

Registered Number 3997349

Axiom Systems Holdings Limited
Annual report
for the year ended 31 March 2004



Axiom Systems Holdings Limited

Annual report for the year ended 31 March 2004

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Directors' report for the year ended 31 March 2004

The directors present their report and the audited financial statements of the group and company for the year ended 31 March 2004.

Principal activities

The company was established to hold an investment in Axiom Systems Limited, a company specialising in the provision of operational support solutions to the telecommunications industry.

Review of business and future developments

The directors are satisfied with the results for the year and expect continued growth in the future.

Results and dividends

The consolidated profit and loss account for the year is set out on page 4.

No ordinary dividends were paid or proposed during the year. Preference dividends of £1,337,103 (2003: £1,201,000) were appropriated at the year end but not paid.

Directors and their interests

The directors who held office during the year are given below:

G Senior
A Evans
N Humphries
S Clearman
J Gordon
C J Ziemniak (resigned 16 October 2003)

The interests of the directors in the shares of the company are as follows:

	Ordinary shares of 1p each 2004	Ordinary shares of 1p each 2003
G Senior	3,549,000	3,549,000

No other director had a beneficial interest in the shares of the company.

The following directors held options to subscribe for the ordinary share capital in the company:

	At 31 March 2003 No.	Granted in year No.	Exercised in year No.	Lapsed during the year No.	At 31 March 2004 No.
J Gordon	510,000	-	-	-	510,500
C J Ziemniak	177,144	-	-	(88,572)	88,572
A Evans	1,628,576	-	-	-	1,628,576

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2004 and that applicable accounting standards have been followed.

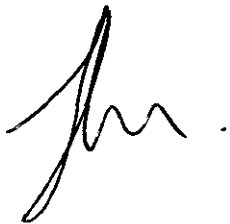
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the Board

Director



28/06/05

Independent auditors' report to the members of Axiom Systems Holdings Limited

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets and the consolidated cashflow statement and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

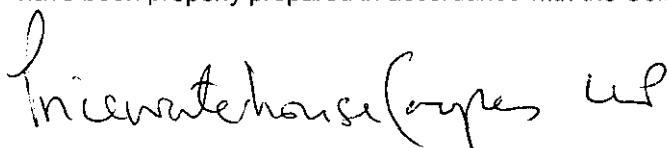
Basis of audit opinion

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 affairs of the company and the group at 31 March 2004 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

The image shows a handwritten signature in dark ink. The signature appears to be 'PricewaterhouseCoopers LLP' written in a cursive, flowing style. To the right of the signature, there is a handwritten date '28/06/05'.

28/06/05

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading

Consolidated profit and loss account for the year ended 31 March 2004

	Note	2004 £'000	2003 £'000
Turnover	2	3,367	4,272
Cost of sales		(3,115)	(3,351)
Gross profit/(loss)		252	921
Selling and distribution costs		(2,055)	(2,449)
recurring administrative expenses excluding amortisation and impairment of goodwill		(2,751)	(2,816)
non-recurring administrative expenses	3, 18	(1,400)	(1,300)
amortisation of goodwill	10	(798)	(754)
impairment of goodwill	10	(3,664)	(1,500)
Total administrative expenses		(8,613)	(6,370)
Operating loss	3	(10,416)	(7,898)
Interest receivable and similar income	4	27	70
Interest payable and similar charges	5	(312)	(244)
Loss on ordinary activities before taxation		(10,701)	(8,072)
Tax credit on loss on ordinary activities	8	271	332
Loss on ordinary activities after taxation		(10,430)	(7,740)
Dividends and other appropriations	9	(1,375)	(1,250)
Retained loss for the financial year	20	(11,805)	(8,990)

All results are derived from continuing operations.

The group has no recognised gains and losses other than the loss above and therefore no separate statement of total recognised gains and losses has been prepared.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the years stated and their historical cost equivalents.

