Company Number: 3141826

GAIA TECHNOLOGIES PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 JULY 2000

Company Information

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

Contents

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JULY 2000

The directors present their report and the financial statements for the year ended 31 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 and group and of the profit or loss of the company and group 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 group 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 group 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 £36,881 *(1999 - £48,089)*.

The fixed dividends totaling £6,000 were paid in January and July 2000 on the preference shares.

Principal activities and review of business

The group's principal activity continues to be that of delivering advance information technology solutions to our customers, including computer systems, software, networking systems, bespoke software and internet solutions.

Financial Results

Gaia Technologies Plc financial results for 2000 continue to demonstrate the value and potential of the company's *businesses. The company has achieved good results and an increased market share in the face of tough* competition, fluctuations in cost of goods, as well as the continuous decrease of the PC price in the market place.

The company reported a drop in revenue of almost 11%, from 2.6M to 2.3M, and a large percentage increase of 3.9% in gross profits to 22.4 % (£517K). The reduction in revenue was mainly due to the drop in the unit sale price of almost 30%, however this was cushioned by increased market share. In contrast, the gross profit margin has gone up by 3.9% due to the increased service activities sold by the company. By comparison, the majority of the IT industry, in year 2000 saw a general decrease in both revenues and gross profits. This was largely blamed on the huge investments made by a majority of customers on the Y2K problem in 1999, which caused a slow down of sales during the first two quarters of 2000.

Operating expenses in the financial 2000 were slightly higher than last year. The spending increased by approximately 50K, 30K of which went to increase directors' remuneration and the rest to training, as well as other administrative expenses.

Net profits were at £58,998 for the company and £44,602 for the Group. This reflects the loss Gaia solutions has made of 14K, because of the continued spending on the Internet Development of the Group's Business, leaving net profit at approx. 2% and a return of 74 pence after tax per ordinary share issued.

The company's focus remains on the growth of its service and consultancy sales, especially in network design and implementation, as well as in maintenance and support. Our forecast for the year 2001 is 2.7M, but more importantly to increase our gross profit margin by 2% to approx 24%. We are concentrating our effort to achieve these figures and enable the company to increase its net profit margin to 4%.

Sales

Hardware

Revenues from the hardware segments have increased by 17.2%, while gross profit has remained flat with a modest increase of 0.6%.

Personal systems production has risen by 20 % from 1999 figures; in contrast, there was a drop in revenue. Most of major IT hardware companies reports showed a drop in revenue or a modest increase. However, most of these companies reported much lower profit for this year than expected by analysts, resulting in a worldwide drop in market capitalization of these companies. Gaia draws some comfort from the above for a few reasons. Firstly, it is a worldwide industry problem and secondly, it reaffirms our three years old policy of growing our service and support divisions within the company. These divisions have inherently lower revenues figures but with much higher gross profit margins. This has impacted positively our gross profit margin reported in the accounts. Thirdly, Gaia has managed to increase its market share, which is largely due to the support Gaia enjoys from its local market especially local authorities, governments, SMEs' and education establishments. We are expecting continued increase locally and nationally in the years to come, especially with an increase spending on IT by the Government on both Education and Health. We are critically aware of the potential impact of European Objective 1 funding in Wales over the next few years.

Retail Business
While the company's primary focus is not on the retail business, this division has increased its percentage in both terms of revenue and profit margin; an increase of 4% to 17% of the overall turnover of the company, and an approximate increase of 2% in gross profit margin. This was due to a few factors, which are retail benefiting from an overall good marketing policy and from an increased Gaia computer systems base in working environments i.e. schools, hospital etc. Gaia welcomes the growth in the retail side of the business.

Networking
In this segment, Gaia has enjoyed phenomenal growth; in terms of the number of networks implemented the size of these networks and their price tag. Gaia had a few network implementations with revenue exceeding the £50,000 mark each and some of which exceed 350 data points.

Networking services have provided the company by far the maximum returns on investment, with profit margins exceeding the 30% mark. It also provides the company with opportunities to promote other products and services such as PC's and service contracts.

The worldwide-accelerated growth in networking is expected to continue in the forthcoming years. Gaia has geared itself to take advantage of the growth in this sector and to draw on its technical expertise and wealth of knowledge in network design to fulfill customer requirements.

