

ALTERIAN TECHNOLOGY LIMITED
(formerly Alterian Limited)

Report and Financial Statements

31 March 2000

Deloitte & Touche
Queen Anne House
69-71 Queen Square
Bristol
BS1 4JP



REPORT AND FINANCIAL STATEMENTS 2000

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D J Eldridge
M J Talbot
T E McCarthy
I B Johnston (non-executive)
P V Chapman (non-executive)

SECRETARY

D J Eldridge

REGISTERED OFFICE

Century Place
Newfoundland Street
Bristol
BS2 9AG

BANKERS

National Westminster Bank Plc
Liverpool City Office
22 Castle Street
Liverpool
L69 2BE

SOLICITORS

Osborne Clarke
50 Queen Charlotte Street
Bristol
BS1 4HE

Hammond Suddards
Trinity Court
16 Dalton Street
Manchester
M60 8HS

AUDITORS

Deloitte & Touche
Queen Anne House
69-71 Queen Square
Bristol
BS1 4JP

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2000.

ACTIVITIES

The principal activity of the company continues to be the design and development of specialised data manipulation and analysis software tools for sale under licence through third party business partner organisations.

On 29 June 2000 the company changed its name from Alterian Limited to Alterian Technology Limited.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The company has continued to develop its products, distribution channel and sales in line with expectations.

The directors look forward to building on the company's success to date including further sales in overseas markets.

DIVIDENDS

The company has not paid or accrued any dividends for the year (1998: nil)

YEAR 2000

Following their initial review, the directors continue to be alert to the potential risks and uncertainties surrounding the year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen, or that may arise which will affect the activities of the business; however, the situation is still being monitored. Any future costs associated with this issue cannot be quantified but are not expected to be significant.

IMPORTANT EVENT OCCURRING AFTER THE END OF YEAR

On 27 June 2000 the entire issued share capital of the company was acquired by Alterian plc.

DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 1. All directors served throughout the year.

The directors' beneficial interests in the shares of the company at 31 March 2000 and at 31 March 1999 were:

	Ordinary shares		Preference shares	
	2000	1999	2000	1999
D J Eldridge	844	844	-	-
M J Talbot	846	846	-	-
T E McCarthy	846	846	-	-
I B Johnston (non-executive)	1,294	1,326	30,000	-
P V Chapman (non-executive)	2,269*	2,168	30,000	-

* Includes 1,688 shares held in a discretionary trust.

DIRECTORS' REPORT (continued)

AUDITORS

Ernst and Young resigned as auditors during the year and Deloitte & Touche were appointed in their place. 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.

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



D J Eldridge
Secretary

10 July 2000

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; and
- 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 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.

AUDITORS' REPORT TO THE MEMBERS OF

ALTERIAN TECHNOLOGY LIMITED
(formerly Alterian Limited)

We have audited the financial statements on pages 6 to 17 which have been prepared under the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. 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 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 the company's affairs as at 31 March 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte + Touche

Chartered Accountants and
Registered Auditors

10 July 2000

PROFIT AND LOSS ACCOUNT
Year ended 31 March 2000

	Note	2000 £	1999 £
TURNOVER - continuing operations	2	1,011,140	425,958
Cost of sales		(261,987)	(165,698)
GROSS PROFIT		749,153	260,260
Operating expenses	3	(737,353)	(515,386)
OPERATING PROFIT/(LOSS) - continuing operations		11,800	(255,126)
Net interest (payable)/receivable	5	(7,895)	468
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	6	3,905	(254,658)
Tax on profit/(loss) on ordinary activities	7	(55)	-
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION	13	3,850	(254,658)
Retained loss brought forward		(254,658)	-
RETAINED LOSS CARRIED FORWARD		(250,808)	(254,658)

There are no recognised gains and losses for the current financial year or the preceding financial year other than as stated in the profit and loss account. Accordingly no statement of total recognised gains and losses has been prepared.

