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**CHELFORD**  
GROUP PLC

**ANNUAL REPORT**

**2000**

**Board of Directors**

Adrian de Ferranti (Chairman)  
Trevor Lewis (Chief Executive)  
William Birkett  
Stephen Lord  
Neil Pearce

**Secretary**

John Quibell

**Registered Office**

SSI House  
Hampshire International Business Park  
Crockford Lane  
Basingstoke  
Hampshire  
RG24 8WH

Telephone: 01256 685400  
Fax: 01256 685201

Web Site: [www.chelfordgroup.com](http://www.chelfordgroup.com)

**Registrars**

Northern Registrars Limited  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
HD8 0LA

Telephone: 01484 600900

**Chelford Group Plc**

Directors' report and consolidated  
financial statements

Registered number 3920198

31 December 2000

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## Chairman's Statement

The Group was floated on AIM in February 2000. In accordance with its stated objective, of establishing a software operation targeted at improving business efficiency in key vertical sectors, in August 2000 the company purchased SSI Holdings Limited and its wholly owned subsidiary, Strategic Systems International Limited (SSI), an independent systems solutions company. The annualised turnover of SSI for 2000 was £7,301,000.

Since its formation, SSI has specialised in providing software and services to enable businesses to run more efficiently. SSI has focused on the process industries where its TROPOS manufacturing and logistics product has established a strong reputation. Through its own and partner products, SSI provides Supply Chain and Collaborative Commerce solutions. SSI is a leading e-commerce provider and a technology and applications business partner of ORACLE Corporation, the largest database vendor in the world.

In addition to its software products, SSI's core competencies include project management, consultancy, systems integration and hosting which, coupled with its substantive customer base, positions Chelford as a complete 'one stop shop' for business solutions.

The group results for the period to 31 December 2000 show a loss of £7.786m, principally due to exceptional costs. As a result of difficult trading conditions throughout the period, the Directors considered it prudent to write down by £5,580,000 the goodwill arising from the acquisition of SSI Holdings Limited, in addition to the ongoing amortisation charge of £420,000. A further £500,000 of goodwill was also written off in respect of the acquisition of Chelford Investors Limited.

During the year, a number of key partnerships were formed to broaden the group's product and service offerings within its target markets. Investments were made in establishing the foundations for a business offering products and services directly relevant to solutions being sought by companies facing the challenges of the new Millennium. A number of key accounts were signed in the last quarter of the year, confirming the company's strategy in its target markets.

I would like to express my gratitude for the help and guidance of Michael Edelson, the company's founder, for establishing Chelford and beginning the strategy for the new business. Michael resigned from the Board on 21 February 2001.

I am delighted to welcome to the Board Neil Pearce, whose considerable knowledge and experience in the software industry will be invaluable to the development of the Group.

Finally, I would like to thank all our staff and customers, whose vision, commitment and loyalty have contributed towards achieving our objectives.

For further information, see the Chelford Group plc web site:

[www.chelfordgroup.com](http://www.chelfordgroup.com)

Adrian de Ferranti  
**Chairman**

## Directors' report

The directors present their report and the audited financial statements for the period from incorporation on 1 February 2000 to 31 December 2000.

### Principal activities

The principal activity of the group comprises the provision of Supply Chain Solutions and Collaborative Commerce support including Hosted services.

### Business review

The company was incorporated on 1 February 2000.

On 3 March 2000, the company purchased the entire issued ordinary share capital of Chelford Partners Limited.

On 10 March 2000, the company purchased the entire issued ordinary share capital of Chelford Investors Limited.

On 21 August 2000 the company purchased the entire issued ordinary share capital of SSI Holdings Limited.

The loss on ordinary activities before taxation for the financial period amounted to £7,786,000. The retained loss for the period of £7,786,000 has been deducted from reserves. This included an exceptional item of £5,580,000, being an impairment provision against the carrying value of goodwill arising from the acquisition of SSI Holdings Limited, and a write off of £500,000 of goodwill in respect of the acquisition of Chelford Investors Limited.