Consolidated balance sheet as at 31 March 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Intangible assets	10	319	3,484
Tangible assets	11	276	530
		595	4,014
Current assets			
Debtors	13	1,436	3,165
Cash at bank and in hand		978	492
		2,414	3,657
Creditors – Amounts falling due within one year	14	(2,690)	(2,531)
Net current (liabilities)/assets		(276)	1,126
Total assets less current liabilities		319	5,140
Creditors – Amounts falling due after more than one year	15	(40)	(114)
Convertible loan stock	16	(1,091)	(2,159)
Provisions for liabilities and charges	18	(2,267)	(1,300)
Net (liabilities)/assets		(3,079)	1,567
Capital and reserves			
Called-up share capital	19	436	355
Share premium account	20	28,802	23,013
Profit and loss account (deficit)	20	(32,317)	(21,801)
Total shareholders' funds	21	(3,079)	1,567
Analysis of shareholders' funds:			
Equity		(32,674)	(20,837)
Non-equity		29,595	22,404
	21	(3,079)	1,567

The financial statements on pages 4 to 27 were approved by the board of directors on and were signed on its behalf by:

Director



28/06/05

Company balance sheet as at 31 March 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Intangible assets	10	319	531
Investments	12	-	2,950
		319	3,481
Debtors	13	17,512	15,151
Cash at bank and in hand		364	64
		17,876	15,215
Creditors – Amounts falling due within one year	14	(1,799)	(46)
Net current assets		16,077	15,169
Total assets less current liabilities		16,396	18,650
Convertible loan stock	16	(1,091)	(2,159)
Net assets		15,305	16,491
Capital and reserves			
Called-up share capital	19	436	355
Share premium account	20	28,802	23,013
Profit and loss account – (deficit)	20	(13,933)	(6,877)
Total shareholders' funds	21	15,305	16,491
Analysis of shareholders' funds:			
Equity		(14,290)	(5,913)
Non-equity		29,595	22,404
	21	15,305	16,491

The financial statements on pages 4 to 27 were approved by the board of directors on and were signed on its behalf by:

Director



28/06/05

Consolidated cashflow statement for the year ended 31 March 2004

	Note	2004 £'000	2003 £'000
Net cash outflow from operating activities	23	(2,633)	(4,820)
Returns on investment and servicing of finance			
Interest received		27	70
Interest paid		-	(208)
Interest element of hire purchase payments		(20)	(32)
Net cash inflow/(outflow) from return on investments and servicing of finance		7	(170)
Taxation			
UK tax credits received		332	511
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2)	(81)
Receipts from sale of tangible fixed assets		-	1
Net cash outflow from capital expenditure and financial investment		(2)	(80)
Acquisitions			
Cash acquired with subsidiary undertakings		1881	-
Net cash inflow from acquisitions		1881	-
Net cash outflow before financing		(415)	(4,559)
Financing			
Receipts from issuing convertible loan stock		1020	2,050
Convertible loan stock issue costs		(20)	(75)
Repayments of amounts borrowed		-	(5,433)
Capital element of hire purchase payments		(99)	(88)
		901	(3,546)
Net increase/(decrease) in cash	23	486	(8,105)

Notes to the financial statements for the year ended 31 March 2004**1 Accounting policies**

These financial statements are prepared under the historical cost convention, the accounting policies set out below and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements include the company and its subsidiary undertaking made up to 31 March 2004. Intra group sales and profits are eliminated fully on consolidation and the consolidated accounts reflect external transactions only.

The identifiable assets and liabilities of subsidiary undertakings are included in the consolidated balance sheet at their fair values at the date of acquisition. The results and cost flows of subsidiaries are brought into the Group accounts only from the date of acquisitions.

No profit and loss account is presented for Axiom Systems Holdings Limited as permitted by section 230 of the Companies Act 1985.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental cost of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values over the useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Leasehold improvements	20%
Office furniture, fixtures and fittings	20%
Computer equipment	25% - 33%

The carrying value of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Turnover

Turnover represents amounts derived from the sale of computer software and related support services supplied and the value of long term contract work done. Software revenue is recognised upon delivery and acceptance of licences by customers. Support and maintenance fees are recognised rateably over the period to which they relate. Fees for service are recognised as the services are performed. Turnover is standard net of VAT and trade discounts.

Goodwill

The goodwill arising on the acquisition of Axiom Systems Limited was capitalised as an asset and is being amortised on a straight line basis over 10 years, being the period the directors estimate to be the useful economic life of the asset. The directors will make an additional write down if market conditions indicate that the goodwill is impaired.

The goodwill arising on the acquisition of Viewgate Networks Limited has been fully written down based on the directors' estimate of the recoverable amount.

