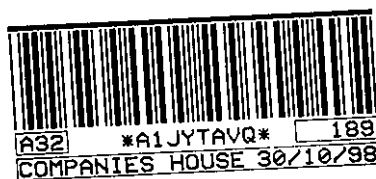

GAIA TECHNOLOGIES PLC

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 JULY 1998**



GAIA TECHNOLOGIES PLC

Company Information

Directors	Anas Abdulmawla Ayad Abdulmawla Mrs K Abdulmawla
Secretary	Mrs K Abdulmawla
Company Number	3141826
Registered Office	17/19 High Street Bangor Gwynedd LL57 1NP
Accountants	Hughes Parry & Co Accountants and Registered Auditors 121 High Street Bangor Gwynedd LL57 1NT
Bankers	Midland Bank Plc 274 High Street Bangor Gwynedd

GAIA TECHNOLOGIES PLC

Contents

	Page
Directors' Report	1 - 3
Auditors' Report	4
Profit and Loss Account	5
Balance Sheet	6
Cash Flow Statement	7 - 8
Notes to the Financial Statements	9 - 19

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JULY 1998

The directors present their report and the financial statements for the year ended 31 July 1998.

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 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The 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.

Results and dividends

The profit for the year after taxation, amounted to £25,726 (1997 - £49,299) .

Principal activities and review of business

The company's principal activity continues to be that of computer equipment suppliers. During the financial year, the computer market saw many changes. These changes varied from huge drops in PC prices and peripherals, to an increase in first time PC buyers to a shift of customers opinion towards the importance of local support; last but not least the desperate and aggressive competition from all market quarters and players.

Although the company has doubled its PC production and won major contracts, the turnover showed only a slight increase, mainly due to the price drops mentioned above. As a result of the increase in market competition, the company has shifted from National sales and focused on its local market, drawing on its ability to deliver a better support and service to its local customers.

The company continued to expand its networking, support & maintenance and software development divisions:

1. **Networking** - The company has a large base of network installations over the UK. Using the latest Networking technologies from fast Ethernet to structured cabling as well as fiber optic. For example, in the fourth quarter of this year, the company has achieved over a quarter of a million pounds in networking sales. We believe that this division of the company continues to show strong growth due to the increase in the demand of communications needs.
2. **Support & maintenance** - As the Gaia Personal Computer installation base continues to expand together with increased customer-market recognition, the more Gaia continues to take local maintenance contracts away from competitors in the North West of England. This division is still in its infancy, as its earnings did not exceed £50,000. Notwithstanding this, the company continues to raise its profile both in terms of more marketing for the sector as well as increasing the number of its qualified Microsoft and Novell engineers. The company currently has six Microsoft and Novell Product Specialists on its support team. Our conservative forecast for this division is to double its sales during the coming year.
3. **Software Development** - This division is split into two areas of development:
 - Development of software designed to run on the Internet such as Virtual Llandudno and the Property Shopper. These projects have been developed by the company over the past two years. The company is now in discussion with potential partners/buyers and is also seeking help from the Welsh Development Agency to attract European Grant Funds for the marketing of these projects.
 - Development of bespoke software requested by customers, three main projects were developed in the past year. The first one targeting media and film companies allowing them to intelligently schedule bookings for studios, equipment and human resources. This has allowed the customer to make a great deal of savings in both time and money. The other two projects were mainly database developments and they were successfully completed. This division had sales exceeding £60,000 and we are eager to continue working until the company is established as a major software developer in the area. Towards that, the company in July acquired a small software development company Gaia Solutions Limited, by acquiring

GAIA TECHNOLOGIES PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JULY 1998

100% of the share capital, in order to broaden our development ability and customer base. Further information is contained in note 13.