As a result of difficult trading conditions throughout the period, the directors have considered it prudent to write down the carrying value of goodwill arising from the acquisition of SSI Holdings Limited by £5,580,000 and to write down the carrying value of the investment in SSI Holdings in the company's balance sheet by £7,145,000.

### European monetary union

All the company's products and internal systems can accommodate transactions in Euros.

### Proposed dividend

The directors do not recommend the payment of a dividend.

### Directors and directors' interests

The directors who held office during the period were as follows:

J M Edelson	(appointed 1 February 2000, resigned 21 February 2001)
A J Leon	(appointed 1 February 2000, resigned 3 March 2000)
R Holt	(appointed 3 March 2000, resigned 21 August 2000)
S R Lord	(appointed 21 August 2000)
A S Z de Ferranti	(appointed 21 August 2000)
J W Birkett	(appointed 21 August 2000)
TC Lewis	(appointed 21 August 2000)
W H N Pearce	(appointed 6 November 2000)

## Directors' report *(continued)*

The directors who held office at the end of the financial period had the following interests in the ordinary shares of the company according to the Register of Directors' Interests:

	31 December 2000	Ordinary shares of 1p On incorporation
AS Z de Ferranti	<b>162,578,666</b>	-
TC Lewis	<b>73,837,568</b>	-
SR Lord	<b>73,837,568</b>	-
JW Birkett	<b>54,192,899</b>	-
JM Edelson	<b>10,500,000</b>	-
WHN Pearce	<b>350,000</b>	-

### Suppliers payment policy

It is the company's policy for the period ended 31 December 2000 to negotiate payment terms with its suppliers in all sectors and to ensure they know the terms at which payment will take place when the business was agreed.

### Auditors

Howarth Clarke Whitehill were appointed as the first auditors of the company. Following their resignation KPMG Audit Plc were appointed.

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

**AS Z de Ferranti**

*Director*

SSI House  
Hampshire International Business Park  
Crockford Lane  
Basingstoke  
Hampshire  
RG24 8WH

## **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 group profit or loss 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 group 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

## **KPMG Audit Plc**

Norfolk House  
Silbury Boulevard  
Central Milton Keynes  
MK9 2HA

### **Report of the auditors to the members of Chelford Group plc**

We have audited the financial statements on pages 6 to 23.

#### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

#### **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 the group as at 31 December 2000 and of the loss of the group for the eleven month period then ended and have been properly prepared in accordance with the Companies Act 1985.

#### **KPMG Audit Plc**

*Chartered Accountants*  
*Registered Auditors*

**Consolidated profit and loss account**  
*for the eleven month period 1 February 2000 to 31 December 2000*

	<i>Note</i>	<b>Continuing operations</b> £000	<b>Acquisitions</b> £000	<b>1 February 2000 to 31 December 2000</b> £000
<b>Turnover</b>	2	-	2,420	2,420
Cost of sales		-	(2,022)	(2,022)
		<hr/>	<hr/>	<hr/>
<b>Gross profit</b>		-	398	398
Administrative expenses - Normal		(1,084)	(1,593)	(2,677)
- Exceptional	4	(5,580)	-	(5,580)
		<hr/>	<hr/>	<hr/>
<b>Operating loss</b>		(6,664)	(1,195)	(7,859)
		<hr/>	<hr/>	<hr/>
Interest receivable and similar income	7			87
Interest payable	8			(14)
				<hr/>
<b>Loss on ordinary activities before taxation</b>	3-6			(7,786)
Tax on loss on ordinary activities	9			-
				<hr/>
<b>Retained loss for the financial period</b>				(7,786)
				<hr/> <hr/>
<b>Basic and Fully Diluted Earnings per share</b>	10			(2.53p)
				<hr/> <hr/>

A statement of movements on reserves is given in note 19.

The notes on pages 11 to 23 form part of these financial statements.

There are no recognised gains or losses other than as stated above.