Gaia will continue to place great emphasis on expanding this segment, as it is one of the primary business activities of the company. We moderately anticipate growth potential of 300% in the next two years. This should be achievable, especially with the increased number of customers discovering the benefits of networked PC's in reducing their overall cost, enhancing work flow and increasing efficiency in their operations.

The latest achievement in this division was wining a major contract of 3000 points of Cat6 Voice/Data points to be implemented in the current financial year, and the provisional confirmation of us achieving The Krone Accredited Installer Status, which will make us the only networking company in Wales with such an accreditation.

Support & Maintenance
This segment continues to grow steadily. We are currently in negotiation with a major customer over a maintenance contract worth £45K. There was an increase in the number of contracts this year. However, since the majority of these are coming from small size operations with a value of £2-5K per contract, we are concentrating our efforts on larger contracts. In order to achieve this we are training our engineers, so that they are able to maintain a variety of hardware platforms from other manufactures such as Compaq and Cisco Systems. The forecast for this division is to break the £100K barrier and ideally achieving £150K. We are working to enhance our services by expanding the options available, to increase the number of clients with support service, and to tie in customers to a long term relationship

Internet & E-Commerce
The Internet continues to be the talk of every company and almost every household in the world. Businesses are still trying to come to terms with the Internet revolution and to determine the next business model. Is it the dot-com model or the bricks and mortar model? Fortunately, we offer both models to the consumer.

For the last 12 months, the company has been preparing the basis for the launch of an e-commerce site selling our products and services. As planned, Gaia Technologies Plc has launched in August its fully e-commerce site, www.gaia-tech.com, with over eight thousand products. The site has been received warmly, with hits exceeding 1000 a week and sales to customers from all over the UK. This marks the comeback of Gaia Technologies to the wider UK consumer.

The company also launched further E-commerce sites, which deliver specific products. The www.ink-centre.co.uk, a site specializing in the supply of all branded ink and toners from all printer manufactures, and the www.school-centre.co.uk, which caters for the educational needs of schools and students in terms of software and special needs. These sites are fully e-commerce as well as allowing the acceptance of Purchase Order numbers from account holders like companies, educational establishments, the NHS and local governments. Moreover, the sites cover other languages like Welsh, French, Spanish and German, and can handle multi currencies including the Euro. Overall, the entry into the e-commerce will allow the company to expand in the national and possibly international markets.

Marketing
The company's marketing policy remains to promote its brand name as the main provider of IT solutions in the North Wales Area with the use of a variety of direct and indirect marketing and advertising methods. Gaia Technologies Plc takes pride in being involved and playing an active roll in all major community events.

Our marketing budget will remain caped at £ 50,000. However, we are placing more importance on raising more marketing funds from various manufacturers and partners, as well as increasing our on-line Internet marketing, in order to further reduce our cost and increase our direct exposure.

The Operation
Company's Premises
The directors are considering a few options. One is to buy the existing leased buildings, and the second option is to purchase a 1.5 acre parcel of land in the nearby business park, to have purpose built premises. The Board will take a decision on this matter during this financial year.

Workforce & Training
Gaia has recently recruited Mr. Alan Salisbury in the position of corporate customer development manager. Alan's experience includes international sales and market development for Welch Allyn Inc., an American medical equipment manufacturer. Alan has also worked for the North Wales Training and Enterprise Council as IT strategy manager. He will continue to liaise with local and national bodies. Also joining Gaia will be Tom Last as a senior IT consultant. *Tom's previous employment was in the NHS as head of IT in the North West Wales NHS Trust. Tom's experience* includes WAN (Wide Area Network) and Telecommunications management. The board welcomes their appointment and that they play a positive role in achieving the company goals.

Gaia continues to ensure its ability to serve its customers in the latest in information technology by training our staff on the latest technological developments. The training budget for this year is set to 30K; the training program includes Microsoft, Compaq and Cisco systems.

