

NETSTORE (UK) LIMITED

370250

Report and Accounts

30 June 2002

 ERNST & YOUNG



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COMPANIES HOUSE

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30/07/03

# Netstore (UK) Limited

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Company Number 3202152

## **DIRECTORS**

P Barry-Walsh  
M Jackson  
N Lloyd  
J Maynard

## **SECRETARY**

K Marrinan

## **AUDITORS**

Ernst & Young LLP  
Apex Plaza  
Reading  
Berkshire  
RG1 1YE

## **BANKERS**

Barclays Bank plc  
Blackwater Valley Group  
PO Box 191  
Camberley  
Surrey  
GU15 3GS

## **SOLICITORS**

Norton Rose  
Kempson House  
Camomile Street  
London  
EC3A 7AN

## **REGISTERED OFFICE**

3 The Arena  
Downshire Way  
Bracknell  
Berkshire  
RG12 1PU

**DIRECTORS' REPORT**

The directors present their report and accounts for the year ended 30 June 2002.

**RESULTS AND DIVIDENDS**

The trading loss for the year, after taxation, amounted to £8,833,258 (2001: £13,086,067).

The directors do not recommend the payment of a dividend.

**PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS**

The company's principal activity during the year was the provision of managed application software services and related consultancy services.

**FIXED ASSETS**

The changes in fixed assets during the year are summarised in note 10.

**DIRECTORS AND THEIR INTERESTS**

The directors during the year were as follows:-

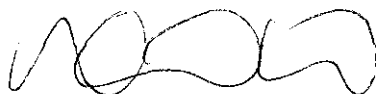
P Barry-Walsh  
M Jackson  
J Maynard  
G P Smith (resigned 16 August 2001)  
N Lloyd

None of the directors held interests in the share capital of the company at 30 June 2002. Details of the directors' interest in the share capital of the parent undertaking, Netstore Plc, are disclosed in the accounts of that company.

**AUDITORS**

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

By order of the Board



Secretary

Date:

4 July 2003

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 a 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.

**INDEPENDENT AUDITOR'S REPORT**  
**to the members of Netstore (UK) Limited**

We have audited the company's financial statements for the year ended 30 June 2002, which comprise the Profit and Loss Account, Balance Sheet, and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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 affairs of the company as at 30 June 2002, and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



Registered Auditor  
Reading

Date: 30/7/03

# Netstore (UK) Limited

## PROFIT AND LOSS ACCOUNT for the year ended 30 June 2002

	Notes	2002 £	2001 £
<b>TURNOVER</b>	2	6,313,452	3,563,923
Cost of sales		3,517,688	1,573,578
<b>GROSS PROFIT</b>		2,795,764	1,990,345
Selling and distribution expenses		(5,845,273)	(9,561,617)
Administrative expenses		(3,812,712)	(5,385,627)
<b>OPERATING LOSS</b>	3	(6,862,221)	(12,956,899)
Amounts written off investments		(2,017,373)	-
Exceptional fixed asset write off following reorganisation of storage infrastructure		-	(184,579)
Profit on disposal of tangible fixed assets		4,331	2,729
Interest receivable and similar income	6	48,737	53,131
Interest payable	7	(6,732)	(449)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(8,833,258)	(13,086,067)
Tax on loss on ordinary activities	8	-	-
<b>LOSS FOR THE YEAR</b>		(8,833,258)	(13,086,067)

There are no recognised gains or losses other than the loss attributable to shareholders of the company of £8,833,258 for the year ended 30 June 2002 (2001: loss of £13,086,067).

# Netstore (UK) Limited

## BALANCE SHEET

at 30 June 2002

	Notes	2002 £	2001 £
<b>FIXED ASSETS</b>			
Intangible fixed assets	9	485,472	-
Tangible assets	10	3,065,681	2,170,366
Investments	11	600,000	-
		<u>4,151,153</u>	<u>2,170,366</u>
<b>CURRENT ASSETS</b>			
Debtors	12	4,350,033	1,157,235
Cash at bank and in hand		1,877,960	-
		<u>6,227,993</u>	<u>1,157,235</u>
<b>CREDITORS: amounts falling due within one year</b>	13	(28,440,085)	(14,554,601)
<b>NET CURRENT (LIABILITIES)</b>		<u>(22,212,092)</u>	<u>(13,397,366)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(18,060,939)</u>	<u>(11,227,000)</u>
<b>CREDITORS: amounts falling due after more than one year</b>	14	(420,000)	(30,593)
<b>TOTAL ASSETS EXCLUDING DEFERRED INCOME</b>		<u>(18,480,939)</u>	<u>(11,257,593)</u>
<b>DEFERRED INCOME</b>		<u>3,051,035</u>	<u>1,446,597</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	602,082	596,608
Share premium account	17	456,927	456,927
Profit and loss account	17	(22,590,983)	(13,757,725)
<b>SHAREHOLDERS' FUNDS - equity interests</b>		<u>(21,531,974)</u>	<u>(12,704,190)</u>
		<u>(18,480,939)</u>	<u>(11,257,593)</u>