**Consolidated balance sheet**  
*at 31 December 2000*

	<i>Note</i>	<b>31 December</b>	
		<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>			
Intangible assets	<i>11</i>		<b>6,606</b>
Tangible assets	<i>12</i>		<b>663</b>
			<hr style="width: 100%;"/>
			<b>7,269</b>
<b>Current assets</b>			
Debtors	<i>14</i>	<b>2,799</b>	
Cash at bank and in hand		<b>4,707</b>	
		<hr style="width: 100%;"/>	
		<b>7,506</b>	
<b>Creditors:</b> amounts falling due within one year	<i>15</i>	<b>(5,100)</b>	
		<hr style="width: 100%;"/>	
<b>Net current assets</b>			<b>2,406</b>
			<hr style="width: 100%;"/>
<b>Total assets less current liabilities</b>			<b>9,675</b>
<b>Creditors:</b> amounts falling due after more than one year	<i>16</i>		<b>(92)</b>
			<hr style="width: 100%;"/>
<b>Net assets</b>			<b>9,583</b>
			<hr style="width: 100%;"/>
<b>Capital and reserves</b>			
Called up share capital	<i>18</i>		<b>6,487</b>
Share premium			<b>10,882</b>
Profit and loss account	<i>19</i>		<b>(7,786)</b>
			<hr style="width: 100%;"/>
<b>Shareholders' funds - equity</b>			<b>9,583</b>
			<hr style="width: 100%;"/>

The notes on pages 11 to 23 form part of these financial statements.

These financial statements were approved by the board of directors on 29 March 2001 and were signed on its behalf by:

**TC Lewis**  
*Director*

**Company balance sheet**  
*at 31 December 2000*

	<i>Note</i>	<b>31 December 2000</b>	
		<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>			
Investments	<i>13</i>		5,212
<b>Current assets</b>			
Debtors	<i>14</i>	59	
Cash at bank and in hand		4,575	
		<hr style="width: 100%;"/>	
		4,634	
<b>Creditors:</b> amounts falling due within one year	<i>15</i>	(266)	
		<hr style="width: 100%;"/>	
<b>Net current assets</b>			4,368
			<hr style="width: 100%;"/>
<b>Net assets</b>			9,580
			<hr style="width: 100%;"/>
<b>Capital and reserves</b>			
Called up share capital	<i>18</i>		6,487
Share premium			10,882
Profit and loss account	<i>19</i>		(7,789)
			<hr style="width: 100%;"/>
<b>Shareholders' funds - equity</b>			9,580
			<hr style="width: 100%;"/>

The notes on pages 11 to 23 form part of these financial statements.

These financial statements were approved by the board of directors on 29 March 2001 and were signed on its behalf by:

**TC Lewis**  
*Director*

## Consolidated cash flow statement

for the eleven month period 1 February 2000 to 31 December 2000

### Cash flow statement

	<i>Note</i>	<b>31 December 2000</b>	
		<b>£000</b>	<b>£000</b>
<b>Net cash outflow from operating activities</b>	23		(649)
<b>Returns on investments and servicing of finance</b>			
Interest received		87	
Interest element of finance lease contracts		(6)	
Other interest paid		(8)	
		73	
Net cash inflow from returns on investments and servicing of finance			73
<b>Capital expenditure</b>			
Purchase of fixed assets			(59)
<b>Acquisitions</b>	25		
Purchase of subsidiary undertaking		(12,857)	
Net overdraft acquired with subsidiary		(1,143)	
		(14,000)	
Net cash outflow for acquisitions			(14,000)
Net cash outflow before financing			(14,635)
<b>Financing</b>			
Issue of ordinary share capital		17,790	
Share issue costs		(421)	
Capital element of finance lease rental payments		(32)	
		17,337	
Net cash inflow from financing			17,337
<b>Increase in cash and cash equivalents</b>	24		2,702
<b>Reconciliation of net cash flow to movement in net debt</b>			
<b>Increase in cash in the period</b>			2,702
Cash outflow from decrease in debt and lease financing			32
			2,734
Change in net debt resulting from cash flows			2,734
Finance leases acquired with subsidiary			(225)
			2,509
<b>Movement in net funds in the period</b>			2,509
<b>Net funds at beginning of period</b>			-
			2,509
<b>Net funds at end of period</b>			2,509