Supply Chain Management
Gaia's relation with major manufactures is going from strength to strength through solution provider programs, which include Microsoft, Intel, Compaq, Panasonic, Samsung and many others. However, two major partnerships were gained. One is the Microsoft Educational reseller status giving us the ability to compete against the major educational suppliers, with anticipated software license sales to exceed £150K this year. The other is the Cisco systems reseller partner status. Cisco are the leading networking and internet hardware manufacturer in the world. This will allow us to compete in a higher level of the networking arena.

We have chosen to consolidate our suppliers to reduce the numbers and to improve relations. Gaia's good financial track record with our suppliers, has allowed us to increase our credit limits and improve terms.

Customer segmentation is currently underway in order to identify our key markets and to provide customised services for each of the segments based on requirements.

Quality
Gaia continues to use only parts from major manufacturers like Intel, IBM, Panasonic Cisco, etc. and to assess the quality of computer parts we use from various manufacturers in our computer systems, in order to ensure the highest quality of the final product.

The company had a Pre Assessment for the ISO9002 accreditation, which identified a few weaknesses in our procedures. However, we are working to improve these procedures and a date has been set for a final assessment in the first quarter of 2001.

Customer satisfaction scorecards have been implemented since the first quarter of 2000, in order to monitor the company's performance and the customer's perception of our efforts. The feedback from these cards has been invaluable and is used to adjust our standards of service where applicable.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JULY 2000

Finance

Gaia has replaced its factoring agreement for an alternative more flexible method of finance, effective from mid April 2000. This was quite late in the financial year to show any saving. However, we are expecting net savings of £20,000 in the current financial year.

While the majority of our customers are blue chip companies, educational establishments and government bodies, which do not require credit insurance, the company still uses Trade Indemnity to provide cover, as a preventative measure against possible defaults on payment.

As we mentioned in last year's report, we have been approached by a few private investors who would like to introduce substantial capital in consideration for equity in the company. The directors have provisionally accepted this offer however limiting the amount of the investment. This is to be agreed pending evaluation of the company's market value. This extra investment will be used to fund a capital project the company is involved in. The board will be seeking from bankers a short-term loan of 150K as extra working capital to finance growth for the next three years.

The company will be implementing an employee share scheme, mainly to reward key personnel. On this note, I take the opportunity on behalf of the management to thank the Gaia family of employees for their hard work and commitment, our customers for their trust and our suppliers for their support and help.

Company's policy for payment of creditors

The company's policy is to pay creditors within and no latter than 5 days of due date of agreed terms. To enable the company to do that, we have changed credit terms with all our major suppliers to the end of the following month of supply, thus giving the company an average term of 45 days. The creditor days calculated on the basis of trade creditors divided by amounts invoiced to the company by suppliers multiplied by 365 days are 56 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	
	2000	*1999*	**2000**	*1999*
Anas Abdulmawla	**17,667**	*17,667*	**16,667**	*16,667*
Ayad Abdulmawla	**17,667**	*17,667*	**16,667**	*16,667*
Katerina Patouchea	**14,666**	*14,666*	**16,666**	*16,666*

Political and charitable contributions

During the year the group made charitable donations of £50.

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 23 October 2000 and signed on its behalf.

K Patouchea

Mrs K Patouchea
Secretary

AUDITORS' REPORT TO THE SHAREHOLDERS OF GAIA TECHNOLOGIES PLC

We have audited the financial statements on pages 6 to 23 which have been prepared under the historical cost convention and the accounting policies set out on page 12.

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 group'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 of the group as at 31 July 2000 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Hughes Parry & Co

Hughes Parry & Co

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

23 October 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 July 2000

	Note	2000 £	*1999 £*
TURNOVER	1,2	**2,311,801**	*2,604,700*
Cost of sales		**(1,794,261)**	*(2,121,748)*
GROSS PROFIT		**517,540**	*482,952*
Selling and distribution costs		**(44,769)**	*(44,449)*
Administrative expenses		**(380,250)**	*(330,538)*
OPERATING PROFIT	3	**92,521**	*107,965*
Interest receivable	6	**573**	*637*
Interest payable	7	**(48,492)**	*(49,038)*
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**44,602**	*59,564*
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	8	**(7,721)**	*(11,475)*
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		**36,881**	*48,089*
DIVIDENDS - On equity shares	9	**-**	*(7,500)*
- On non-equity shares		**(6,000)**	*(6,000)*
RETAINED PROFIT FOR THE YEAR		**30,881**	*34,589*
RETAINED PROFIT BROUGHT FORWARD		**63,531**	*28,942*
RETAINED PROFIT CARRIED FORWARD		**£ 94,412**	*£ 63,531*

All amounts relate to continuing operations.