14 July 2003 Director

NOTES TO THE ACCOUNTS  
at 30 June 2002

1. ACCOUNTING POLICIES

*Fundamental accounting concept*

The accounts have been prepared on a going concern basis as the ultimate parent undertaking, Netstore plc, has committed to provide financial support to the company for the foreseeable future.

*Basis of preparation*

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

The accounts present information about the company itself and do not include information regarding its subsidiary undertakings. The company is exempt from producing consolidated accounts under Section 228 of the Companies Act 1985.

*Revenue recognition*

Revenue is credited to the profit and loss account over the period to which the sales obligation arises under the related sales contracts.

*Deferred income*

Certain amounts are received from customers in advance of services being provided. These amounts are treated as deferred income, and are reflected on the face of the balance sheet.

*Cash flow statement*

The company has utilised the exemptions provided under Financial Reporting Standard No.1 as a wholly owned subsidiary undertaking of a group whose consolidated financial statements are publicly available and has not presented a cash flow statement.

*Depreciation*

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

Fittings and set up costs	-	over 1 year
Office and computer equipment	-	25% to 50 % on cost
Leasehold improvements	-	over the shorter of the lease term and 4 years

*Goodwill*

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. If a subsidiary or business is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the Profit and Loss Account is taken into account in determining the profit or loss on sale or closure.

*Research and development*

Research and development expenditure is written off as incurred.



NOTES TO THE ACCOUNTS

at 30 June 2002

1. ACCOUNTING POLICIES (continued)

*Deferred taxation*

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

*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.

*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 paid under operating leases are charged to income on a straight line basis over the lease term.

*Pensions*

The company operates a defined contribution scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

*Capital instruments*

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds.

# Netstore (UK) Limited

## NOTES TO THE ACCOUNTS

at 30 June 2002

### 2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is credited to the profit and loss account over the period to which the obligation arises under the related sales contracts. Turnover and loss before taxation is wholly attributable to the one continuing activity of the company. All sales take place within the United Kingdom and Europe.

### 3. OPERATING LOSS

This is stated after charging:

	2002	2001
	£	£
Auditors' remuneration - audit services UK	30,600	39,592
- non audit services UK	19,775	27,133
Research and development expenditure written off	-	1,599,193
Depreciation of tangible fixed assets - owned	1,761,584	666,219
- held on finance leases	137,500	10,179
Amortisation of intangible fixed assets	77,570	8,947
Operating lease rentals - land and buildings	453,862	382,653
- plant and machinery	30,058	30,058
Write off investment in subsidiary	-	1,000
Waiver of loan to subsidiary	-	1,683,789
Charges from fellow subsidiary	221,967	781,072
	<u>          </u>	<u>          </u>

### 4. DIRECTORS' EMOLUMENTS

	2002	2001
	£	£
Emoluments	838,160	566,427
	<u>          </u>	<u>          </u>
Company contributions paid to money purchase pension schemes	22,500	35,250
	<u>          </u>	<u>          </u>

Number of Directors who are members of money purchase pension schemes	2	3
	<u>          </u>	<u>          </u>

The amounts in respect of the highest paid director are as follows:	2002	2001
	£	£
Emoluments	238,212	232,138
	<u>          </u>	<u>          </u>

Company contributions paid to money purchase pension schemes	10,500	9,688
	<u>          </u>	<u>          </u>

# Netstore (UK) Limited

## NOTES TO THE ACCOUNTS at 30 June 2002

### 5. STAFF COSTS

	2002 £	2001 £
Wages and salaries	5,509,955	6,595,871
Social security costs	572,083	673,656
Other pension costs	132,815	112,248
	<u>6,214,853</u>	<u>7,381,775</u>

The average monthly number of employees during the year, including directors, was made up as follows:

	2002 No.	2001 No.
Selling and Distribution	74	65
Administration	12	16
	<u>86</u>	<u>81</u>

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2002 £	2001 £
Deposit account interest	<u>48,737</u>	<u>53,131</u>

### 7. INTEREST PAYABLE

	2002 £	2001 £
Bank interest	1,928	-
Interest payable under finance leases and hire purchase agreements	4,804	449
	<u>6,732</u>	<u>449</u>

NOTES TO THE ACCOUNTS  
at 30 June 2002

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

(a) Tax on profit on ordinary activities

	2002 £	2001 £
Tax on loss on ordinary activities	-	-

(b) Factors affecting current tax charge

The current tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2001: 30%), for the reasons set out below.

