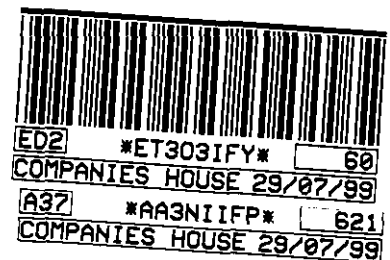


REGISTERED NUMBER: 2138358 (England and Wales)

DANMERE LIMITED GROUP
REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1998



DANMERE LIMITED GROUP

**CONTENTS OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1998**

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DANMERE LIMITED GROUP

**COMPANY INFORMATION
FOR THE YEAR ENDED 30 SEPTEMBER 1998**

DIRECTORS:

K Austin
Mrs J A Austin
B Androlia

SECRETARY:

Mrs J A Austin

REGISTERED OFFICE:

Darland House
44 Winnington Hill
Northwich
Cheshire
CW8 1AU

REGISTERED NUMBER:

2138358 (England and Wales)

AUDITORS:

Murray Smith
Chartered Accountants
Registered Auditors
Darland House
44 Winnington Hill
Northwich
Cheshire CW8 1AU

DANMERE LIMITED GROUP

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 SEPTEMBER 1998

The directors present their report with the financial statements of the company and the group for the year ended 30 September 1998.

PRINCIPAL ACTIVITY

The principal activity of the group is the provision of technical consultancy services and the supply and marketing of computer peripherals.

DIRECTORS

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

	Ordinary shares	
	30 September 1998	1 October 1997
K Austin	156,016	156,016
Mrs J A Austin	39,004	39,004
B Androlia (appointed 30 October 1997)	-	* -

* At date of appointment

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 the group and of the profit or loss of the 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;
- 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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

TAXATION STATUS

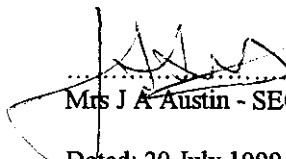
The directors are advised that the group companies are 'close companies' under the provisions of the Income and Corporation Taxes Act 1988.

AUDITORS

Messrs Murray Smith have expressed their willingness to continue in office as auditors and a resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.

The above report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

ON BEHALF OF THE BOARD:


Mrs J A Austin - SECRETARY

Dated: 20 July 1999

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF DANMERE LIMITED GROUP

We have audited the financial statements on pages four to thirteen which have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective March 1999), under the historical cost convention and the accounting policies set out on page seven.

Respective responsibilities of directors and auditors

As described on page two 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 financial statements and to report our opinion to you.

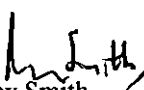
Basis of opinion

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 and the group's affairs as at 30 September 1998 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Murray Smith
Chartered Accountants
Registered Auditors
Darland House
44 Winnington Hill
Northwich
Cheshire CW8 1AU

Dated: 23 July 1999

DANMERE LIMITED GROUP

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 1998**

	Note	1998 £	1997 £
TURNOVER	2	215,731	318,741
<i>Cost of sales</i>		<u>251,821</u>	<u>191,732</u>
GROSS (LOSS)/PROFIT		(36,090)	127,009
<i>Administrative expenses</i>		<u>812,256</u>	<u>367,000</u>
OPERATING LOSS	3	(848,346)	(239,991)
<i>Interest receivable and similar income</i>		<u>10,865</u>	<u>4,229</u>
		(837,481)	235,762
<i>Interest payable and similar charges</i>		<u>2,649</u>	<u>6,019</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(840,130)	(241,781)
<i>Tax on loss on ordinary activities</i>	4	<u>14,477</u>	<u>1,403</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(854,607)	(243,184)
<i>Dividends</i>	5	<u>56,181</u>	<u>15,000</u>
RETAINED LOSS TRANSFERRED FROM RESERVES	15	<u>(910,788)</u>	<u>(258,184)</u>