As mentioned earlier, the turnover has shown only a small increase reaching £2.415 million. However, the gross profit margin has increased to 18.4% from 16%. A large part of this increase has been passed to net profit margins, thus showing an increase of 2.1%(4.5% from 2.4%). The pre-tax net profit jumped to £109,260 from £58,447, a dramatic and welcomed increase. Unfortunately, a large sum of bad debts, £76,596 had to be written off by the company. This debt had arisen from normal trading in the early days of the Gaia Technologies when the company used to sell its products through re sellers, one of these re sellers Sapphire Software suffered major losses in its retailing arm. The directors saw fit to acquire this company to protect their investment, proceeding to implement a complete restructuring process. This process led to the closure of its loss making retailing section while maintaining its lucrative corporate sector. As a result, Sapphire Software has seen a huge decrease in its losses in 1997 and moved well into profit status as indicated in its last six months results. The company has learnt from its previous mistakes and over the last two years has reduced its sales to re sellers dramatically and concentrated instead on SME, corporate, education, NHS and local government sectors, these currently form a major part of the business, approximately 70%.

Recent developments have seen the company wining an important tender from the Local Education Authorities, with the tender value exceeding a quarter of a million pounds for Gaia Personal Computers which will be distributed to over 180 schools in the local area. We envisage that this order will be repeated over the next three years as part of the Government's policy for the National Grid for Learning, thus continuing to deepen the company's relationships with the educational sector to become the de-facto partner in the the years to come.

Furthermore, the company has won another tender to supply Gaia Personal Computers to one of the largest local NHS Trusts over the coming year with an expected value of over £200,000. This increases the number of NHS Trusts in our customer base to a total of five.

We will work during the coming year to consolidate and further improve the company's position as the only major IT supplier in North Wales, our forecast of turnover is £2.9 million, with a rise in gross and net profit margins of a minimum of 1%.

As directors, we are committed to continue investing in Gaia Technologies plc and increasing its financial as well as its intellectual capitals. As a final comment, we would like to say that whatever we may have achieved this year and whatever we might achieve in the years to come, is due to the hardworking members of Gaia staff.

Company's policy for payment of creditors

The company's policy is to pay trade creditors within 5 days of due date to agreed terms, which are usually 30 days from the end of month of supply. The creditor days calculated on the basis of trade creditors divided by amounts invoiced to the company by suppliers multiplied by 365 are 47 days.

Directors

The directors who served during the year and their beneficial interests in the company's issued share capital were :

	Preference shares of £1 each		Ordinary shares of £1 each	
	1998	1997	1998	1997
Anas Abdulmawla	17,667	-	16,667	16,667
Ayad Abdulmawla	17,667	-	16,667	16,667
Mrs K Abdulmawla	14,666	-	16,667	16,667

Political and charitable contributions

During the year the company made charitable donations of £750.

GAIA TECHNOLOGIES PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JULY 1998

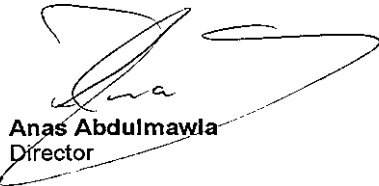
Research and development

During the year further work went into software development as described above, marketing possibilities are currently being examined with the help of a grant from the Welsh Development Agency, the expenditure on this work together with last year has been capitalised and will be written off over the next two years.

Auditors

The auditors, Hughes Parry & Co, will be proposed for reappointment in accordance with section 385 of the Companies Act 1985.

This report was approved by the board on 29 October 1998 and signed on its behalf.