ALTERIAN TECHNOLOGY LIMITED
(formerly Alterian Limited)

**Deloitte
& Touche**

BALANCE SHEET
At 31 March 2000

	Note	2000	1999
		£	£
FIXED ASSETS			
Tangible assets	8	89,987	69,350
CURRENT ASSETS			
Debtors	9	506,027	97,801
Cash at bank and in hand		-	30,835
		<u>506,027</u>	<u>128,636</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	10	(401,927)	(152,150)
NET CURRENT ASSETS/(LIABILITIES)		<u>104,100</u>	<u>(23,514)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		194,087	45,836
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	11	(23,662)	(19,961)
NET ASSETS		<u>170,425</u>	<u>25,875</u>
CAPITAL AND RESERVES			
Called up share capital	12	140,801	101
Share premium	13	280,432	280,432
Profit and loss account	13	(250,808)	(254,658)
SHAREHOLDERS' FUNDS		<u>170,425</u>	<u>25,875</u>
Attributable to equity shareholders		26,207	25,875
Attributable to non-equity shareholders		144,218	-
		<u>170,425</u>	<u>25,875</u>

These financial statements were approved by the Board of Directors on 10 July 2000.

Signed on behalf of the Board of Directors



D J Eldridge
Director

CASH FLOW STATEMENT
Year ended 31 March 2000

	Notes	2000	1999
		£	£
Net cash outflow from operating activities	14	(143,587)	(206,570)
Returns on investments and servicing of finance			
Interest received		273	1,850
Interest paid		(5,959)	(90)
Interest element of finance lease rental payments		(2,209)	(1,292)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(7,895)	468
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(28,694)	(39,687)
Cash outflow before use of liquid resources and financing		(180,176)	(245,789)
Financing			
Issue of share capital		140,700	280,433
Capital element of finance lease rentals		(8,172)	(3,809)
Net cash inflow from financing		132,528	276,624
(Decrease)/increase in cash in the year	16	(47,648)	30,835

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

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.

Revenue recognition

Turnover represents amounts invoiced to customers (net of value added tax) for goods and services. Revenue from licence sales are recognised upon delivery to the customer. Maintenance and support contracts are recognised rateably over the period of the contract. Professional services such as training and consultancy are recognised when the services are performed.

Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated lives of the assets. The rates of depreciation are as follows:

Computer and office equipment	33% per annum
Fixtures and fittings	15% per annum
Motor vehicles	25% per annum

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Leases

Assets obtained under finance leases and 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 in proportion to the capital element outstanding.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

Research and development

Research and development expenditure is charged to the profit and loss account as incurred.

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

1. ACCOUNTING POLICIES (continued)

Pension benefits

The Company does not operate a pension scheme but employees receive an enhancement to salary equal to 5% of gross pay in lieu of company contributions. Such amounts are charged to the profit and loss account as incurred.

Changes in classifications

Finance lease interest costs were treated as operating expenses in prior periods. These costs are directly related to the cost of financing leased assets and the comparative figures have been restated to classify these costs as interest payable. The effect of this change is to transfer £2,209 (1999: £1,292) of costs from operating expenses to interest payable and similar charges.

Employee costs such as salaries, bonuses and other related costs were treated as cost of sales in prior periods. Some of these costs are directly related to the administration of the company and the comparative figures have been restated to classify these costs as operating expenses. The effect of this change is to transfer £357,792 (1999: £223,193) of costs from cost of sales to operating expenses.

2. TURNOVER AND PROFITS

All turnover and profit before tax is attributable to the principal activity of the company and generated in the United Kingdom. All net assets relate to the company's United Kingdom based operations.

	2000 £	1999 £
Geographical analysis of turnover by destination		
United Kingdom	830,015	425,958
Rest of the world	181,125	-
	<u>1,011,140</u>	<u>425,958</u>

3. OPERATING EXPENSES

	2000 £	1999 £
Administrative expenses	517,187	397,504
Distribution costs	220,166	117,882
	<u>737,353</u>	<u>515,386</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2000	1999
	£	£
Directors' emoluments		
Emoluments	240,923	163,085
	<u> </u>	<u> </u>
Highest paid director:	£	£
Emoluments	73,466	54,861
	<u> </u>	<u> </u>

None of the directors are members of a defined benefit or money purchase pension scheme or long term incentive plan.

None of the directors hold any share options.