The notes form part of these financial statements

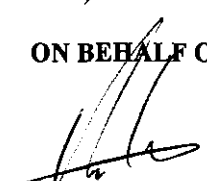
DANMERE LIMITED GROUP

**CONSOLIDATED BALANCE SHEET AS AT
30 SEPTEMBER 1998**

	Note	1998	1997
		£	£
FIXED ASSETS			
Tangible assets	7	77,245	63,075
Investments	8	<u>6,407</u>	<u>6,000</u>
		83,652	69,075
CURRENT ASSETS			
Stocks		101,230	82,736
Debtors	9	74,240	154,006
Cash at bank and in hand		<u>95,774</u>	<u>398,247</u>
		271,244	634,989
CREDITORS: Amounts falling due within one year	10	<u>267,119</u>	<u>261,680</u>
NET CURRENT ASSETS		<u>4,125</u>	<u>373,309</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>87,777</u>	<u>442,384</u>
CAPITAL AND RESERVES			
Called up share capital	13	354,982	300,031
Share premium account	14	940,038	494,989
Profit and loss account	15	(1,207,243)	(352,636)
Shareholders' funds		<u>87,777</u>	<u>442,384</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and the Financial Reporting Standard for Smaller Entities (effective March 1999).

ON BEHALF OF THE BOARD:


.....
K Austin - DIRECTOR


.....
Mrs J A Austin - Director

Approved by the Board on 20 July 1999

The notes form part of these financial statements


DANMERE LIMITED GROUP

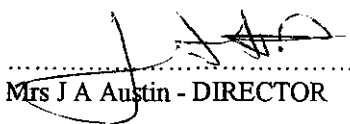
**DANMERE LIMITED BALANCE SHEET
AS AT 30 SEPTEMBER 1998**

	Note	1998	1997
		£	£
FIXED ASSETS			
Tangible assets	7	77,245	63,075
Investments	8	<u>6,409</u>	<u>6,002</u>
		83,654	69,077
CURRENT ASSETS			
Stocks		101,230	82,736
Debtors	9	397,251	738,537
Cash at bank and in hand		<u>95,774</u>	<u>398,247</u>
		594,255	1,219,520
CREDITORS: Amounts falling due within one year	10	<u>589,380</u>	<u>503,092</u>
NET CURRENT ASSETS		<u>4,875</u>	<u>716,428</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>88,529</u>	<u>785,505</u>
CAPITAL AND RESERVES			
Called up share capital	13	354,982	300,031
Share premium account	14	940,038	494,989
Profit and loss account	15	(1,206,491)	(9,515)
Shareholders' funds		<u>88,529</u>	<u>785,505</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and the Financial Reporting Standard for Smaller Entities (effective March 1999).

ON BEHALF OF THE BOARD:


K Austin - DIRECTOR


Mrs J A Austin - DIRECTOR

Approved by the Board on 20 July 1999

The notes form part of these financial statements

DANMERE LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 1998

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective March 1999).

Basis of consolidation

The consolidated financial statements include the company and all its significant subsidiary undertakings, after eliminating intra-group balances and transactions.

Turnover

Turnover represents net invoiced work done and goods sold, excluding Value Added Tax.

Depreciation

Depreciation is provided for at the following annual rates in order to write off the cost of each asset over its estimated useful life or, if held under a finance lease, over the lease term, whichever is shorter.

Computer equipment	25%	straight line
Plant and equipment	25%	straight line
Motor vehicles	25%	reducing balance

A proportion only of the annual figure is charged during the period of acquisition, the proportion being calculated on the number of months of ownership.

Investments

Investments are valued at the lower of cost and market value.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Hire purchase commitments

Tangible fixed assets acquired under hire purchase contracts are capitalised and depreciated over their estimated useful lives. The corresponding obligations are treated in the balance sheet as liabilities. Finance charges are allocated to accounting periods on a straight line basis over the term of the contracts.

Operating leases

Rentals applicable to operating leases where substantially all the benefits and risks of ownership remain with the lessor are charged to the profit and loss account on a straight line basis.

Deferred taxation

Provision is made at current rates for taxation deferred in respect of all material timing differences except to the extent that, in the opinion of the directors, there is reasonable probability that the liability will not arise in the foreseeable future.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

DANMERE LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 1998

2. TURNOVER

During the year 20% (1997 - 36%) of total turnover related to exports.