Fixed asset investments

Investments in group undertakings are held at cost less provision for impairment

Intangible assets

Intangible assets capitalised at cost and are amortised on a straight line basis over their estimated useful lives up to a maximum of 5 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Dividends and other appropriations

The company has adopted the provisions of Financial Reporting Standard 4 'Capital Instruments' ("FRS4") which requires the amount of shareholders' funds attributable to equity and non-equity interests to be separately disclosed. Dividends on convertible cumulative redeemable preference shares are appropriated through the profit and loss account. However, as the company does not have sufficient distributable reserves in order to pay such preference share dividends, these dividends have been credited back within profit and loss account reserves. Issue costs incurred in connection with these instruments are allocated to periods over the term of the instrument at a constant rate on the carrying amount.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing arrangements which transfer to the group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Research and development

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

Deferred taxation

Provision is made in full for deferred tax liabilities that arise from timing differences where transactions or events that result in an obligation to pay more tax in the future have occurred by the balance sheet date. Deferred taxation assets are recognised to the extent that they are regarded as recoverable. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

Pension costs

The company pays into a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable.

Related party transactions

Financial Reporting Standard 8 'Related Party Disclosures' requires the disclosure of the details of material transactions between the reporting entity and any related parties. The company has adopted the provisions of FRS 8, however, transactions between the company and other Group companies have not been disclosed in accordance with the exemption FRS 8 paragraph 3©.

2 Turnover

All turnover originates in the United Kingdom. An analysis of turnover by destination is given below:

	2004 £'000	2003 £'000
United Kingdom	900	1,576
Rest of Europe	880	730
Rest of World	1,587	1,966
	3,367	4,272

3 Operating loss

	2004 £'000	2003 £'000
Operating loss is stated after charging/(crediting):		
Wages and salaries	3,831	4,644
Social security costs	456	541
Other Pension costs	218	181
Staff costs	4,505	5,366
Depreciation of tangible fixed assets		
- owned assets	239	259
- leased assets	80	75
Exceptional costs – onerous lease provision (see note 18)	1,400	1,300
Amortisation of software copyright	212	213
Goodwill amortisation	798	754
Impairment of goodwill	3,664	1,500
Loss on disposal of tangible fixed assets	1	4
Auditors' remuneration (company £5,000 (2002: £12,000))	24	25
Auditors' remuneration - non-audit services	14	47
Operating leases - plant and machinery	48	35
- land and buildings	308	709
Foreign exchange loss/(gain)	43	(109)

4 Interest receivable and similar income

	2004 £'000	2003 £'000
Bank interest	27	66
Interest on rent deposit	-	4
	27	70

5 Interest payable and similar charges

	2004 £'000	2003 £'000
On other loans	292	212
On assets held under hire purchase agreements	20	32
	312	244

6 Directors' emoluments

	2004 £'000	2003 £'000
Aggregate emoluments	381	463
Company contributions paid to money purchase pension schemes	23	31
Compensation for loss of office	30	42
Sums paid to third parties for directors' services	61	42
	495	578

Retirement benefits are accruing to two (2003: three) directors under a money purchase pension scheme.

	2004 £'000	2003 £'000
Highest paid director		
Emoluments	208	170
Company contributions paid to money purchase pension schemes	10	10
	218	180

7 Employee information

The average monthly number of persons (including executive directors) employed by the group during the year was:

By activity	2004	2003
Technical	11	30
Sales and administration	43	52
	54	82

8 Tax credit on profit on ordinary activities

	2004 £'000	2003 £'000
Current tax		
UK corporation tax credit at 16%	(271)	(332)
	(271)	(332)

The tax assessed for the year differs to the standard rate of corporation tax in the UK. The differences are explained below:

	2004 £'000	2003 £'000
Loss on ordinary activities	(10,701)	(8,072)
Loss on ordinary activities before tax multiplied by the standard rate in the UK 19% (2002: 20%)	(2,033)	(1,614)
Effects of:		
Depreciation for the period in excess of capital allowances	34	41
Expenses not deductible for tax purposes	924	499
Tax losses carried forward to future periods ¹	846	798
Other short term timing differences	14	-
R&D relief 50% mark up on expenses	(107)	(138)
Rate change for R&D tax credits at 16% ²	51	82
Current tax credit for the year	(271)	(332)

Notes:

1. Tax losses carried forward is after taking account of the R&D tax credits.
2. R&D tax credits are claimed at 16p per £1, and so a change in the tax rate is required.