Employee costs during the year	£	£
Wages and salaries	421,157	279,333
Social security costs	47,146	28,717
Other pension costs	-	2,626
	<u> </u>	<u> </u>
	468,303	310,676
	<u> </u>	<u> </u>

Average number of persons employed:	No.	No.
Production	6	5
Sales and distribution	2	2
Administration	2	1
	<u> </u>	<u> </u>
	10	8
	<u> </u>	<u> </u>

5. NET INTEREST (PAYABLE)/RECEIVABLE

	2000	1999
	£	£
Bank interest receivable		
Bank interest	273	1,850
	<u> </u>	<u> </u>
Interest payable and similar charges		
Bank loans, overdrafts and other loans repayable within five years	(5,959)	(90)
Finance charges - finance leases and hire purchase contracts	(2,209)	(1,292)
	<u> </u>	<u> </u>
	(8,168)	(1,382)
	<u> </u>	<u> </u>
Net interest (payable)/receivable	(7,895)	468
	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

6. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

	2000	1999
	£	£
Profit/(loss) on ordinary activities before taxation is after charging:		
Rentals under operating leases - other operating leases	75,428	78,458
Depreciation and other amounts written off tangible fixed assets:		
- own assets	16,959	10,060
- assets held under finance leases and hire purchase contracts	7,531	2,995
Research and development	180,900	121,754
Auditors' remuneration:		
- audit	4,800	1,200
- non-audit services	10,250	-
	<u> </u>	<u> </u>

7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	2000	1999
	£	£
United Kingdom corporation tax at 20% (1999: 20%) based on the profit/(loss) for the year	(55)	-
	<u> </u>	<u> </u>

The tax charge for the year ended 31 March 2000 has been reduced by the utilisation of brought forward losses, the remainder representing tax on interest received which cannot be relieved against brought forward losses. At 31 March 2000 there were tax losses available to offset against future taxable profits amounting to £211,000.

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

8. TANGIBLE FIXED ASSETS

	Computer and office equipment £	Fixtures and fittings £	Motor vehicles £	Total £
Cost				
At 1 April 1999	24,927	32,691	28,754	86,372
Additions	28,724	-	16,403	45,127
At 31 March 2000	53,651	32,691	45,157	131,499
Accumulated depreciation				
At 1 April 1999	11,609	2,418	2,995	17,022
Charge for the year	12,056	4,903	7,531	24,490
At 31 March 2000	23,665	7,321	10,526	41,512
Net book value				
At 31 March 2000	29,986	25,370	34,631	89,987
At 31 March 1999	13,318	30,273	25,759	69,350

The net book value of the company's computer and office equipment, fixtures and fittings and motor vehicles includes £34,661 (1999: £25,760) in respect of assets held under hire purchase contracts. Hire purchase and finance lease obligations are secured by the related assets.

9. DEBTORS

	2000 £	1999 £
Trade debtors	470,253	69,288
Prepayments and accrued income	35,774	28,513
	506,027	97,801

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000 £	1999 £
Bank overdraft	16,813	-
Obligations under finance leases and hire purchase contracts	9,545	4,985
Trade creditors	141,493	47,074
Taxation and social security	25,109	15,838
Accruals and deferred income	208,967	84,253
	401,927	152,150

The bank overdraft is secured by way of a charge over the company's assets.

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

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

	2000 £	1999 £
Obligations under finance leases and hire purchase contracts	33,207	24,946
Less amounts falling due within one year	(9,545)	(4,985)
	<u>23,662</u>	<u>19,961</u>
	£	£
Net obligations repayable:		
- within one year	9,545	4,985
- between one and two years	18,006	4,208
- between two and five years	5,656	15,753
	<u>33,207</u>	<u>24,946</u>

12. SHARE CAPITAL

	No.	2000 £
Authorised		
Ordinary shares of £0.01 each	100,000	1,000
15% cumulative preference shares of £1 each	210,000	210,000
		<u>211,000</u>
	No.	£
Allotted		
Ordinary shares of £0.01 each	10,073	101
15% cumulative preference shares of £1 each	210,000	210,000
		<u>210,101</u>
	No.	£
Called up and partly paid		
Ordinary shares of £0.01 each	10,073	101
15% cumulative preference shares of £1 each	210,000	140,700
		<u>140,801</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

12. SHARE CAPITAL (continued)

Cumulative redeemable convertible preference shares

On 31 January 2000 the authorised share capital of the company was increased from £1,000 to £211,000 by the creation of 210,000 cumulative redeemable convertible preference shares of £1 each. On the same date 210,000 preference shares were issued partly paid at a price of £0.34 per share.