**Reconciliation of movements in shareholders' funds**  
*for the eleven month period 1 February 2000 to 31 December 2000*

	<b>31 December 2000</b>	
	<b>Group</b>	<b>Company</b>
	<b>£000</b>	<b>£000</b>
Loss for the financial period	<b>(7,786)</b>	<b>(7,789)</b>
New share capital subscribed	<b>17,790</b>	<b>17,790</b>
Share issue costs	<b>(421)</b>	<b>(421)</b>
	<hr/>	<hr/>
Net addition to shareholders' funds	<b>9,583</b>	<b>9,580</b>
Opening shareholders' funds	<b>-</b>	<b>-</b>
	<hr/>	<hr/>
Closing shareholders' funds	<b>9,583</b>	<b>9,580</b>
	<hr/> <hr/>	<hr/> <hr/>

## Notes

(forming part of the financial statements)

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

#### *Basis of preparation*

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

#### *Basis of consolidation*

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2000. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

In the company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

#### *Fixed assets and depreciation*

Depreciation is provided to write off cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer equipment	-	4 - 6 years
Plant and machinery	-	3 - 6 years
Motor vehicles	-	4 years
Leasehold improvements	-	15 years
Office furniture	-	5 years

#### *Goodwill on acquisition*

Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised on acquisition and amortised to nil in equal instalments over its estimated economic life. Positive goodwill is amortised to nil by equal instalments over its estimated useful life.

#### *Leases*

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease. Finance leased assets are depreciated over the shorter of the lease term and the rate applicable to the type of asset.

#### *Research and development expenditure*

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

## Notes (continued)

### 1 Accounting policies (continued)

#### *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

#### *Post retirement benefits*

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period. In previous periods a defined benefit scheme had been in place in the subsidiary company.

#### *Taxation*

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

#### *Turnover*

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers.

### 2 Turnover

The turnover of the group for the period has been achieved from its principal activity.

The geographical analysis of turnover is as follows:

	<b>1 February 2000 to 31 December 2000 £000</b>
United Kingdom	2,351
Europe	56
Rest of the World	13
	<hr/>
	<b>2,420</b>
	<hr/> <hr/>

**Notes** *(continued)*

**3 Loss on ordinary activities before taxation**

	1 February 2000 to 31 December 2000 £000
<i>Loss on ordinary activities before taxation is stated after charging</i>	
Auditors' remuneration:	
Group:	
- Audit	21
- Other services	3
Company - Audit	6
Depreciation and other amounts written off tangible fixed assets:	
Owned	42
Leased	14
Amortisation of goodwill	420
Write off of goodwill	500
Hire of plant and machinery - rentals payable under operating leases	174
Hire of other assets - operating leases	92
Research and development	407
	407

**4 Exceptional items**

	1 February 2000 to 31 December 2000 £000
Impairment of goodwill	5,580
	5,580

**5 Remuneration of directors**

	1 February 2000 to 31 December 2000 £000
Directors' remuneration	35
Directors' fees	85
Group contributions to money purchase pension schemes	10
	130

Retirement benefits are accruing to the following number of directors under:

	Number of Directors
Money purchase schemes	2
	2

**Notes** *(continued)*

**6 Staff numbers and costs**

The average number of persons employed by the group (including directors) during the period was 2 up until 21 August 2000, and 121 thereafter.

The aggregate payroll costs of these persons were as follows:

	1 February 2000 to 31 December 2000 £000
Wages and salaries	1,538
Social security costs	160
Other pension costs	61
	1,759
	1,759

**7 Interest receivable and similar charges**

	1 February 2000 to 31 December 2000 £000
Bank interest	87
	87
	87

**8 Interest payable and similar charges**

	1 February 2000 to 31 December 2000 £000
Finance charges payable in respect of finance leases and hire purchase contracts	6
Other interest	8
	14
	14

**Notes** (continued)

**9 Taxation**

	1 February 2000 to 31 December 2000 £000
<b>Group:</b>	
UK Corporation tax at 30%	-
	-----
	-
	=====

The estimated tax losses carried forward of the group is £1,527,000.

