)</u>		<u>(839,988)</u>
Total Assets Less Current Liabilities			<u>(1,033,812)</u>		<u>(769,436)</u>
Capital and Reserves					
Share capital	13		2		2
Profit and loss account			<u>(1,033,814)</u>		<u>(769,438)</u>
Equity Shareholders' Funds	14		<u>(1,033,812)</u>		<u>(769,436)</u>

These accounts were approved by the director on 5th May 1998 and signed on its behalf by:



Mr J Keighley

Director

1 Principal Accounting Policies

Accounting Convention

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

Going Concern

After making enquiries, and taking into account the losses made in the year and the current liabilities position at 31st December 1997, the directors have received a letter of support from the parent undertaking stating that the company will be provided with adequate financial resources by its parent undertaking to continue in operations for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the accounts.

Turnover

Turnover is the total amount receivable by the company for goods supplied and 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 over their expected useful lives. The rates generally applicable are:

Furniture and equipment	20% straight line
Fixtures and fittings	20% straight line
Computer equipment	33% straight line

Contribution to Pension Funds

The company pays pensions contributions into external defined contribution pension schemes in respect of certain employees. The amount charged to the profit and loss account is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Leased Assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

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

2 Turnover

The turnover and operating loss for the year was derived from the company's principal activity as was carried out wholly in the UK.

3 Analysis of Profit and Loss Account Between Continuing and Discontinued Operations

	Continuing 1997 £	Acquisitions 1997 £	Total 1997 £
Turnover	1,616,936	-	1,616,936
Cost of sales	632,199	-	632,199
Gross profit	984,737	-	984,737
Selling and marketing costs	191,721	-	191,721
Administrative expenses	1,081,231	-	1,081,231
Other operating income	(29,428)	-	(29,428)
Operating profit	(258,787)	-	(258,787)

	Continuing 1996 £	Acquisitions 1996 £	Total 1996 £
Turnover	1,024,634	405,509	1,430,143
Cost of sales	504,473	109,895	614,368
Gross profit	520,161	295,614	815,775
Selling and marketing costs	268,337	88,569	356,906
Administrative expenses	665,013	613,190	1,278,203
Operating profit	(413,189)	(406,145)	(819,334)

The 1996 analysis of continuing and discontinued operations has been restated to reflect operations discontinued in 1997.

4 Other Operating Income	1997 £	1996 £
Profit on sale of fixed assets	29,428	-

5 Operating Loss

The operating loss is stated after charging or crediting:

	1997 £	1996 £
Operating lease rentals - plant and machinery	5,183	5,721
Other operating lease rentals	43,288	55,183
Amounts payable to the auditors in respect of audit services	2,800	6,462
Depreciation - owned assets	38,353	36,463
(Profit) on disposal of fixed assets	(29,428)	-
Loss/(Profit) on foreign exchange	24,615	(8,107)

Astea Service and Distribution Systems Limited

Notes to the Financial Statements

for the year ended 31st December 1997

6	Interest Payable	1997	1996
		£	£
	Bank loans and overdrafts	-	1,591
	Hire purchase and finance lease interest	-	154
	Corporation tax interest	2,599	-
		<u>2,599</u>	<u>1,745</u>

7 Director and Employees

Staff costs during the year were as follows:

	1997	1996
	£	£
Wages and salaries	690,328	751,702
Social security costs	64,447	69,885
Other pension costs	22,831	33,111
	<u>777,606</u>	<u>854,698</u>

During 1997 no remuneration or pension contributions were paid to the director of the company (1996 - Nil).

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

	1997	1996
	Number	Number
Administration	1	-
Production	11	10
Selling and distribution	3	3
	<u>15</u>	<u>13</u>

8 Tax on Loss on Ordinary Activities

	1997	1996
	£	£
Based on the loss for the year:		
U.K. Corporation tax at 24% (1996 25%)	-	(18,168)
Prior year adjustments - corporation tax	2,990	-
	<u>2,990</u>	<u>(18,168)</u>

Notes to the Financial Statements

for the year ended 31st December 1997

9 Tangible Fixed Assets

	Office equipment	Furniture and fixtures	Computer equipment	Total
Cost	£	£	£	£
At 1st January 1997	1,449	19,233	107,512	128,194
Additions	175	-	13,143	13,318
Disposals	(1,449)	-	(35,109)	(36,558)
At 31st December 1997	175	19,233	85,546	104,954
Depreciation				
At 1st January 1997	1,160	8,111	48,371	57,642
Charged for the year	303	3,386	34,664	38,353
Eliminated on disposal	(1,449)	-	(34,650)	(36,099)
At 31st December 1997	14	11,497	48,385	59,896
Net Book Value				
At 31st December 1997	161	7,736	37,161	45,058
At 31st December 1996	289	11,122	59,141	70,552

10 Debtors

	1997	1996
	£	£
Trade debtors	293,976	318,264
Amounts owed by group undertakings	100,793	71,207
Corporation tax recoverable	15,178	-
Other debtors	16,350	17,175
Prepayments and accrued income	30,417	21,668
	456,714	428,314

11 Creditors: Amounts falling due within one year

	1997	1996
	£	£
Trade creditors	81,261	49,998
Amounts owed to group undertakings	1,323,618	1,161,974
Other taxes and social security	56,668	66,044
Accruals and deferred income	79,133	124,964
	1,540,680	1,402,980

12 Operating Lease Commitments

Financial commitments under non-cancellable operating leases will result in the following payments falling due in the next financial year:

	1997	1996
	Other £	Other £
Expiring:		
Within one year	30,266	111,000
Within two to five years	-	77,000
After five years	-	-
	<u>30,266</u>	<u>188,000</u>

13 Share Capital

Authorised	1997 £	1996 £
1,000 Ordinary shares of £1 each (1996: 2)	1,000	2
	<u>1,000</u>	<u>2</u>

Allotted, called up and fully paid	1997 £	1996 £
2 Ordinary shares of £1 each (1996: 2)	2	2
	<u>2</u>	<u>2</u>

14 Reconciliation of the Movement in Shareholders' Funds

	1997 £	1996 £
Loss for the financial year	(264,376)	(802,885)
(Decrease) in shareholders' funds	(264,376)	(802,885)
Opening shareholders' funds	(769,436)	33,449
Closing shareholders' funds	<u>(1,033,812)</u>	<u>(769,436)</u>

15 Ultimate Parent Undertaking

The company is a wholly owned subsidiary of Astea Service and Distribution Systems B.V. , a company registered in the Netherlands. The ultimate holding company is Astea International Inc. a company registered in the United States of America.