



CHEMWARE SYSTEMS LIMITED

Report and Financial Statements

28 February 1998

Deloitte & Touche
Leda House
Station Road
Cambridge CB1 2RN

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REPORT AND FINANCIAL STATEMENTS 1998

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REPORT AND FINANCIAL STATEMENTS 1998

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A Barrell
S Barton
N S Willcox
A Utley

SECRETARY

A Utley

REGISTERED OFFICE

Newark Close
York Way
Royston
Hertfordshire SG8 5HL

BANKERS

Barclays Bank Plc
Chesterton Business Centre
28 Chesterton Road
Cambridge CB4 3AZ

AUDITORS

Deloitte & Touche
Chartered Accountants
Leda House
Station Road
Cambridge CB1 2RN



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 28 February 1998.

ACTIVITY

The company's principal activity is that of providing computer software and consultancy services to the chemical industry.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The results of Chemware Systems Limited for the year demonstrate the commitment of the business to the development of the next generation product, e-Chem. The company invested £318,695 in this development process in the year.

E-Chem is scheduled for release in January 1999 and early customer reactions have been extremely favourable.

DIVIDENDS

The directors do not recommend the payment of a dividend.

RESEARCH AND DEVELOPMENT

The company continues an active programme of research and development, the costs of which in the year amounted to £318,695.

DIRECTORS AND THEIR INTERESTS

The directors who served throughout the year, together with their beneficial interests in the ordinary shares of the company and its parent, Episys Group Limited, are as follows:

	Chemware Systems Limited		Episys Group Limited	
	Ordinary shares of £1 each		Ordinary shares of 10p each	
	1998	1997	1998	1997
	No	No	No	No
S Barton	-	340	92,034	-
N S Willcox	-	319	92,034	-
G W Brooks	-	-	365,417	321,723
M Gynane	-	-	-	-

G W Brooks and M Gynane hold options over 132,515 and 65,000 ordinary shares of 10p each in Episys Group Limited at an exercise price of 10p and 47p respectively.

A Barrell and A Utley were appointed directors on 21 September 1998 and 15 October 1998 respectively. G W Brooks and M Gynane resigned as directors on 24 July 1998 and 10 November 1998 respectively.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

**DIRECTORS' REPORT****STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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 as at the end of the financial year 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. 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.

Approved by the Board of Directors
and signed on behalf of the Board

Secretary

16 December 1998



CHEMWARE SYSTEMS LIMITED

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 5 to 12 which have been prepared under the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3 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 as at 28 February 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and
Registered Auditors

18 December 1998


PROFIT AND LOSS ACCOUNT
Year ended 28 February 1998

	Note	1998 £	1997 £
TURNOVER: continuing operations	2	209,856	466,710
Cost of sales		<u>13,509</u>	<u>7,045</u>
Gross profit		196,347	459,665
Administrative expenses		<u>489,623</u>	<u>492,544</u>
OPERATING LOSS: continuing operations	4	<u>(293,276)</u>	<u>(32,879)</u>
Interest receivable and similar income		444	485
Interest payable and similar charges	5	<u>(27,552)</u>	<u>(6,903)</u>
		<u>(27,108)</u>	<u>(6,418)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(320,384)	(39,297)
Tax on loss on ordinary activities	6	<u>24</u>	<u>200</u>
LOSS FOR THE FINANCIAL YEAR		(320,360)	(39,097)
Accumulated losses brought forward		<u>(44,083)</u>	<u>(4,986)</u>
Accumulated losses carried forward		<u>(364,443)</u>	<u>(44,083)</u>

There are no recognised gains or losses for the current financial year and the preceding financial year other than as stated in the profit and loss account.


BALANCE SHEET
28 February 1998

	Note	1998 £	1997 £
FIXED ASSETS			
Tangible assets	7	58,678	63,571
CURRENT ASSETS			
Stocks	8	1,114	1,631
Debtors	9	73,361	144,114
Cash at bank and in hand		841	12,488
		75,316	158,233
CREDITORS: amounts falling due within one year	10	(484,344)	247,363
NET CURRENT LIABILITIES		(409,028)	(89,130)
TOTAL ASSETS LESS CURRENT LIABILITIES		(350,350)	(25,559)
CREDITORS: amounts falling due after more than one year	11	(573)	(5,004)
		(350,923)	(30,563)
CAPITAL AND RESERVES			
Called up share capital	14	2,000	2,000
Share premium account		11,520	11,520
Profit and loss account		(364,443)	(44,083)
TOTAL EQUITY SHAREHOLDERS' FUNDS		(350,923)	(30,563)

These financial statements were approved by the Board of Directors on 16 December 1998.

Signed on behalf of the Board of Directors

Director

**NOTES TO THE ACCOUNTS****Year ended 28 February 1998****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Turnover and income recognition

Turnover represents the invoiced amounts of goods and services sold and provided, net of value added tax.

Support and maintenance income is invoiced annually in advance and is recognised as income over the period of the contract. Where elements of such annual maintenance contracts are subcontracted to external hardware specialists, then these costs are also spread over the period of the contract.

Research and development

All expenditure on research and development is charged to the profit and loss account as incurred.

Tangible fixed assets

Provision is made for depreciation on all tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Fixtures and fittings	33% per annum on cost
Computer equipment	33% per annum on cost
Motor vehicles	25% per annum on cost

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that tax will arise.

Leases

Assets obtained under hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease rentals in proportion to the capital element outstanding.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

2. TURNOVER

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and value added tax.