There were no recognised gains and losses for 2000 or 1999 other than those included in the profit and loss account.

The notes on pages 12 to 23 form part of these financial statements.

CONSOLIDATED BALANCE SHEET
As at 31 July 2000

	Note	2000 £	2000 £	1999 £	1999 £
FIXED ASSETS					
Intangible fixed assets	10		**28,989**		*35,162*
Tangible fixed assets	11		**101,032**		*92,335*
			130,021		*127,497*
DEBTORS: due after more than one year	14		**42,120**		*67,472*
CURRENT ASSETS					
Stocks	13	**183,822**		*134,341*	
Debtors	15	**495,442**		*371,839*	
Cash at bank and in hand		**18,031**		*24,718*	
		697,295		*530,898*	
CREDITORS: amounts falling due within one year	16	**(629,318)**		*(510,878)*	
NET CURRENT ASSETS			**67,977**		*20,020*
TOTAL ASSETS LESS CURRENT LIABILITIES			**240,118**		*214,989*
CREDITORS: amounts falling due after more than one year	17		**(34,286)**		*(51,458)*
NET ASSETS			**£ 205,832**		*£ 163,531*
CAPITAL AND RESERVES					
Called up share capital	18		**100,000**		*100,000*
Other reserves	19		**11,420**		-
Profit and loss account			**94,412**		*63,531*
SHAREHOLDERS' FUNDS	20		**£ 205,832**		*£ 163,531*

Shareholders' Funds include non-equity interests

The financial statements were approved by the board on 23 October 2000 and signed on its behalf

Mr Anas Abdulmawla Director **Mr Ayad Abdulmawla** Director

The notes on pages 12 to 23 form part of these financial statements.

COMPANY PROFIT & LOSS ACCOUNT

For the year ended 31 July 2000

	Note	£	2000 £	*1999*
TURNOVER			**2,311,799**	*2,603,602*
Cost of sales			**1,794,261**	*2,121,748*
GROSS PROFIT			**517,538**	*481,854*
Selling and distribution costs			**(44,769)**	*(44,449)*
Administrative expenses			**(366,191)**	*(320,506)*
OPERATING PROFIT			**106,578**	*116,899*
Interest receivable/payable			**(47,580)**	*(48,393)*
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			**58,998**	*68,506*
TAXATION ON PROFIT ON ORDINARY ACTIVITIES			**(7,721)**	*(13,335)*
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			**51,277**	*55,171*
DIVIDENDS - On equity shares			**(6,000)**	*(13,500)*
RETAINED PROFIT FOR THE YEAR			**45,277**	*41,671*
RETAINED PROFIT BROUGHT FORWARD			**79,737**	*38,066*
RETAINED PROFIT CARRIED FORWARD			**£ 125,014**	*£ 79,737*

COMPANY BALANCE SHEET
As at 31 July 2000

	Note	2000 £	2000 £	1999 £	1999 £
FIXED ASSETS					
Intangible fixed assets	10		28,989		35,162
Tangible fixed assets	11		99,578		90,625
Investments	12		28,179		16,679
			156,746		142,466
DEBTORS: due after more than one year	14		42,120		67,472
CURRENT ASSETS					
Stocks	13	183,822		134,341	
Debtors	15	493,494		370,175	
Cash at bank and in hand		18,031		24,718	
		695,347		529,234	
CREDITORS: amounts falling due within one year	16	(623,493)		(507,977)	
NET CURRENT ASSETS			71,854		21,257
TOTAL ASSETS LESS CURRENT LIABILITIES			270,720		231,195
CREDITORS: amounts falling due after more than one year	17		(34,286)		(51,458)
NET ASSETS			£ 236,434		£ 179,737
CAPITAL AND RESERVES					
Called up share capital	18		100,000		100,000
Other reserves	19		11,420		-
Profit and loss account			125,014		79,737
SHAREHOLDERS' FUNDS	20		£ 236,434		£ 179,737