R&D expenditure @ 19% (£1,693,326)	322,000
R&D expenditure @ 16% (£1,693,326)	(271,000)
Rate change adjustment	51,000

9 Dividends and other appropriations

	2004	2003
	£'000	£'000
Reversal of dividends accrued in prior periods	-	(1,168)
Appropriation of non-equity dividends accrued in prior periods	-	1,168
Appropriation of current year non-equity dividends not payable	1,337	1,201
Appropriation of issue costs	38	49
	1,375	1,250

In accordance with FRS 4, the company has made appropriations of £1,375,000 (2002: £1,250,000) through the profit and loss account for dividends due but not payable and issue costs for the year on the company's cumulative redeemable preference shares (see note 20).

The dividend arrears on the company's cumulative redeemable preference shares (see note 19) at 31 March 2004 were £3,706,000 (2003: £2,369,000)

10 Intangible assets

Group	Software copyright £'000	Goodwill £'000	Total £'000
Cost			
At 1 April 2003	1,063	8,008	9,071
Additions	-	1,509	1,509
At 31 March 2004	1,063	9,517	10,580
Accumulated amortisation			
At 1 April 2003	532	5,055	5,587
Charge for the year	212	798	1,010
Impairment write-down	-	3,664	3,664
At 31 March 2004	744	9,517	10,261
Net book amount			
At 31 March 2004	319	-	319
At 31 March 2003	531	2,953	3,484

Company	Software copyright £'000
Cost	
At 1 April 2003 and 31 March 2004	1,063
Accumulated amortisation	
At 1 April 2003	532
Charge for the year	212
At 31 March 2004	744
Net book amount	
At 31 March 2004	319
At 31 March 2003	531

The additions to goodwill in the year related to the acquisition of Viewgate Networks Limited. Further details are given in note 22. In accordance with FRS 11, Impairment of fixed assets and goodwill, the directors' have fully written down the value of goodwill which arose on the acquisition, based on their best estimate of its recoverable amount.

During the year ended 31 March 2004, in accordance with FRS 11, Impairment of fixed assets and goodwill, the directors' have fully written down the value of Goodwill which arose on the acquisition of Axiom Systems Limited, based on their best estimate of its recoverable amount.

The software copyright has been capitalised at its acquisition cost of £1,063,000 and is being amortised evenly over its expected useful economic life of 5 years.

11 Tangible fixed assets

Group	Short leasehold improvements £'000	Office furniture, fixtures & fittings £'000	Computer equipment £'000	Total £'000
Cost				
At 1 April 2003	228	324	739	1,291
Additions	-	1	65	66
Disposal	-	-	(10)	(10)
At 31 March 2004	228	325	794	1,347
Accumulated Depreciation				
At 1 April 2003	86	163	512	761
Charge for the year	45	57	217	319
Disposals	-	-	(9)	(9)
At 31 March 2004	131	220	720	1,071
Net book amount				
At 31 March 2004	97	105	74	276
At 31 March 2003	142	161	227	530

Included in the above are the following assets held under finance lease agreements:

	Short leasehold improvements £'000	Office, furniture, fixtures & fittings £'000	Computer equipment £'000	Total £'000
Net book amount				
At 31 March 2004	3	79	-	82
At 31 March 2003	5	116	41	162
Depreciation charged in the year				
- ended 31 March 2004	2	37	41	80
- ended 31 March 2003	1	38	36	75

12 Fixed assets investments

Company	Subsidiary undertakings £'000
At 1 April 2003	2,950
Additions (see note 22)	3,471
Impairment write-down	(6,421)
At 31 March 2004	-

In accordance with FRS 11, Impairment of fixed assets and goodwill, the directors have fully written down the investment based on their best estimate of the recoverable amount of the asset.

Name of subsidiary undertaking	Proportion of nominal value of shares held by company		Principal business activity	Country of incorporation
	Directly	Indirectly		
Axiom Systems Limited	100%		Provider of operational support systems in the telecommunications industry	United Kingdom
Viewgate Networks Limited	100%		Provision of computer software and consultancy services	United Kingdom
Network People Limited		100%	Non-trading	United Kingdom
Viewgate Networks Inc		100%	Provision of computer software and consultancy services	United States

On 25 September 2003 Axiom Systems Holdings Limited acquired the Viewgate Networks Limited group. The trade and assets of the Viewgate Networks Limited group were transferred to Axiom Systems Limited as at the date of acquisition. The initial consideration was the allotment and issue of 2,688,602 C fully paid preferred shares of nominal value of £0.01 in Axiom Systems Holdings Limited, with a value of £1,944,666. In addition there were further costs associated with the acquisition of £17,000 that have been capitalised.