Anas Abdulmawla
Director

AUDITORS' REPORT TO THE SHAREHOLDERS OF GAIA TECHNOLOGIES PLC

We have audited the financial statements on pages 5 to 19 which have been prepared under the historical cost convention and the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 July 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Hughes Parry & Co

Accountants and Registered Auditors
121 High Street
Bangor
Gwynedd
LL57 1NT

29 October 1998

GAIA TECHNOLOGIES PLC

PROFIT AND LOSS ACCOUNT
For the year ended 31 July 1998

	Note	1998 £	1997 £
TURNOVER	1,2	2,415,542	2,407,560
Cost of sales		<u>(1,971,368)</u>	<u>(2,021,589)</u>
GROSS PROFIT		444,174	385,971
Selling and distribution costs		(47,723)	(48,845)
Administrative expenses		(218,922)	(218,148)
Exceptional item, bad debt	10	<u>(76,596)</u>	<u>-</u>
OPERATING PROFIT	3	100,933	118,978
Interest receivable	6	747	620
Interest payable	7	<u>(69,016)</u>	<u>(61,151)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		32,664	58,447
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	8	<u>(6,938)</u>	<u>(9,148)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		25,726	49,299
DIVIDENDS	9	<u>-</u>	<u>(30,000)</u>
RETAINED PROFIT FOR THE YEAR		25,726	19,299
RETAINED PROFIT/(LOSS) BROUGHT FORWARD		<u>12,340</u>	<u>(6,959)</u>
RETAINED PROFIT CARRIED FORWARD		<u>£ 38,066</u>	<u>£ 12,340</u>

All amounts relate to continuing operations.

There were no recognised gains and losses for 1998 or 1997 other than those included in the profit and loss account.

The notes on pages 9 to 19 form part of these financial statements.


GAIA TECHNOLOGIES PLC

BALANCE SHEET
As at 31 July 1998

	Note	£	1998 £	£	1997 £
FIXED ASSETS					
Intangible fixed assets	11		35,162		13,259
Tangible fixed assets	12		84,724		80,650
Investments	13		15,000		-
			<u>134,886</u>		<u>93,909</u>
DEBTORS: due after more than one year	15		96,972		158,068
CURRENT ASSETS					
Stocks	14	139,686		154,044	
Debtors	16	315,925		258,364	
Cash at bank and in hand		20,435		39,200	
		<u>476,046</u>		<u>451,608</u>	
CREDITORS: amounts falling due within one year	17	(478,751)		(533,045)	
NET CURRENT LIABILITIES			<u>(2,705)</u>		<u>(81,437)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			229,153		170,540
CREDITORS: amounts falling due after more than one year	18		(68,601)		(85,714)
NET ASSETS			<u>£ 160,552</u>		<u>£ 84,826</u>
CAPITAL AND RESERVES					
Called up share capital	20		100,000		50,000
Other reserves			22,486		22,486
Profit and loss account			38,066		12,340
SHAREHOLDERS' FUNDS	21		<u>£ 160,552</u>		<u>£ 84,826</u>

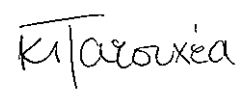
Shareholders' Funds include non-equity interests

The financial statements were approved by the board on 29 October 1998 and signed on its behalf



Anas Abdulmawla

Director



Katerina Abdulmawla

Director

The notes on pages 9 to 19 form part of these financial statements.

GAIA TECHNOLOGIES PLC

CASH FLOW STATEMENT
For the year ended 31 July 1998

	Note	£	1998 £	£	1997 £	£
Net cash inflow from operating activities (Page 8)				72,155		145,896
Returns on investments and servicing of finance	22			(68,269)		(60,531)
Taxation				(2,619)		-
Capital expenditure and financial investment	22			(46,528)		(61,897)
Acquisitions and disposals	22			(15,000)		-
Equity dividends paid				-		(30,000)
Cash outflow before use of liquid resources and financing				(60,261)		(6,532)
Financing:	22					
Issue of shares			50,000		50,000	
Decrease in debt			(17,113)		-	
				32,887		50,000
(Decrease)/increase in cash in the period			£ (27,374)		£ 43,468	

The notes on pages 9 to 19 form part of these financial statements.