Shareholders' Funds include non-equity interests

The financial statements were approved by the board on 23 October 2000 and signed on its behalf

Mr Anas Abdulmawla Director **Mr Ayad Abdulmawla** Director

The notes on pages 12 to 23 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 July 2000

	Note	2000 £	2000 £	*1999* £	*1999* £
Net cash inflow from operating activities (Page 11)			**172,960**		*94,617*
Returns on investments and servicing of finance	21		**(53,919)**		*(54,401)*
Taxation			**(17,581)**		*(8,536)*
Capital expenditure and financial investment	21		**(10,958)**		*(45,496)*
Equity dividends paid			**-**		*(7,500)*
Cash inflow/(outflow) before use of liquid resources and financing			**90,502**		*(21,316)*
Financing:	21				
Issue of shares		**-**		*-*	
Decrease in debt		**(17,172)**		*(17,143)*	
Decrease in debt			**(17,172)**		*(17,143)*
Increase/(decrease) in cash in the period		**£**	**73,330**	*£*	*(38,459)*

The notes on pages 12 to 23 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT INFORMATION
For the year ended 31 July 2000

	Note	2000 £	2000 £	*1999* £	*1999* £
RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES					
Operating profit			**92,521**		*107,965*
Amortisation of intangible assets			**25,000**		-
Depreciation of tangible fixed assets			**19,191**		*17,412*
Loss on disposal of tangible fixed assets			**663**		-
Loss on disposal of intangible fixed assets			**(25,000)**		-
Increase in debtors			**(98,251)**		*(25,118)*
(Increase)/decrease in stocks			**(49,481)**		*5,345*
Increase/(decrease) in creditors			**208,317**		*(10,987)*
Net cash inflow from operating activities			**£ 172,960**		*£ 94,617*
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT	22				
Increase/(decrease) in cash in the period		**73,330**		*(38,459)*	
Cash inflow from increase/(decrease) in debt and lease financing		**17,172**		*17,143*	
Change in net debt resulting from cash flows			**90,502**		*(21,316)*
Net debt at 1 August 1999			**(149,041)**		*(127,725)*
Net debt at 31 July 2000			**£ (58,539)**		£ (149,041)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2000

1. ACCOUNTING POLICIES

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

1.1 Basis of accounting

The financial statements have been drawn up using 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.

1.2 Basis of consolidation

The group financial statements consolidate the financial statements of Gaia Technologies Plc and its subsidiary undertaking drawn up to the 31 July 2000. Intra-group transactions are eliminated on consolidation and all figures relate to external transactions only.

1.3 Turnover

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

1.4 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 of fixed assets over their expected useful lives on the following bases:

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

1.5 Goodwill

Goodwill arising on consolidation is written off to reserves on acquisition.

1.6 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.

1.7 Stocks

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

1.8 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.

1.9 Development costs

Internet project development costs, first revenue was received from the project, £25,000, this amount has been treated as profit on sale of intangible asset and amortisation has been charged to the profit and loss account for the full amount, the directors consider the project to still be of value and are anticipating future revenue flows against this, it is now carried at £10,162. Further development work has taken place during the year on e-commerce sites, these were only being completed at the end of the year and first revenues are anticipated next year, a further £18,827 of costs have been capitalised from this year to carry forward against future revenue streams.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2000

2. SEGMENTAL ANALYSIS

The whole of the turnover is attributable to the one principal activity of the company being delivering advance information technology solutions to our customers, including computer systems, software, networking systems, bespoke software and internet solutions.

All turnover arose within the United Kingdom

The whole of the profit before tax is attributable to the one principal activity of the company being delivering advance information technology solutions to our customers, including computer systems, software, networking systems, bespoke software and internet solutions.