Under the terms of the purchase agreement a total of 2,085,656 C preferred shares with nominal value of £0.01 in Axiom Systems Holdings Limited are to be kept available for a 5 year period in respect of a deferred consideration, which will require allotment and issue as fully paid up if an exit event occurs with a value of between £50,000,000 and £100,000,000. The number of shares issued will vary on a straight line basis depending on the exit value such that no shares will be issued if the exit value is less than £50,000,000 and the full consideration will be issued if an exit value of £100,000,000 is achieved. No additional consideration other than the 2,085,656 C preferred shares will be issued if an exit value in excess of £100,000,000 is achieved. The director's consider it probable that the entire deferred consideration will be issued and accordingly the maximum contingent consideration has been recognised.

13 Debtors

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Trade debtors	530	1,738	-	-
Amounts due from subsidiary undertakings	-	-	17,512	15,151
Other debtors	260	433	-	-
Corporation tax recoverable	332	332	-	-
Prepayments and accrued income	314	662	-	-
	1,436	3,165	17,512	15,151

Amounts falling due after more than one year included in the above are as follows:

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Amounts due from subsidiary undertakings	-	-	17,512	15,151

14 Creditors – Amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Trade creditors	450	333	2	14
Obligations under hire purchase agreements	75	100	-	-
Amounts due to subsidiary undertakings	-	-	1,775	-
Taxation and social security	150	189	-	-
Other creditors	95	71	8	-
Accruals and deferred income	1,920	1,838	14	32
	2,690	2,531	1,799	46

15 Creditors – Amounts falling due after more than one year

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Obligations under hire purchase agreements	40	114	-	-

16 Convertible loan stock

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
18% Convertible loan stock 2012	-	2,159	-	2,159
18% Convertible loan stock 2013	1,091	-	1,091	-

18% Convertible loan stock 2012

On 25 September 2003 the 18% Convertible loan stock 2012 was redeemed at the option of the loan note holders. At the request of the loan note holders the value of the notes, together with accrued interest was utilised to subscribe for new C Class shares of £0.01 each in Axiom Systems Holdings Limited at a price of £0.7233 per share. See note 19 for further details.

18% Convertible loan stock 2013

The convertible loan stock issued by the company during the year was issued at par and accrues an interest at a rate of 18% per annum. Issue costs of £20,000 were incurred on the issue of the loan stock and the carrying value of the loan stock has been reduced by this amount. The issue costs will be charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount. As such net proceeds received from the issue were £1,000,000

The loan stock is secured with a floating charge over the company's assets.

Redemption

The Company shall be entitled with the prior consent of a written resolution, upon giving not less than 15 days' prior written notice in writing to the noteholders, to redeem at any time at par the whole or part of the notes for the time being outstanding and on the expiry of the notice the notes together with accrued interest in respect of which it has been given shall be so redeemed.

The notes, or any part of the notes, will be repaid at par together with any accrued interest at any time upon a noteholder giving to the Company 15 days notice to provided that such noteholder has the prior consent of a written resolution and relates to any part of the relevant noteholders notes in amounts or integral multiples of not less than £10,000 (or the entire balance of notes then outstanding and held by the noteholder if less).

All notes not previously redeemed, purchased or converted by the Company in accordance with the provisions of this instrument will be repaid at par together with accrued interest on the repayment date in 2013 or, if earlier, on the date on which a sale, listing, event of default or liquidation event occurs.

Conversion rights

At the time of the raising of this finance the company issued warrants to the note holders to enable the conversion of the debt to be made into warrant shares at any time prior to 31 May 2004. The warrants confer the right on the warrant-holders to subscribe at the subscription price for such number of warrant shares as equates to the percentage of the fully diluted share capital. These warrant shares are not considered to be able to be transferred separately. The warrant holders have not taken up their rights to convert the debt since the period end.

17 Loans and other borrowings

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Convertible loan stock 2012	-	2,159	-	2,159
Convertible loan stock 2013	1,091	-	1,091	-
Obligations under hire purchase agreements	115	214	-	-
	1,206	2,373	1,091	2,159
Maturity of debt				
In one year or less, or on demand	75	100	-	-
In more than two years, but not more than five	40	114	-	-
In more than five years	1,091	2,159	1,091	2,159
	1,206	2,373	1,091	2,159

Finance leases

Net obligations under finance leases are as follows:

	2004	2003
	£'000	£'000
Within one year	75	100
In more than one year, but not more than five years	40	114
	115	214

18 Provisions for liabilities and charges

	Group
	£'000
Provision for onerous lease	
At 1 April 2003	1,300
Charged to the profit and loss account	1,400
Utilised during the year	(433)
At 31 March 2004	2,267

The provision made in the accounts in respect of the onerous lease represents the best estimate of the unavoidable lease payments for office space not utilised by the company. The company continues to work with the landlord to minimise the exposure to future onerous lease charges.