GAIA TECHNOLOGIES PLC

CASH FLOW STATEMENT INFORMATION
For the year ended 31 July 1998

	Note	£	1998	£	1997	£
RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES						
Operating profit			100,933		118,978	
Depreciation of tangible fixed assets			16,921		15,467	
Loss on disposal of tangible fixed assets			3,630		-	
Decrease/(increase) in debtors			3,535		(133,132)	
Decrease in stocks			14,358		25,387	
(Decrease)/increase in creditors			(67,222)		119,196	
Net cash inflow from operating activities			£ 72,155		£ 145,896	
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT						
	23					
(Decrease)/increase in cash in the period			(27,374)		43,468	
Cash inflow from (decrease)/increase in debt and lease financing			17,113		-	
Change in net debt resulting from cash flows			(10,261)		43,468	
Net debt at 1 August 1997			(117,542)		(161,010)	
Net debt at 31 July 1998			£ (127,803)		£ (117,542)	

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 1998

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom.

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and include the results of the company's operations which are described in the Directors' Report and all of which are continuing.

Group accounts have not been prepared as the company's subsidiary is permitted to be excluded from group accounts by virtue of section 229 of the Companies Act 1985, on the grounds that inclusion would not have a material effect on the financial statements. These financial statements therefore present information about the company as an individual undertaking and not about its group.

1.2 Turnover

Turnover comprises the invoiced value of goods and services supplied by the company, exclusive of Value Added Tax and trade discounts.

1.3 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Plant & machinery	-	15%	reducing balance
Motor vehicles	-	25%	reducing balance
Fixtures & fittings	-	15%	reducing balance

1.4 Operating leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to profit and loss account as incurred.

1.5 Stocks

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

1.6 Deferred taxation

Provision is made for taxation deferred as a result of material timing differences between the incidence of income and expenditure for taxation and accounts purposes, using the liability method, only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the near future.

1.7 Research and development

The company carried out software development work as described in the directors report, the directors consider the costs should be capitalised and written off over the next three years.

2. TURNOVER

The whole of the turnover is attributable to the one principal activity of the company being computer equipment suppliers.

All turnover arose within the United Kingdom

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 1998

3. OPERATING PROFIT

The operating profit is stated after charging:

	1998 £	1997 £
Depreciation of tangible fixed assets		
- owned by the company	16,921	15,467
Audit fees	10,845	8,283
Operating lease rentals		
- hire of plant & machinery	14,095	2,370
- other	10,000	-
Exceptional item - Bad debt	76,596	-
	<u> </u>	<u> </u>

4. STAFF COSTS

Staff costs, including directors' remuneration, were as follows:

	1998 £	1997 £
Wages and salaries	83,548	78,787
Social security costs	5,784	5,764
Other pension costs	-	2,017
	<u> </u>	<u> </u>
	£ 89,332	£ 86,568

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

	1998	1997
Technical	14	12
Retail	2	-
Aministration	1	1
	<u> </u>	<u> </u>
	17	13

5. DIRECTORS' REMUNERATION

	1998 £	1997 £
Aggregate emoluments	23,570	18,770
	<u> </u>	<u> </u>
	£ 23,570	£ 18,770

6. INTEREST RECEIVABLE

	1998 £	1997 £
Other interest receivable	747	620
	<u> </u>	<u> </u>

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 1998

7. INTEREST PAYABLE

	1998 £	1997 £
On bank loans and overdrafts	17,289	11,839
Factoring charges and interest	51,727	49,312
	<u>£ 69,016</u>	<u>£ 61,151</u>

8. TAXATION

	1998 £	1997 £
Current year taxation		
UK Corporation Tax at 21% (1997 - 21%)	5,927	9,148
Prior years		
UK corporation tax	1,011	-
	<u>£ 6,938</u>	<u>£ 9,148</u>

If provision had been made for deferred taxation on the basis of the full potential liability, the taxation charge would have been increased by £5,182 (1997 - £2,276) as follows:

Capital allowances in advance of depreciation	<u>£ 5,182</u>	<u>£ 2,276</u>
---	----------------	----------------

9. DIVIDENDS

	1998 £	1997 £
Ordinary - interim paid	<u>-</u>	<u>30,000</u>

10. EXCEPTIONAL ITEM

A bad debt of £76,596 has been written off the amount outstanding from Sapphire Software Limited an associated company, following the closure of its unprofitable retail outlet in Colwyn Bay. The remaining sales ledger balances are current and being paid to terms, and a new repayment schedule has been agreed now the company is trading profitably. The directors are confident that repayments can be met. The tax charge in the accounts has been reduced by £16,085 due to this item.

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 1998

11. INTANGIBLE FIXED ASSETS

	Development £	Total £
Cost		
At 1 August 1997	13,259	13,259
Additions	21,903	21,903
At 31 July 1998	<u>35,162</u>	<u>35,162</u>
Net Book Value		
At 31 July 1998	£ 35,162	£ 35,162
At 31 July 1997	<u>£ 13,259</u>	<u>£ 13,259</u>

12. TANGIBLE FIXED ASSETS

	Plant & Machinery £	Fixtures & Equipment £	Motor Vehicles £	Total £
Cost or valuation				
At 1 August 1997	81,609	4,008	10,500	96,117
Additions	18,745	5,705	2,600	27,050
Disposals	(5,800)	-	(1,500)	(7,300)
At 31 July 1998	<u>94,554</u>	<u>9,713</u>	<u>11,600</u>	<u>115,867</u>
Depreciation				
At 1 August 1997	12,241	601	2,625	15,467
Charge for year	13,217	1,367	2,337	16,921
On disposals	(870)	-	(375)	(1,245)
At 31 July 1998	<u>24,588</u>	<u>1,968</u>	<u>4,587</u>	<u>31,143</u>
Net Book Value				
At 31 July 1998	£ 69,966	£ 7,745	£ 7,013	£ 84,724
At 31 July 1997	<u>£ 69,368</u>	<u>£ 3,407</u>	<u>£ 7,875</u>	<u>£ 80,650</u>

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 1998

13. FIXED ASSET INVESTMENTS

	Shares in group undertakings £	Loans to group undertakings £	Other investments £	Total £
Cost				
Additions	15,000	-	-	15,000
At 31 July 1998	15,000	-	-	15,000
Net Book Value				
At 31 July 1998	£ 15,000	£ -	£ -	£ 15,000

Investments include an investment in a subsidiary, Gaia Solutions Limited, comprising a holding of 100% of its issued ordinary capital.

During its latest financial year ended 30 November 1997, Gaia Solutions Limited made a profit after tax of £10,098 (1996 -£(5,953)) and at the end of that year the aggregate of its capital and reserves was £5,145 (1996 -£(4,953)).

14. STOCKS

	1998 £	1997 £
Finished goods	£ 139,686	£ 154,044

15. DEBTORS**Due after more than one year**

	1998 £	1997 £
Other debtors	96,972	158,068
	£ 96,972	£ 158,068

The above amount relates to a loan made to Sapphire Software Limited, an associated company, the loan arose through normal trading activities but due to trading difficulties could not be settled to normal terms. As Sapphire Software Limited closed its unsuccessful retail outlet in Colwyn Bay part way through the year, £90,000 of the loan was written off as being irrecoverable, a new repayment schedule has been agreed now the company is trading profitably and the directors are confident that this will be met.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 1998

16. DEBTORS
Due within one year

	1998 £	1997 £
Trade debtors	457,753	449,782
Less: Non-returnable proceeds	(161,428)	(216,913)
	<u>296,325</u>	<u>232,869</u>
Other debtors	19,600	25,495
	<u>£ 315,925</u>	<u>£ 258,364</u>

The gross amount of factored debts is £251,029 (1997 - £380,671). The main terms of the factoring agreement are that debts that are assigned to the factor incur a charge of 1.2% of the gross turnover for the administration of the sales ledger. An advance payment of 77% of approved debts is available subject to certain limits, a discount charge for these payments is made at 2.25% above Nat West Bank base rate on the day to day usage of funds. If the debt is "approved" then the factor assumes the risk and there is 100% bad debt cover. If the debt is "unapproved" the company retains the risk and there is no bad debt cover. The total factors charges for the year were £30,951 and the total interest charged was £20,776.