On 30 March 2000 there was a further call of £0.33 on each of the preference shares.

On 19 May 2000 the remaining £0.33 per share was called up, the amount due of £69,300 becoming payable on demand.

Dividends and other rights

The shares entitle the holder to receive a fixed cumulative preferential dividend at the rate of 15% on the paid up capital and the right to a return of capital on either a winding up or a repayment of capital. There are no fixed dates for the payment of dividends but the rate payable is compounded annually, interest accruing thereafter up to the date of payment. The shares do not entitle the holders to any further participation in the profits or assets of the company, and do not carry any voting rights unless the company is in breach of the terms and conditions attaching to the shares.

The preference shareholders have waived their entitlement to dividends for the year ended 31 March 2000.

Redemption

At any point on or before 31 January 2002 the company may at its sole discretion redeem for cash the total amount paid up in respect of all the cumulative redeemable convertible preference shares then outstanding or tranches of not less than 1,000 shares. No premium is payable on redemption.

Conversion

When the shares were issued they were convertible into ordinary shares at a rate to be determined. On 27 June 2000, with the consent of the holders of the shares, the rights to convert them into ordinary shares was removed.

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

13. COMBINED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

	Called up share capital £	Share premium account £	Profit and loss accounts £	Total 2000 £	Total 1999 £
At the beginning of the year	101	280,432	(254,658)	25,875	101
Proceeds from issue of shares	140,700	-	-	140,700	280,432
Profit/(loss) attributable to members of the company	-	-	3,850	3,850	(254,658)
At the end of the year	<u>140,801</u>	<u>280,432</u>	<u>(250,808)</u>	<u>170,425</u>	<u>25,875</u>

14. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2000 £	1999 £
Operating profit/(loss)	11,800	(255,126)
Depreciation	24,490	13,055
Increase in debtors	(408,226)	(72,802)
Increase in creditors	228,349	108,303
Net cash outflow from operating activities	<u>(143,587)</u>	<u>(206,570)</u>

15. ANALYSIS OF CHANGES IN NET DEBT

	Cash at bank and in hand £	Overdraft £	Total £	Finance leases £	Total £
At 31 March 1998	-	-	-	-	-
Cash flows	30,835	-	30,835	3,809	34,644
Other changes	-	-	-	(28,755)	(28,755)
At 31 March 1999	<u>30,835</u>	<u>-</u>	<u>30,835</u>	<u>(24,946)</u>	<u>5,889</u>
Cash flows	(30,835)	(16,813)	(47,648)	8,172	(39,476)
Other changes	-	-	-	(16,433)	(16,433)
At 31 March 2000	<u>-</u>	<u>(16,813)</u>	<u>(16,813)</u>	<u>(33,207)</u>	<u>(50,020)</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

16. RECONCILIATION OF NET CASH FLOW TO MOVEMENT
IN NET (DEBT)/FUNDS

	2000 £	1999 £
(Decrease)/increase in cash in the year	(47,648)	30,835
Cash inflow from increase in debt and lease financing	8,172	3,809
Change in net debt resulting from cash flows	(39,476)	34,644
New finance leases	(16,433)	(28,755)
Movement in net debt in the year	(55,909)	5,889
Net debt at start of year	5,889	-
Net (debt)/funds at end of year	(50,020)	5,889

17. OPERATING LEASE COMMITMENTS

At 31 March 2000 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings £	Other £
Leases which expire:		
- within one year	-	4,215
- within two to five years	54,000	34,652
	54,000	38,867

18. IMPORTANT EVENT OCCURRING AFTER THE END OF YEAR

On 27 June 2000, Alterian plc acquired the entire issued share capital of the company and became the ultimate controlling party.