	2002 £	2001 £
Loss on ordinary activities before tax	(8,833,258)	(13,086,067)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	(2,649,977)	(3,925,820)
Expenses not deductible for tax purposes	55,355	615,400
Depreciation in excess of capital allowances	539,040	438,930
Losses arising to be carried forward to be utilised in future periods	1,776,216	4,398,830
Utilisation of tax losses	279,366	(1,527,340)
Total current tax	-	-

Factors that may affect the future tax charge

The Company has significant tax losses available for carry forward to set against future tax profits, and consequently expects a low rate of tax for future years.

(c) Deferred tax

No deferred tax asset has been provided in respect of capital allowances or other timing differences. The Company does not consider that it is currently more likely than not that sufficient future profits will be available to absorb these timing differences in the foreseeable future.

The company has £7,094,208 (2001 £5,010,345) of unrecognised deferred tax assets.

NOTES TO THE ACCOUNTS  
at 30 June 2002

9. INTANGIBLE FIXED ASSETS

	<i>Goodwill</i> £	<i>Patents and licences</i> £	<i>Total</i> £
<i>Cost:</i>			
At 1 July 2001	-	61,350	61,350
Additions	563,042	-	563,042
At 30 June 2002	563,042	61,350	624,392
<i>Amortisation:</i>			
At 1 July 2001	-	61,350	63,350
Provided during the year	77,570	-	77,570
At 30 June 2002	77,570	61,350	138,920
<i>Net book value:</i>			
At 30 June 2002	485,472	-	485,472
At 1 July 2001	-	-	-

Goodwill arose on the acquisition of QSP's ASP unincorporated business on 17 December 2001. The acquisition was discharged by £360,000 and £203,042 of costs. Goodwill is being amortised over 4 years, its estimated useful economic life.

10. TANGIBLE FIXED ASSETS

	<i>Leasehold improvements</i> £	<i>Fittings and set up costs</i> £	<i>Office and computer equipment</i> £	<i>Total</i> £
<i>Cost:</i>				
At 1 July 2001	232,355	88,003	3,583,599	3,903,957
Additions	-	-	2,794,399	2,794,399
Disposals	-	-	-	-
At 30 June 2002	232,355	88,003	6,377,998	6,698,356
<i>Depreciation:</i>				
At 1 July 2001	205,499	88,003	1,440,089	1,733,591
Provided during the year	18,201	-	1,880,883	1,899,084
Disposals	-	-	-	-
At 30 June 2002	223,700	88,003	3,320,972	3,632,675
<i>Net book value:</i>				
At 30 June 2002	8,655	-	3,057,026	3,065,681
At 1 July 2001	26,856	-	2,143,510	2,170,366

# Netstore (UK) Limited

## NOTES TO THE ACCOUNTS

at 30 June 2002

### 10. TANGIBLE FIXED ASSETS (continued)

Included in the above are assets held under finance leases and hire purchase contracts with a net book value of £462,500 (2001: £nil).

### 11. INVESTMENTS

	<i>Subsidiary undertakings £</i>
<i>Cost:</i>	
At 1 July 2001	1,000
Additions	2,617,373
At 30 June 2002	2,618,373
<i>Amounts provided:</i>	
At 1 July 2001	1,000
Provided in the year	2,017,373
At 30 June 2002	2,018,373
<i>Net book value:</i>	
At 30 June 2002	600,000
At 1 July 2001	1,000

On 19 December 2001, the company's parent undertaking, Netstore plc, acquired RedRock Software plc for a consideration of £2,617,675 satisfied by a cash offer of £1,096,217 and the issue of 6,229,816 ordinary shares of 20p each at par. This investment was transferred to the Company at net book value from Netstore plc. The investment in RedRock Software Limited has been included in the company's balance sheet at its fair value at the date of acquisition. Details of the assets acquired and adjustments from fair value to book value are given in the accounts of Netstore plc.

The Directors have reviewed the post acquisition performance of RedRock Software Limited and, in light of this, have carried out an impairment review under FRS 11, resulting in the write down of the investment to £600,000.