All profit before tax arose within the United Kingdom

3. OPERATING PROFIT

The operating profit is stated after charging:

	2000	1999
	£	£
Amortisation of intangible assets	25,000	-
Depreciation of tangible fixed assets		
- owned by the company	19,191	17,412
Audit fees	15,260	9,463
Operating lease rentals		
- hire of plant & machinery	13,698	13,543
- other	16,750	15,000

4. STAFF COSTS

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

	2000	1999
	£	£
Wages and salaries	208,785	175,410
Social security costs	16,389	10,319
	£ 225,174	£ 185,729

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

	2000	1999
Technical	13	14
Retail	2	2
Administration	2	2
	17	18

5. DIRECTORS' REMUNERATION

	2000	1999
	£	£
Aggregate emoluments	69,177	39,112
	£ 69,177	£ 39,112

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2000

6. INTEREST RECEIVABLE

	2000 £	*1999 £*
Other interest receivable	£ 573	*£ 637*

7. INTEREST PAYABLE

	2000 £	*1999 £*
On bank loans and overdrafts	10,103	*12,263*
On other loans	38,389	*36,775*
	£ 48,492	*£ 49,038*

8. TAXATION

	2000 £	*1999 £*
Current year taxation		
UK Corporation Tax at 20% (1999 - 20%)	7,721	*12,109*
Prior years		
UK corporation tax	-	*(634)*
	£ 7,721	*£ 11,475*

If provision had been made for deferred taxation on the basis of the full potential liability, the taxation charge would have been increased by £7,725 (1999 - *£5,913*) as follows:

Capital allowances in advance of depreciation	£ 7,725	*£ 5,913*

9. DIVIDENDS

	2000 £	*1999 £*
Preference - paid	6,000	*6,000*
Ordinary - interim paid	-	*7,500*
	£ 6,000	*£ 13,500*

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2000

10. INTANGIBLE FIXED ASSETS

Group	Development	Total
	£	£
Cost		
At 1 August 1999	35,162	35,162
Additions	18,827	18,827
At 31 July 2000	53,989	53,989
Amortisation		
Charge for year	25,000	25,000
At 31 July 2000	25,000	25,000
Net Book Value		
At 31 July 2000	£ 28,989	£ 28,989
At 31 July 1999	*£ 35,162*	*£ 35,162*

Company	Development	Total
	£	£
Cost		
At 1 August 1999	35,162	35,162
Additions	18,827	18,827
At 31 July 2000	53,989	53,989
Amortisation		
Charge for year	25,000	25,000
At 31 July 2000	25,000	25,000
Net Book Value		
At 31 July 2000	£ 28,989	£ 28,989
At 31 July 1999	*£ 35,162*	*£ 35,162*

Development costs relate to internet project work, the first revenues were received this year of £25,000, and these have been offset by the amortisation provided, under the policy of writing off the expenditure against the revenue streams as soon as they are received. Additional work undertaken on other e-commerce projects has been capitalised this year, first revenue streams are expected against these next year.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2000

11. TANGIBLE FIXED ASSETS

Group

	Plant & Machinery £	Fixtures & Equipment £	Motor Vehicles £	Total £
Cost or valuation				
At 1 August 1999	107,162	18,261	16,155	141,578
Additions	21,254	4,397	2,900	28,551
Disposals	(1,441)	-	-	(1,441)
At 31 July 2000	126,975	22,658	19,055	168,688
Depreciation				
At 1 August 1999	36,974	4,790	7,479	49,243
Charge for year	13,617	2,680	2,894	19,191
On disposals	(778)	-	-	(778)
At 31 July 2000	49,813	7,470	10,373	67,656
Net Book Value				
At 31 July 2000	£ 77,162	£ 15,188	£ 8,682	£ 101,032
At 31 July 1999	*£ 70,188*	*£ 13,471*	*£ 8,676*	*£ 92,335*

Company

	Plant & Machinery £	Fixtures & Equipment £	Motor Vehicles £	Total £
Cost or valuation				
At 1 August 1999	107,162	15,561	16,155	138,878
Additions	21,254	4,397	2,900	28,551
Disposals	(1,441)	-	-	(1,441)
At 31 July 2000	126,975	19,958	19,055	165,988
Depreciation				
At 1 August 1999	36,974	3,800	7,479	48,253
Charge for year	13,617	2,424	2,894	18,935
On disposals	(778)	-	-	(778)
At 31 July 2000	49,813	6,224	10,373	66,410
Net Book Value				
At 31 July 2000	£ 77,162	£ 13,734	£ 8,682	£ 99,578
At 31 July 1999	*£ 70,188*	*£ 11,761*	*£ 8,676*	*£ 90,625*