NOTES TO THE ACCOUNTS
Year ended 28 February 1998
2. TURNOVER (continued)

The turnover and pre-tax loss are attributable to the activity of software development and sale of associated applications.

	1998 £	1997 £
Geographical analysis of turnover		
United Kingdom	134,317	184,672
Europe	25,982	130,865
Rest of the World	49,557	151,173
	<u>209,856</u>	<u>466,710</u>

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998 £	1997 £
Directors' remuneration		
Emoluments	<u>99,100</u>	<u>80,336</u>
	No	No
Average number of persons employed (including directors)		
Office and management	2	1
Software	7	7
Sales	1	1
	<u>10</u>	<u>9</u>
	£	£
Staff costs during the year (including directors)		
Wages and salaries	330,735	241,688
Social security costs	29,333	21,207
	<u>360,068</u>	<u>262,895</u>

4. OPERATING LOSS

	1998 £	1997 £
Operating loss is after charging (crediting):		
Depreciation		
Owned assets	28,364	20,052
Leased assets	5,333	5,451
Profit on disposal of fixed assets	-	(4,082)
Rentals under operating leases		
Land and buildings	20,300	19,200
Other operating leases	-	3,239
Auditors' remuneration	<u>3,300</u>	<u>3,000</u>


NOTES TO THE ACCOUNTS
Year ended 28 February 1998
5. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £	1997 £
Hire purchase contracts	1,325	827
Interest paid on overdue tax	-	55
Group loan interest	26,227	6,021
	<u>27,552</u>	<u>6,903</u>

6. TAX ON LOSS ON ORDINARY ACTIVITIES

	1998 £	1997 £
Corporation tax repayable	-	(200)
Adjustment to prior year corporation tax	(24)	-
	<u>(24)</u>	<u>(200)</u>

The company has tax losses of approximately £346,000 available to offset against future profits arising from the same trade.

7. TANGIBLE FIXED ASSETS

	Fixtures and fittings £	Computer equipment £	Motor vehicles £	Total £
Cost				
At 1 March 1997	10,461	73,749	21,333	105,543
Additions in year	532	28,272	-	28,804
Disposals in year	-	(234)	-	(234)
	<u>10,993</u>	<u>101,787</u>	<u>21,333</u>	<u>134,113</u>
At 28 February 1998				
Accumulated depreciation				
At 1 March 1997	4,085	33,970	3,917	41,972
Charge in year	3,023	25,341	5,333	33,697
Disposals in year	-	(234)	-	(234)
	<u>7,108</u>	<u>59,077</u>	<u>9,250</u>	<u>75,435</u>
At 28 February 1998				
Net book value				
At 28 February 1998	<u>3,885</u>	<u>42,710</u>	<u>12,083</u>	<u>58,678</u>
At 28 February 1997	<u>6,376</u>	<u>39,779</u>	<u>17,416</u>	<u>63,571</u>

All motor vehicles are held under hire purchase contracts.


NOTES TO THE ACCOUNTS
Year ended 28 February 1998
8. STOCKS

	1998 £	1997 £
Consumables	<u>1,114</u>	<u>1,631</u>

9. DEBTORS

	1998 £	1997 £
Trade debtors	62,592	114,399
Other debtors	3,413	9,136
Prepayments and accrued income	7,356	17,082
Corporation tax recoverable	-	3,497
	<u>73,361</u>	<u>144,114</u>

All amounts are due within one year.

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 £
Obligations under hire purchase contracts	4,431	7,406
Trade creditors	17,090	33,957
Amounts owed to parent undertakings	417,726	144,455
Directors' current accounts	-	-
Corporation tax	-	-
Other taxes and social security	9,632	8,526
Accruals and deferred income	35,465	53,019
	<u>484,344</u>	<u>247,363</u>

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1998 £	1997 £
Obligations under hire purchase contracts	<u>573</u>	<u>5,004</u>


NOTES TO THE ACCOUNTS
Year ended 28 February 1998
12. BORROWINGS

	1998 £	1997 £
Analysis of hire purchase contract repayments net of future finance charges:		
Within one year or on demand	4,431	7,406
Between one and two years	573	4,431
Between two and five years	-	573
	<u>5,004</u>	<u>12,410</u>

13. PROVISIONS FOR LIABILITIES AND CHARGES

The amounts of deferred taxation unprovided in the accounts are:

	Not provided 1998 £	Not provided 1997 £
Depreciation in advance of capital allowances	(2,206)	(239)
Revenue trading losses	(103,860)	(8,080)
	<u>(106,066)</u>	<u>(8,319)</u>

14. CALLED UP SHARE CAPITAL

	1998 £	1997 £
Authorised		
10,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Called up, allotted and fully paid		
2,000 ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Loss attributable to members of the company	(320,360)	(39,097)
Opening shareholders' funds	<u>(30,563)</u>	<u>8,534</u>
Closing shareholders' funds	<u>(350,923)</u>	<u>(30,563)</u>



NOTES TO THE ACCOUNTS
Year ended 28 February 1998

16. FINANCIAL COMMITMENTS

Operating lease commitments

At 28 February 1998 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings £
Leases which expire:	
Between one and two years	<u>4,900</u>

17. ULTIMATE PARENT COMPANY

The ultimate parent company and immediate and ultimate controlling party is Episys Group Limited, a company registered in England and Wales. Group financial statements are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

18. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption under Financial Reporting Standard 8 not to disclose intercompany transactions and balances on the basis that consolidated financial statements are prepared by Episys Group Limited.