Details of the investment in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of company	Holdings	Proportion of voting rights and shares held	Nature of business
Netstore Group Limited	Ordinary shares	100%	Dormant
RedRock Software Limited	Ordinary shares	100%	Dormant
RedRock Technologies Limited *	Ordinary shares	100%	Software vendor
RedRock Messaging Limited *	Ordinary shares	100%	Dormant

\* Held by a subsidiary undertaking

# Netstore (UK) Limited

## NOTES TO THE ACCOUNTS

at 30 June 2002

### 12. DEBTORS

	2002	2001
	£	£
<i>Due within one year:</i>		
Trade debtors	2,556,431	528,737
Other debtors	280,252	365,911
Prepayments	646,209	262,587
Amount due from subsidiary undertaking	867,141	-
	<u>4,350,033</u>	<u>1,157,235</u>

### 13. CREDITORS: amounts falling due within one year

	2002	2001
	£	£
Bank Overdraft	-	91,285
Trade creditors	713,106	129,275
Obligations under finance leases and hire purchase contracts (note 15)	150,090	47,132
Other taxes and social security costs	505,982	241,855
Other creditors and accruals	1,591,117	1,914,348
Amount due to parent undertaking	25,467,294	11,978,069
Amount due to fellow subsidiary undertaking	12,496	152,637
	<u>28,440,085</u>	<u>14,554,601</u>

### 14. CREDITORS: amounts falling due after more than one year

	2002	2001
	£	£
Obligations under finance leases and hire purchase contracts (note 15)	<u>420,000</u>	<u>30,593</u>

# Netstore (UK) Limited

## NOTES TO THE ACCOUNTS

at 30 June 2002

### 15. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The maturity of these amounts is as follows:

	2002 £	2001 £
Amounts payable:		
- within one year	150,646	51,766
- in two to five years	420,000	31,319
	<u>570,646</u>	<u>83,085</u>
Less: finance charges allocated to future periods	(556)	(5,360)
	<u>570,090</u>	<u>77,725</u>

Finance leases and hire purchase contracts are analysed as follows:

Current obligations (note 13)	150,090	47,132
Non-current obligations (note 14)	420,000	30,593
	<u>570,090</u>	<u>77,725</u>

### 16. SHARE CAPITAL

	2002 No.	Authorised 2001 No.	Allotted, called up and fully paid 2002 £	2001 £
Ordinary shares of £1 each	328,232	328,232	310,838	305,364
'A' Ordinary shares of £1 each	291,244	291,244	291,244	291,244
	<u>619,476</u>	<u>619,476</u>	<u>602,082</u>	<u>596,608</u>

During the year 5,474 ordinary shares at £1 each were issued at a nominal value for a consideration of £5,474 to satisfy exercised share options. The option holders immediately exchanged their shares in Netstore (UK) Limited for shares in Netstore plc.



# Netstore (UK) Limited

## NOTES TO THE ACCOUNTS at 30 June 2002

### 17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	Share Premium account £	Profit and loss account £	Total £
At 30 June 2001	596,608	456,927	(13,757,725)	(12,704,190)
Loss for the year	-	-	(8,833,258)	(8,833,258)
Other movements: Shares issued	5,474	-	-	5,474
At 30 June 2002	602,082	456,927	(22,590,983)	(21,531,974)

### 18. CAPITAL COMMITMENTS

The directors had not contracted any future capital expenditure at 30 June 2002 (2001: Nil).

### 19. PENSION COMMITMENTS

The company quotes a defined contribution pension scheme for certain directors and all employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The unpaid contributions outstanding at the year end, included in 'Other creditors and accruals' (note 13), are £118,283 (2001: £58,645).

### 20. OTHER FINANCIAL COMMITMENTS

At 30 June 2002 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings		Other	
	2002	2001	2002	2001
	£	£	£	£
Operating leases which expire:				
within one year	209,763	317,825	-	3,116
within two to five years	-	-	-	5,000
more than five years	92,000	92,004	-	-

### 21. POST BALANCE SHEET EVENTS

On 13 March 2003 the company acquired the entire share capital of NetConnect Limited for a maximum consideration of £2,300,000, based upon post acquisition results.

### 22. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking of the company is Netstore plc, a company registered in England and Wales. The largest and smallest consolidated accounts that include the results of the company are those of Netstore Plc, copies of which can be obtained from The Company Secretary, Netstore Plc, 3 The Arena, Downshire Way, Bracknell, Berkshire, RG12 1PU.

The company has taken advantage of the exemptions given under Financial Reporting Standard No. 8, Related Party Transactions, not to disclose transactions with entities that are members of, or investees in, the Netstore plc group.