17. CREDITORS:
Amounts falling due within one year

	1998 £	1997 £
Bank loans and overdrafts	79,637	71,028
Payments received on account	13,242	125,554
Trade creditors	334,532	272,554
Corporation tax	13,467	9,148
Social security and other taxes	33,435	36,449
Other creditors	1,375	11,504
Accruals and deferred income	3,063	6,808
	<u>£ 478,751</u>	<u>£ 533,045</u>

Payments received on account relate to amounts advanced by the factors against unapproved debts, for which the company retains the risk of bad debts.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 1998

18. CREDITORS:**Amounts falling due after more than one year**

	1998 £	1997 £
Bank loans and overdrafts	68,601	85,714
	<u>£ 68,601</u>	<u>£ 85,714</u>
Included within the above are amounts falling due as follows:		
In 1 - 2 years:		
Loan instalments	17,143	17,143
In 2 - 5 years:		
Loan instalments	51,458	51,429
In more than 5 years:		
Loan instalments	-	17,143

The bank loan and overdraft which total £148,238 (1997 - £156,742) are secured by a fixed and floating charge over the company's assets. The loan is part of the small firms loan guarantee scheme for £90,100. The loan is repayable by monthly instalments of £1,428 plus interest is charged quarterly at 9.93% per annum for the first two years, and 3% above Midland Bank base rate thereafter.

19. PROVISIONS FOR LIABILITIES AND CHARGES

	1998 £	1997 £
The additional potential liability for deferred taxation not provided was as follows:		
	1998 £	1997 £
Accelerated capital allowances	£ 5,182	£ 2,276

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 1998

20. CALLED UP SHARE CAPITAL

	1998 £	1997 £
Authorised		
900,000 ordinary shares of £1 each	900,000	1,000,000
100,000 preference shares of £1 each	100,000	-
	<u>£ 1,000,000</u>	<u>£ 1,000,000</u>
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	50,000	50,000
50,000 preference shares of £1 each	50,000	-
	<u>£ 100,000</u>	<u>£ 50,000</u>

During the year 50,000 preference shares of £1.00 each were issued fully paid for cash at par.

The preference shares carry a right to a fixed dividend of 12% per annum, payable six monthly, the first dividend is payable on 31 January 1999.

The preference shares shall rank on a return of capital on liquidation or otherwise in priority to ordinary shares, from the amount available for distribution among the members, the amount payable to the holders of preference shares will be the amounts paid up on such shares together with a sum equal to any arrears and accruals of the fixed dividend thereon to be calculated down to the date of the return of capital. The holders of the preference shares shall not be entitled to vote upon any resolution, other than a resolution for winding up the company or reducing its share capital or a resolution varying or abrogating any of the special rights attached to such shares, unless at the date of the notice convening the meeting at which such resolution is to be proposed the dividend on the convertible preference shares is six months in arrears.

The preference shares are redeemable at par by the holders on the delivery of thirteen months notice in writing to the company. The company may redeem the shares at any time.