1998	1997
£	£

3. OPERATING LOSS

The operating loss is stated after charging:

Depreciation of tangible fixed assets		
- Owned by the company	20,281	10,798
- Held under hire purchase contracts	2,143	8,572
Provision for write down of investment in Danmere USA Inc	60,983	-
Provision for write down of loan to Danmere USA Inc	29,021	-
Directors' emoluments and other benefits, etc.	112,104	29,976
Auditors' remuneration	<u>2,250</u>	<u>1,950</u>

4. TAXATION

The tax charge on the loss on ordinary activities for the year is as follows:-

Surplus ACT written off	14,477	-
Underprovision in previous years	<u>-</u>	<u>1,403</u>
	<u>14,477</u>	<u>1,403</u>

5. DIVIDENDS

Ordinary shares of £1 each	-	15,000
'A' Ordinary shares of £1 each	43,282	-
Preference shares of £0.001	<u>12,899</u>	<u>-</u>
	<u>56,181</u>	<u>15,000</u>

The Preference shares and the 'A' Ordinary shares carry the right to a fixed dividend at the rates of 11% and 6% respectively per annum on the issue price and these have been appropriated through the profit and loss account. However, the liability to pay dividends only accrues from 30 September 1999 and the company does not at present have sufficient distributable reserves to pay these dividends. Therefore the dividends have been credited back to the profit and loss account as shown in note 15.

6. LOSS ATTRIBUTABLE TO THE PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the parent undertaking's profit and loss account is not included in these financial statements. Its loss for the year was £1,253,157 (1997 - £18,025) after deducting dividends of £56,181 (1997 - £15,000).

DANMERE LIMITED GROUP

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1998**

7. TANGIBLE FIXED ASSETS

THE GROUP AND THE COMPANY

	Computer equipment £	Plant and equipment £	Motor vehicles £	Total £
COST				
At 1 October 1997	28,743	26,099	69,059	123,901
Additions	<u>31,892</u>	<u>4,702</u>	<u>-</u>	<u>36,594</u>
At 30 September 1998	<u>60,635</u>	<u>30,801</u>	<u>69,059</u>	<u>160,495</u>
DEPRECIATION				
At 1 October 1997	8,856	8,625	43,345	60,826
Charge for the year	<u>9,982</u>	<u>6,013</u>	<u>6,429</u>	<u>22,424</u>
At 30 September 1998	<u>18,838</u>	<u>14,638</u>	<u>49,774</u>	<u>83,250</u>
NET BOOK VALUE				
At 30 September 1998	<u>41,797</u>	<u>16,163</u>	<u>19,285</u>	<u>77,245</u>
At 30 September 1997	<u>19,887</u>	<u>17,474</u>	<u>25,714</u>	<u>63,075</u>

The net book value of tangible fixed assets includes £Nil (1997 - £25,714) in respect of assets held under hire purchase contracts or finance leases.

DANMERE LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 1998

8. FIXED ASSET INVESTMENTS

	Shares in subsidiary undertakings £	Other investments £	Total £
THE GROUP			
Cost and net book value at 1 October 1997	-	6,000	6,000
Additions at cost	60,983	407	61,390
Provision for write down	(60,983)	-	(60,983)
Net book value at 30 September 1998	-	<u>6,407</u>	<u>6,407</u>
THE COMPANY			
Cost and net book value at 1 October 1997	2	6,000	6,002
Additions at cost	60,983	407	61,390
Provision for write down	(60,983)	-	(60,983)
Net book value at 30 September 1998	<u>2</u>	<u>6,407</u>	<u>6,409</u>

The company is the beneficial owner of all the issued ordinary share capital of the following company, which is registered in England and Wales:

Name of company	Nature of business
Danmere Technologies Limited	Marketing of computer peripherals

During the year the company also became the beneficial owner of all the issued share capital of Danmere USA Inc, a company registered in the United States of America. This company traded for a short time only, no financial statements have been prepared and the results are not included in the group financial statements. The principal activity of this company is the marketing of computer peripherals.

Other investments relate to shares held in Systolix Limited and are valued at cost.

Investments are all unlisted.