	2004 £'000	2003 £'000
Provision for deferred tax		
Deferred tax liabilities/(assets) not provided/(recognised) in the accounts comprises		
Capital allowances in excess of depreciation	(35)	9
Other timing differences	(24)	3
Tax losses	(4,060)	(2,781)
	(4,119)	(2,769)

19 Called-up share capital

Group and company	2004 £'000	2003 £'000
Authorised		
30,000,000 ordinary shares of 1p each	300	300
27,699,376 convertible redeemable preference shares of 1p each	-	277
17,745,000 Geo convertible redeemable preference shares of 1p each	177	-
9,954,376 Hg convertible redeemable preference shares of 1p each	100	-
11,000,000 C class convertible redeemable preference shares of 1p each	110	-
	687	577
Allotted, called-up and fully paid		
7,755,000 ordinary shares of 1p each	78	78
27,699,376 convertible redeemable preference shares of 1p each	-	277
17,745,000 Geo convertible redeemable preference shares of 1p each	177	-
9,954,376 Hg convertible redeemable preference shares of 1p each	100	-
6,007,978 C class convertible redeemable preference shares of 1p each	60	-
	415	355
Shares to be issued		
2,085,656 C class convertible redeemable preference shares of 1p each	21	-
	436	355

On 25 September 2003 the company issued 3,319,376 C class convertible redeemable preference shares at a price of 72.33 pence per share. These were settled by way of forgiveness of 18% convertible loan stock 2018 (see note 16).

On 25 September 2003 the company issued 2,688,602 C Class convertible redeemable preference shares at a price of 72.33 pence per share in exchange for 100% of the issued share capital of the Viewgate Networks group (see note 22). In addition, a further 2,085,656 C Class convertible redeemable preference shares may be issued in consideration for the shares in Viewgate Networks Limited. The issue of these shares is contingent on an exit event occurring with a valuation of between £50,000,000 and £100,000,000 within five years from the date of acquisition. The directors

believe that it is more likely than not that such an exit will occur and as such have recognised the deferred consideration in full.

During the year the convertible redeemable preference shares of 1p each have been designated as Geo convertible and Hg convertible redeemable preference shares of 1p each. The rights attached to each class of shares are outlined below:

Conversion Rights

Within 28 days of the date by which the Company shall have received written notice from each holder any Hg Preferred Shares shall be converted into and re-designated as fully paid ordinary shares at the rate of one ordinary share for every Hg Preferred Share.

Each Geo Preferred Shareholder may at any time convert the whole or part of his holding of Geo Preferred Shares into fully paid Ordinary Shares at the rate of one Ordinary Share for each Geo Preferred Share.

Dividends

The C Class preference shareholders shall be entitled in priority to any payment of dividend on any other class of shares in the company to receive a fixed cumulative preference dividend at the rate of 6% per annum on the amount paid up (including any premium) on the C Class preference shares.

The Hg preference shareholders shall be entitled, in priority to any payment of dividend on any other class of shares in the company with the exception of the C Class Preference Shareholders to receive a fixed cumulative preference dividend at the rate of 6% per annum on the amount paid up (including any premium) on the Hg preference shares.

The Geo preferred shareholders shall be entitled in priority to any payment of dividend to any other class of shares in the company with the exception of the C Class Preference Shareholders and the Hg Preference Shareholders to receive a fixed cumulative preferential dividend at the rate of 6% per annum on the amount paid up (including any premium) on the preference shares.

Dividends shall be deemed to accrue from day to day throughout each financial year.

Voting Rights

Holders of the C Class preference shares, the Hg preference shares and the Geo preference shares shall be entitled to receive notice of, attend, speak and vote at a general meeting of the company. On a show of hands, each shareholder present in person or (being a corporation) by a representative, has one vote and on a poll each shareholders shall have one vote per share.