**10 Earnings per share**

	1 February 2000 to 31 December 2000
Earnings per share is calculated on the weighted average number of shares in issue during the period	308,148,259
	=====
Loss on ordinary activities after taxation	£7,786,000
	-----
Basic and fully diluted earnings per share	(2.53p)
	=====

**11 Intangible fixed assets**

	Goodwill £000
<b>Group</b>	
<b>Cost</b>	
Acquisitions in period	175
Additions in period <span style="float: right;"><i>Note 17</i></span>	12,931
	-----
At end of period	13,106
	=====
<b>Amortisation</b>	
Charge for the period	420
Write off	500
Impairment provision	5,580
	-----
At end of period	6,500
	=====
<b>Net book value</b>	
<b>At 31 December 2000</b>	<b>6,606</b>
	=====

The directors consider the useful economic life of the goodwill to be 10 years. The reason for selecting this period is to recognise the period over which the company will benefit from the assets acquired.

**Notes** (continued)

**12 Tangible fixed assets**

	<b>Leasehold improvements £000</b>	<b>Office furniture £000</b>	<b>Plant and equipment £000</b>	<b>Total £000</b>
<b>Group</b>				
<i>Cost</i>				
Acquired	434	143	671	1,248
Additions	-	2	57	59
	<hr/>	<hr/>	<hr/>	<hr/>
At end of period	434	145	728	1,307
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Depreciation</i>				
Acquired	26	25	537	588
Charge for period	9	10	37	56
	<hr/>	<hr/>	<hr/>	<hr/>
At end of period	35	35	574	644
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Net book value</b>				
<b>At 31 December 2000</b>	<b>399</b>	<b>110</b>	<b>154</b>	<b>663</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Included in the total net book value of Leasehold improvements is £117,000 in respect of assets held under finance leases and similar hire purchase contracts.

Included in the total net book value of Office furniture is £99,000 in respect of assets held under finance leases and similar hire purchase contracts.

Included in the total net book value of Plant and equipment is £28,000 in respect of assets held under finance leases and similar hire purchase contracts.

**Notes** (continued)

**13 Fixed asset investments**

	<b>Shares in subsidiary undertaking £000</b>
<i>Company</i>	
<i>Cost</i>	
Additions in period	12,600
Additional costs paid	257
	-----
At end of period	12,857
	-----
Impairment provision	7,645
	-----
<i>Net book value</i>	
<b>At 31 December 2000</b>	<b>5,212</b>
	-----

The company's wholly owned subsidiaries are:

	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>Class and percentage of shares Company</b>
<i>Indirect subsidiaries undertaking</i>			
Strategic Systems International Limited	Great Britain	Business systems & support services	100% ordinary shares
<i>Subsidiaries undertakings</i>			
SSI Holdings Limited	Great Britain	Holding company	100% ordinary shares
Chelford Investors Limited	Great Britain	Investment company	100% ordinary shares
Chelford Partners Limited	Great Britain	Investment company	100% ordinary shares

**14 Debtors**

	<b>31 December 2000</b>	
	<b>Group £000</b>	<b>Company £000</b>
Trade debtors	2,048	-
Other debtors	440	13
Prepayments and accrued income	311	10
Amounts owed to group undertakings	-	36
	-----	-----
	<b>2,799</b>	<b>59</b>
	-----	-----

**Notes** *(continued)*

**15 Creditors: amounts falling due within one year**

	<b>31 December 2000</b>	
	<b>Group £000</b>	<b>Company £000</b>
Bank loans and overdrafts	2,004	-
Obligations under finance leases and hire purchase contracts	101	-
Trade creditors	521	47
Amounts owed to group undertakings	-	113
Other taxes and social security	606	-
Other creditors	44	-
Accruals and deferred income	1,824	106
	<b>5,100</b>	<b>266</b>
	<b>5,100</b>	<b>266</b>