12. FIXED ASSET INVESTMENTS

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2000

Company	Shares in group undertakings £	Loans to group undertakings £	Total £
Cost			
At 1 August 1999	15,000	1,679	16,679
Additions	-	11,500	11,500
At 31 July 2000	15,000	13,179	28,179
Net Book Value			
At 31 July 2000	£ 15,000	£ 13,179	£ 28,179
At 31 July 1999	*£ 15,000*	*£ 1,679*	*£ 16,679*

Details of the investments, all of which are held by Gaia Technologies Plc, where the company holds more than 20% of the nominal value of any class of share capital are as follows:

Name of company	Country of incorporation	Holding	Proportion Held	Nature of business
Gaia Solutions Ltd	England and Wales	1000 ordinary shares	100%	Maintenance provider

13. STOCKS

Group	2000 £	*1999 £*
Finished goods and goods for resale	£ 183,822	*£ 134,341*

Company	2000 £	*1999 £*
Finished goods and goods for resale	£ 183,822	*£ 134,341*

14. DEBTORS

Due after more than one year	2000 £	*1999 £*
Group		
Other debtors	£ 42,120	*£ 67,472*

Company	2000 £	*1999 £*
Other debtors	£ 42,120	*£ 67,472*

The above amount relates to a loan made to Sapphire Software Limited, an associated company, repayments are scheduled at £500 per week.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2000

15. DEBTORS

Due within one year	**2000**	*1999*
	£	*£*
Group		
Trade debtors	**464,083**	*339,475*
Other debtors	**31,359**	*30,254*
Prepayments and accrued income	**-**	*2,110*
	£ 495,442	*£ 371,839*

Company	**2000**	*1999*
	£	*£*
Trade debtors	**464,083**	*339,475*
Other debtors	**29,411**	*28,590*
Prepayments and accrued income	**-**	*2,110*
	£ 493,494	*£ 370,175*

Included within other debtors due within one year is a loan of £1,300 *(1999 - £1,300)* to Ayad Abdulmawla, a director. The maximum amount outstanding during the year was £1,300.

During the year the company was pleased to be able to discontinue the use of factoring, this note describes the details contained in the comparative figure. The gross amount of factored debts (1999 - £191,091). The total factors charges up to April 2000 were £30,844. The company has Trade Indemnity cover of up to £1,000,000 to cover all debtors accounts.

16. CREDITORS:

Amounts falling due within one year	**2000**	*1999*
Group	**£**	*£*
Bank loans and overdrafts	**42,284**	*122,301*
Payments received on account	**-**	*26,259*
Trade creditors	**324,397**	*303,107*
Corporation tax	**7,721**	*17,581*
Social security and other taxes	**41,094**	*41,629*
Other creditors	**211,510**	*-*
Accruals and deferred income	**2,312**	*1*
	£ 629,318	*£ 510,878*

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2000

Company	2000 £	1999 £
Bank loans and overdrafts	37,358	121,166
Payments received on account	-	26,259
Trade creditors	323,499	301,736
Corporation tax	7,721	17,438
Social security and other taxes	41,094	41,375
Other creditors	211,510	3
Accruals and deferred income	2,311	-
	£ 623,493	£ 507,977

Payments received on account related to amounts advanced by the factors against unapproved debts, for which the company retained the risk of bad debts - the company no longer factors its debts. From April 2000 alternative financing has been arranged and this is included in other creditors.

17. CREDITORS:

Amounts falling due after more than one year

Group	2000 £	1999 £
Bank loans and overdrafts	34,286	51,458
	£ 34,286	£ 51,458

Group	2000 £	1999 £
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	17,143	34,315

Company	2000 £	1999 £
Bank loans and overdrafts	34,286	51,458
	£ 34,286	£ 51,458

Company	£	£
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	17,143	34,315

The bank loan and overdraft which total £76,570 (1999 - £173,759) 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 £51,428. The loan is repayable by monthly instalments of £1,428 plus interest is charged quarterly at 3% above HSBC Bank base rate.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2000

18. CALLED UP SHARE CAPITAL

	2000 £	1999 £
Authorised		
900,000 ordinary shares of £1 each	900,000	900,000
100,000 preference shares shares of £1 each	100,000	100,000
	£ 1,000,000	£ 1,000,000
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	50,000	50,000
50,000 preference shares shares of £1 each	50,000	50,000
	£ 100,000	£ 100,000

The preference shares carry a right to a fixed dividend of 12% per annum, payable six monthly.