Winding up

On return of capital on a winding up or otherwise the company's assets available for distribution amongst the members shall be applied firstly in repaying to C Class preference shareholders i) the aggregate amount of the nominal amount of the C class preference shares and premium paid on subscription for them; ii) any accrued but unpaid dividends up to the date of commencement of winding up or return of capital; secondly to the Hg preference shareholders in repaying the aggregate of the nominal amount of the preference shares and premium paid on subscription for them; thirdly to the Geo preference shareholders in repaying the aggregate of the nominal amount of the preference shares and premium paid on subscription for them; fourthly in paying to the Hg and Geo preference shareholders any accrued but unpaid dividends on the preference shares; finally in paying the balance of any proceeds pro-rata to the holders of the shares.

Redemption Rights

The company shall, with the consent of each holder of C Preferred Shares as regards its holding of C Preferred Shares redeem all of the C Preferred Shares held by the C Preferred Shareholders then unredeemed or outstanding on 31 December 2007. The company shall redeem all of the Hg preference shares then unredeemed or outstanding on 31 December 2007. The holders of a majority of the C Preferred Shares and the Hg preference share in issue are entitled to require Redemption at any time, of some or all of the shares if i) when C Preferred Shares/Hg Preferred Shares are due for redemption, the company does not pay all the redemption money then payable to C Preferred Shareholders/Hg Preferred Shares, and whether or not the company has enough profits available for distribution or other requisite funds to pay the redemption money; ii) the whole or a substantial part of the undertaking or business of the company is disposed of other than to a wholly-owned subsidiary of the company; iii) the appointment of a receiver, manager or administrative receiver over all or any part of the assets of the Company. The redemption price payable will be the aggregate of the nominal amount and the premium paid on subscription plus accrued but unpaid dividends. If the company has insufficient distributable reserves at the time of redemption the amount due will become a debt due and payable by the company on which the C Class preference share dividend/Hg preference share dividend will be deemed to continue to accrue.

A Geo preferred shareholder may elect to redeem the Geo Preferred shares on or after 31 December 2007. The company shall not redeem any Geo Preferred shares before redemption of C Preferred shares and Hg Preferred Shares. The redemption price payable will be the aggregate of the nominal amount and any premium paid on subscription plus accrued dividends.

The holders of a majority of the Geo Preferred in issue are entitled to require Redemption at any time, of some or all of Geo Preferred if i) when Geo Preferred share are due for redemption, the company does not pay all the redemption money then payable to Geo preferred share, and whether or not the company has enough profits available for distribution or other requisite funds to pay the redemption money; ii) the whole or a substantial part of the undertaking or business of the company is disposed of other than to a wholly-owned subsidiary of the company; iii) the appointment of a receiver, manager or administrative receiver over all or any part of the assets of the Company. The redemption price payable will be the aggregate of the nominal amount and the premium paid on subscription plus accrued but unpaid dividends. If the company has insufficient distributable reserves at the time of redemption the amount due will become a debt due and payable by the company.

The convertible preference shares in issue may be redeemed at any time by the shareholders on or after the sixth anniversary of the date of issue. The redemption price payable will be the greater of i) fair market value price or ii) the aggregate of the nominal amount and any premium paid on subscription of the preference shares plus accrued but unpaid dividends.

20 Reserves

Group	Share premium £'000	Profit & loss account (deficit) £'000	Total £'000
At 1 April 2003	23,013	(21,801)	1,212
Prior year appropriation reclassification	48	(48)	-
Premium on issue of shares	4,215	-	4,215
Premium on shares to be issued	1,488	-	1,488
Loss for the year	-	(11,805)	(11,805)
Appropriation of preference dividends	-	1,337	1,337
Appropriation of share issue costs	38	-	38
At 31 March 2004	28,802	(32,317)	(3,515)
Company			
At 1 April 2003	23,013	(6,877)	16,136
Prior year appropriation reclassification	48	(48)	-
Premium on issue of shares	4,215	-	4,215
Premium on shares to be issued	1,488	-	1,488
Loss for the year	-	(8,345)	(8,345)
Appropriation of preference dividends	-	1,337	1,337
Appropriation of share issue costs	38	-	38
At 31 March 2004	28,802	(13,933)	14,869

The company has taken advantage of Section 230 of the Companies Act 1985 and has not published its own profit and loss account. Of the loss on ordinary activities after taxation for the year, a loss of £6,970,000 (2003: £4,875,000) is dealt with in the accounts of the holding company.