**16 Creditors: amounts falling due after more than one year**

	<b>31 December 2000</b>	
	<b>Group £000</b>	<b>Company £000</b>
Obligations under finance leases and hire purchase contracts	92	-
	<b>92</b>	-
	<b>92</b>	-

**Obligations under finance leases and hire purchase contracts**

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	<b>31 December 2000</b>	
	<b>Group £000</b>	<b>Company £000</b>
Within one year	101	-
In second to fifth years	92	-
	<b>193</b>	-
	<b>193</b>	-

**Analysis of debt:**

	<b>31 December 2000</b>	
	<b>Group</b>	<b>Company</b>
Debt can be analysed as falling due:		
In one year or less, or on demand	2,004	-
	<b>2,004</b>	-
	<b>2,004</b>	-

**Notes** *(continued)*

**17 Acquisitions**

On 3 March 2000, the company acquired the entire 100 issued ordinary shares of £1 each of Chelford Partners Limited, a newly incorporated company, for a consideration of £100.

On 10 March 2000, the company acquired the entire issued 100,000 ordinary shares of £1 each of Chelford Investors Limited, a newly incorporated company, for a consideration of £600,000. The goodwill of £500,000 has been written off to the profit and loss account.

On 21 August 2000 the company acquired all of the issued ordinary shares of SSI Holdings Limited. The resulting goodwill of £12,431,000 was capitalised and will be written off over its expected useful life of 10 years.

The net assets and liabilities acquired from SSI Holdings Limited were:

	<b>Book value And Fair value £000</b>
<b>Fixed assets</b>	
Tangible	660
Intangible assets	175
<b>Current assets</b>	
Debtors	2,202
<b>Total assets</b>	3,037
<b>Liabilities</b>	
Bank loans and overdrafts	(1,143)
Trade creditors	(308)
Other creditors	(236)
Other taxes and social security	(377)
Accruals and deferred income	(1,147)
<b>Total liabilities</b>	(3,211)
<b>Net liabilities</b>	(174)
<b>Goodwill</b>	12,431
<b>Purchase consideration and costs of acquisition</b>	12,257

The acquired group undertaking made a loss before tax of £753,000 from the beginning of its financial year to the date of acquisition. In its previous financial nine month period the loss before tax was £235,000.

In the twelve months prior to the acquisition no provisions were made for reorganisation and restructuring costs.

**Notes** (continued)

**18 Share capital**

	31 December 2000 £000
<i>Authorised:</i>	
1,300,000,000 ordinary 1p shares	13,000
	13,000
	31 December 2000 £000
<i>Allotted, called up and fully paid:</i>	
648,666,700 ordinary 1p shares	6,487
	6,487

At the date of its incorporation, the authorised share capital of the Company was £2,000,000 divided into 200,000,000 Ordinary Shares of 1p each.

On 25 February 2000, two subscriber shares were issued at their nominal value.

On 25 February 2000, a written resolution was passed which increased the share capital of the Company from £2,000,000 to £2,050,000 by the creation of 50,000 redeemable preference shares of £1 each.

On 25 February 2000, the Company issued and allotted 50,000 Redeemable Preference Shares. The Redeemable Preference Shares were fully paid on 23 March 2000 when the Ordinary Shares in the Company were admitted to trading on AIM and thereafter immediately redeemed by the Company out of the proceeds of the placing which took place in connection with such admission, following which the Redeemable Preference Shares were automatically cancelled on 23 March 2000.

On 10 March 2000, the Company issued 59,999,998 fully paid up Ordinary Shares in consideration for the acquisition of the entire issued share capital of Chelford Investors Limited.

On 13 March 2000 the Company issued 2,000,000 Ordinary Shares at an issue price of 2p per share.