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 share 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.

19. RESERVES

	Group £	Company £
Other reserves		
Deposit for shares	11,420	-
At 31 July 2000	£ 11,420	£ -

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group	2000 £	1999 £
Profit for the year	36,881	48,089
Dividends	(6,000)	(13,500)
	30,881	34,589
Other recognised gains and losses during year	11,420	(22,486)
	42,301	12,103
Opening shareholders' funds	163,531	151,428
Closing shareholders' funds	£ 205,832	£ 163,531

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2000

Analysis of shareholders' funds

	2000 £	1999 £
Non-equity interests	50,000	50,000
Equity interests	155,832	113,531
	£ 205,832	£ 163,531

Company	2000 £	1999 £
Profit for the year	51,277	55,171
Dividends	(6,000)	(13,500)
	45,277	41,671
Other recognised gains and losses during year	11,420	(22,486)
	56,697	19,185
Opening shareholders' funds	179,737	160,552
Closing shareholders' funds	£ 236,434	£ 179,737

Analysis of shareholders' funds

	2000 £	1999 £
Non-equity interests	50,000	50,000
Equity interests	186,434	129,737
	£ 236,434	£ 179,737

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

	2000 £	1999 £
Returns on investments and servicing of finance		
Interest received	573	637
Interest paid	(48,492)	(49,038)
Preference dividends paid	(6,000)	(6,000)
Net cash outflow for returns on investments and servicing of finance	£ (53,919)	£ (54,401)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2000

Capital expenditure and financial investment		
Purchase of intangible fixed assets	(18,827)	-
Purchase of tangible fixed assets	(28,551)	*(23,010)*
Sale of intangible fixed assets	25,000	-
Repayment of capital reserves to directors	-	*(22,486)*
Deposit for shares	11,420	-
Net cash outflow for capital expenditure	£ (10,958)	£ *(45,496)*
Financing		
Repayment of loans	(17,172)	*(17,143)*
Decrease in debt	(17,172)	*(17,143)*
Net cash outflow from financing	£ (17,172)	£ *(17,143)*

22. ANALYSIS OF NET DEBT

	At 1 Aug 1999	Cash flow	Other changes	At 31 Jul 2000
	£	£	£	£
Net cash:				
Cash at bank and in hand	24,718	(6,687)		18,031
Bank overdrafts	(122,301)	80,017		(42,284)
	(97,583)	73,330		(24,253)
Debt:				
Debt due after 1 year	(51,458)	17,172	-	(34,286)
	(51,458)	17,172	-	(34,286)
Net debt	£ (149,041)	£ 90,502	£ -	£ (58,539)

23. CONTINGENT LIABILITIES

The debtors figure due over one year of £42,120 (1999 - £67,472) owed by associated company Sapphire Software Limited, the company has been meeting the repayment schedule agreed, the directors anticipate that the whole amount will be repaid in time.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2000

24. OTHER COMMITMENTS

At 31 July 2000 there were annual commitments under non-cancelable operating leases as follows:

	Land and buildings		**Equipment**	
	2000	*1999*	**2000**	*1999*
	£	*£*	**£**	*£*
<u>**Group**</u>				
Expiry date:				
Within 1 year	**-**	*-*	**4,770**	*-*
Between 2 and 5 years	**18,000**	*15,000*	**780**	*11,574*
<u>**Company**</u>				
Expiry date:				
Within 1 year	**-**	*-*	**4,770**	*-*
Between 2 and 5 years	**18,000**	*15,000*	**780**	*11,574*

25. RELATED PARTIES

The group traded on normal commercial terms with Sapphire Software Limited, turnover included £642,137 and sales ledger balances £144,185, extended credit terms loan £66,120 and purchases included £27,025. Sapphire Software Limited is under the common control of the directors and shareholders of the group. Other related party information is contained in the note on debtors due over one year regarding the loan to Sapphire Software Limited.