21 Reconciliation of movements in shareholders funds

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Loss for financial year	(10,430)	(7,740)	(6,970)	(4,875)
Dividends and other appropriations	(1,375)	(1,250)	(1,375)	(1,250)
	(11,805)	(8,990)	(8,345)	(6,125)
Appropriation of preference dividends and share issue costs	1,375	2,417	1,375	2,417
Issue of shares	5,784	-	5,784	-
Net (decrease)/increase in shareholders funds	(4,646)	(6,573)	(1,186)	(3,708)
Opening shareholders funds	1,567	8,140	16,491	20,199
Closing shareholders' (deficit) / funds	(3,079)	1,567	15,305	16,491

22 Acquisitions

On 25 September 2003 the company acquired the entire share capital of Viewgate Networks Limited. The summarised profit and loss accounts of Viewgate Networks Limited from the beginning of its financial year to the date of acquisition, and for the prior year, are as follows:

The post acquisition results of Viewgate Networks Limited are disclosed within continuing activities in the consolidated profit and loss account. It is not possible to separate the results of the acquired entity as its business has been merged with the existing business of Axiom Systems Limited. Given the substantially reduced size of the acquired entity it is not expected to have had a material impact on the results of the group.

Profit and loss account

	Period from 1 January 2003 to 25 September 2003	Year ended 31 December 2002
	£'000	£'000
Turnover	28	505
Operating loss	(1,400)	(3,021)
Loss on ordinary activities before taxation	(1,371)	(2,936)
Tax credit on loss on ordinary activities	314	690
Loss on ordinary activities after taxation	(1,057)	(2,246)

The book values and fair values of the assets and liabilities of the company which were acquired are set out below:

	Book value at 25 September 2003	Fair value adjustments	Book value at 25 September 2003
	£'000	£'000	£'000
Tangible fixed assets	50	(20)	30
Debtors	484	61	545
Cash	1,881	-	1,881
Current liabilities	(316)	(195)	(511)
Net assets	2,099	(154)	1,945
Satisfied by			
Shares (see note 19)			3,454
Goodwill			1,509

The fair value adjustment related to the recording of certain liabilities that had previously not been recognised in the books for Viewgate Networks Limited, adjustments to the carrying values of fixed assets to their recoverable amounts, and the recognition of R&D tax credits that had not been recorded in the books of Viewgate Networks Limited.

23 Notes to the statement of cashflows

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

	2004 £'000	2003 £'000
Operating loss	(8,907)	(7,898)
Depreciation of tangible fixed assets	285	334
Amortisation and impairment of intangible fixed assets	3,165	2,467
Loss on disposal of tangible fixed assets	1	4
Decrease/(increase) in debtors	2,195	(1,136)
(Decrease)/increase in creditors	(339)	1,409
Increase in provisions for liabilities and charges	967	-
	(2,633)	(4,820)

(b) Reconciliation of net cash flow to movement in net funds / debt

	2004 £'000	2003 £'000
Increase/(decrease) in cash in the period	486	(8,105)
Cash outflow from decrease in lease financing	99	5,521
Convertible Loan stock issued (net of issue costs)	(1,000)	(1,975)
Changes in net debt resulting from cash flows	(413)	(4,559)
Accrued interest on Loan Stock	(263)	(184)
Loan stock converted to equity	2,331	-
Net funds at beginning of year	(1,881)	2,862
Net debt at end of year	(228)	(1,881)

(c) Analysis of changes in net debt

	1 April 2003 £'000	Cash flow £'000	Non cash movements £'000	31 March 2004 £'000
Cash	492	486	-	978
	492	486	-	978
Liquid resources				
Finance leases	(214)	99	-	(115)
Convertible loan stock	(2,159)	(1,000)	2,068	(1,091)
	(1,881)	(415)	2,068	(228)

24 Financial commitments

At 31 March 2004 the company had annual commitments under non-cancellable operating leases expiring as follows:

	Land & buildings		Other	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Within on year	-	-	3	2
Within two to five years	-	-	-	7
After five years	811	811	-	-
	811	811	3	9

25 Pension commitments

The group operates a defined contribution pension scheme.

Pension costs are accounted for in the year in which they are incurred. The total pension charge for the year amounted to £218,283 (2003: £181,000).

The total amount of contributions withheld by the company but not remitted at the balance sheet date was

£64,079 (2003: £49,338)

26 Related party transactions

During the year the company acquired consultancy services totalling £31,440 (2003: £15,720) from Daroy Gordon Limited, an entity controlled by Mr J Gordon, who was a director of the company for the whole period. There were no amounts due to Daroy Gordon Limited at the year end (2002: £nil).