21. SHAREHOLDERS' FUNDS

Reconciliation of movements on shareholders' funds

	1998 £	1997 £
Profit for the year	25,726	49,299
Dividends	-	(30,000)
	<u>25,726</u>	<u>19,299</u>
Shares issued during year	50,000	-
	<u>75,726</u>	<u>19,299</u>
Opening shareholders' funds	84,826	65,527
Closing shareholders' funds	<u>£ 160,552</u>	<u>£ 84,826</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 1998

Analysis of shareholders' funds

	1998 £	1997 £
Non-equity interests	50,000	-
Equity interests	110,552	84,826
	<u>£ 160,552</u>	<u>£ 84,826</u>

**22. ANALYSIS OF CASH FLOWS FOR HEADINGS
NETTED IN THE CASH FLOW STATEMENT**

	1998 £	1997 £
Returns on investments and servicing of finance		
Interest received	747	620
Interest paid	(69,016)	(61,151)
Net cash outflow for returns on investments and servicing of finance	<u>£ (68,269)</u>	<u>£ (60,531)</u>

**22. ANALYSIS OF CASH FLOWS FOR HEADINGS
NETTED IN THE CASH FLOW STATEMENT (Continued)**

Capital expenditure and financial investment

Purchase of intangible fixed assets	(21,903)	(13,259)
Purchase of tangible fixed assets	(27,050)	(48,638)
Sale of tangible fixed assets	2,425	-
Net cash outflow for capital expenditure	<u>£ (46,528)</u>	<u>£ (61,897)</u>

**22. ANALYSIS OF CASH FLOWS FOR HEADINGS
NETTED IN THE CASH FLOW STATEMENT (Continued)**

Acquisitions and disposals

Purchase of Gaia Solutions Limited	(15,000)	-
Net cash (outflow)/inflow for acquisitions and disposals	<u>£ (15,000)</u>	<u>£ -</u>

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 1998

	1998 £	1997 £
22. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT (Continued)		
Financing		
Issue of ordinary shares	-	50,000
Issue of cumulative redeemable preference shares	50,000	-
Issue of shares	<u>50,000</u>	<u>50,000</u>
Repayment of loans	(17,113)	-
(Decrease)/Increase in debt	<u>(17,113)</u>	<u>-</u>
Net cash inflow from financing	<u>£ 32,887</u>	<u>£ 50,000</u>

23. ANALYSIS OF NET DEBT

	At 1 Aug 1997 £	Cash flow £	Other changes £	At 31 Jul 1998 £
Net cash:				
Cash at bank and in hand	39,200	(18,765)		20,435
Bank overdrafts	(71,028)	(8,609)		(79,637)
	<u>(31,828)</u>	<u>(27,374)</u>		<u>(59,202)</u>
Debt:				
Debt due after 1 year	(85,714)	17,113	-	(68,601)
	<u>(85,714)</u>	<u>17,113</u>	<u>-</u>	<u>(68,601)</u>
Net debt	<u>£ (117,542)</u>	<u>£ (10,261)</u>	<u>£ -</u>	<u>£ (127,803)</u>

24. CONTINGENT LIABILITIES

The debtors figure due over one year of £96,972 (1997 £158,068) owed by associated company Sapphire Software Limited, a new repayment schedule has been agreed, the directors are confident that the new repayment schedule will be met.

25. OTHER COMMITMENTS

At 31 July 1998 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Category description required	
	1998 £	1997 £	1998 £	1997 £
Expiry date:				
Between 2 and 5 years	15,000	-	10,597	-

26. TRANSACTIONS WITH DIRECTORS

The company has acquired the shares in Gaia Solutions Limited from the directors for £15,000 and they have accepted 15,000 preference shares in settlement of this.

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 1998

27. RELATED PARTIES

The company traded on normal commercial terms with Sapphire Software Limited, turnover included £456,846 and sales ledger balances £152,040, extended credit terms loan £116,472 and purchases included £36,029. Sales included £9,333 of sales to Gaia Solutions Limited. Both these companies were under the common control of the directors and shareholders of the company. Other related party information is contained in the note on debtors due over one year regarding the loan to Sapphire Software Limited and note 10 the exceptional item, relates to amounts written off the account. Gaia Solutions Limited was acquired from the directors the note on transactions with directors refers.