	THE GROUP		THE COMPANY	
	1998 £	1997 £	1998 £	1997 £
9. DEBTORS				
Trade debtors	44,379	86,649	367,390	614,421
Amounts owed by group undertakings				
- Danmere Technologies Limited	-	-	-	56,759
Taxation	-	4,474	-	4,474
ACT recoverable	-	14,477	-	14,477
Other debtors	27,507	28,018	27,507	28,018
Prepayments	<u>2,354</u>	<u>20,388</u>	<u>2,354</u>	<u>20,388</u>
	<u>74,240</u>	<u>154,006</u>	<u>397,251</u>	<u>738,537</u>

Factored debts due to the company and the group at 30 September 1998 amounted to £66,106 (1997 - £62,380).

In preparing the company's financial statements full provision has been made against amounts totalling £341,977 (net) due from its subsidiary undertaking, Danmere Technologies Limited.

DANMERE LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 1998

	THE GROUP		THE COMPANY	
	1998	1997	1998	1997
	£	£	£	£
10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR				
Net obligations under hire purchase contracts (secured)	-	3,967	-	3,967
Trade creditors	146,657	171,002	146,657	171,002
ACT payable	-	5,500	-	5,500
Social security and other taxes	20,563	13,145	20,563	13,145
Directors' loan accounts	1,081	2,102	1,081	2,102
Other creditors	70,026	45,247	70,026	45,247
Accruals	<u>28,792</u>	<u>20,717</u>	<u>351,053</u>	<u>262,129</u>
	<u>267,119</u>	<u>261,680</u>	<u>589,380</u>	<u>503,092</u>

11. OPERATING LEASE COMMITMENTS

The following payments are committed to be paid within one year:

Expiring:				
Between one and five years	<u>3,566</u>	<u>-</u>	<u>3,566</u>	<u>-</u>

12. PROVISIONS FOR LIABILITIES AND CHARGES

The amounts for which no provision has been made in respect of deferred taxation, are as follows:

	1998	1997
	£	£
THE GROUP		
Accelerated capital allowances	(1,567)	(3,288)
Losses carried forward	<u>(292,998)</u>	<u>(53,153)</u>
	<u>(294,565)</u>	<u>(56,441)</u>
THE COMPANY		
Accelerated capital allowances	(1,567)	(3,288)
Losses carried forward	<u>(239,928)</u>	<u>-</u>
	<u>(241,495)</u>	<u>(3,288)</u>

DANMERE LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 1998

	1998 £	1997 £
13. CALLED UP SHARE CAPITAL		
Authorised:		
Ordinary shares of £1 each	840,038	894,989
'A' Ordinary shares of £1 each	159,562	105,011
Preference shares of £0.001 each	<u>400</u>	<u>-</u>
	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, issued and fully paid:		
Ordinary shares of £1 each	195,020	195,020
'A' Ordinary shares of £1 each	159,562	105,011
Preference shares of £0.001 each	<u>400</u>	<u>-</u>
	<u>354,982</u>	<u>300,031</u>

During the year 54,551 'A' Ordinary shares of £1 each were issued at £1.83 each and 400,000 Preference shares of £0.001 each were issued at £1 each. Each issue was fully paid in cash.

	1998 £	1997 £
14. SHARE PREMIUM ACCOUNT		
THE GROUP AND THE COMPANY		
At 1 October	494,989	-
Arising on the issue of:		
'A' Ordinary shares	45,449	494,989
Preference shares	<u>399,600</u>	<u>-</u>
At 30 September	<u>940,038</u>	<u>494,989</u>

15. PROFIT AND LOSS ACCOUNT

THE GROUP

Retained loss for the year	(910,788)	(258,184)
Share appropriations (note 5)	56,181	-
Accumulated loss at 1 October	<u>(352,636)</u>	<u>(94,452)</u>
Accumulated loss at 30 September	<u>(1,207,243)</u>	<u>(352,636)</u>

THE COMPANY

Retained loss for the year	(1,253,157)	(18,025)
Share appropriations (note 5)	56,181	-
(Accumulated loss)/retained profit at 1 October	<u>(9,515)</u>	<u>8,510</u>
Accumulated loss at 30 September	<u>(1,206,491)</u>	<u>(9,515)</u>

DANMERE LIMITED GROUP

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1998**

16. RELATED PARTY TRANSACTIONS

The company is controlled by the directors, K Austin and Mrs J A Austin.

3i Group plc have a significant equity and non-equity interest in the company and during the year this company provided monitoring services amounting to £6,929. No amounts were owing at the year end.