On 23 March 2000, the Company issued 45,000,000 Ordinary Shares at an issue price of 2p per share.

On 21 August 2000 the authorised share capital of the Company was increased from £2,000,000 to £13,000,000 by the creation of 1,100,000,000 new Ordinary Shares of 1p each.

On 21 August 2000 the Company made a public placing of 141,666,667 new Ordinary Shares of 1p each at an issue price of 3p per Ordinary Share.

On 21 August 2000 the company issued 400,000,000 ordinary 1p shares at an issue price of at 3p per ordinary share.

**Notes** *(continued)*

**19 Reserves**

	Group share premium £000	Group profit and loss £000	Company share premium £000	Company profit and loss £000
Retained loss for the period	-	(7,786)	-	(7,789)
Premium on new shares issued	11,303	-	11,303	-
Share issue costs	(421)	-	(421)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	10,882	(7,786)	10,882	(7,789)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**20 Contingent liabilities**

The group and the company had no contingent liabilities at 31 December 2000.

**21 Commitments**

Neither the group nor the company had any capital commitments at the end of the year for which no provisions had been made.

(b) Annual commitments under non-cancellable operating leases are as follows:

**Group:**

	31 December 2000	
	Land and buildings £000	Other £000
<i>Operating leases which expire:</i>		
Within one year	-	53
Within two to five years	-	145
Over five years	390	-
	<hr/>	<hr/>
	390	198
	<hr/> <hr/>	<hr/> <hr/>

**22 Pension costs**

The group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the group to the fund and amounted to £61,000.

**Notes** *(continued)*

**23 Analysis of cash flows**

	<b>31 December 2000 £000</b>
<b>Reconciliation of operating loss to net cash flow from operating activities</b>	
Operating loss	(7,859)
Depreciation	56
Movement in debtors	(496)
Movement in creditors	1,150
Amortisation of goodwill	420
Write off of goodwill	500
Impairment of goodwill	5,580
	(649)
<b>Net cash outflow from operating activities</b>	<b>(649)</b>

**24 Analysis of net debt**

	<b>At 1 February 2000 £000</b>	<b>Cash flow £000</b>	<b>Acquisitions £000</b>	<b>At 31 December 2000 £000</b>
Cash at bank and in hand	-	4,706	-	4,706
Overdrafts	-	(2,004)	-	(2,004)
	-	2,702	-	2,702
Finance leases	-	32	(225)	(193)
	-	2,734	(225)	2,509
<b>Total</b>	-	2,734	(225)	2,509

**Notes** (continued)

**25 Purchase of subsidiary undertakings**

	<b>31 December 2000 £000</b>
<b>Net assets acquired</b>	
Tangible fixed assets	660
Goodwill	175
Debtors	2,802
Creditors	(2,986)
Finance leases	(225)
	426
Goodwill	12,431
	12,857
<b>Satisfied by</b>	
Cash	12,600
Acquisition costs capitalised	257
	12,857

The subsidiary undertakings acquired during the year contributed an outflow of £687,000 to the group's net operating cash flows, paid £48,000 cash outflow in respect of net returns on investments and servicing of finance, paid £50,000 in respect of capital expenditure and paid £32,000 for financing activities.

**26 Related party disclosures**

The company has taken advantage of the exemption contained in FRS 8 which applies to group undertakings and has not disclosed details of transactions with group companies which are included in the consolidated accounts.

Directors fees of £46,525 were paid to London & City Credit Corporation Limited, a company in which J M Edelson has an interest.

Directors fees of £7,500 were paid to Mears Building Contractors Limited, a company in which R Holt has an interest.

Directors fees of £4,580 were paid to Ferranti Limited, a company in which A S Z de Ferranti has an interest.

Directors fees of £19,292 were paid to PBMS Limited, a company in which S R Lord has an interest.

Directors fees of £4,392 were paid to JLJ Management Limited, a company in which J W Birkett has an interest.

Directors fees of £3,015 were paid to Pitman Pearce Limited, a company in which W H N Pearce has an interest.