

Sophos Plc

**Directors' report and consolidated
financial statements**

Registered number 2096520

31 March 2002

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2002 .

Principal activities

The group is principally engaged in the business of developing, selling and supporting software for computer security.

Business review and future plans

Turnover increased by 40% from the prior year, reflecting the group's success in winning and retaining customers. Further international expansion led to a 60% growth in revenue outside the UK and continental Europe. There was a profit for the year after taxation of £6,327,000 (2001: £5,155,000). During the year, subsidiary companies were established in Singapore and Italy and the group continued to invest in and develop its existing international operations. The group will continue to exploit market opportunities throughout the world.

The group has received a number of awards, including Queen's Awards for Enterprise in both the international trade category, recognising the group's outstanding achievement in increasing overseas earnings and in the innovation category, recognising the group's continuing development of its anti-virus software.

Post balance sheet event

On 15 May 2002 the company reorganised its share capital, as set out in note 17. Also on that date TA Associates, a US private equity company, acquired from existing shareholders 22% of the issued share capital of the company.

Research and development

The group continues to undertake research and development relating to the principal activity.

Proposed dividend and transfer to reserves

An interim dividend of £1,898,000 was paid on 14 May 2002 (2001: £381,000 paid on 31 October 2000). The directors do not recommend the payment of a final dividend (2001: £1,165,000). Total dividends for the year are £1,898,000 (2001: £1,546,000), leaving retained profits of £4,429,000 (2001: £3,609,000).

Market value of land and buildings

In the opinion of the directors, the market value of the freehold land and buildings of the group does not differ significantly from the book values of these assets. As reflected in note 9, the group is in the course of constructing a new headquarters building; the directors do not consider it practical to form an opinion on the market value of the part-completed building.

Policy and practice on payment of creditors

It is the group's policy to pay its suppliers on a timely basis and in accordance with agreed terms.

At the year-end there were 10 days (2001: 13 days) purchases in trade creditors.

Employment Policies

The group operates in a number of countries and it endeavours to vary its employment practices to meet local conditions and requirements. It is group policy to ensure equal opportunity for employment of disabled people, ethnic minorities and women. Wherever possible, the employment of staff members who become disabled will be continued and appropriate training and career development will be offered.

A key objective for the group is to achieve a shared commitment by all employees to the success of the business. Throughout the group, there is consultation between employees and management on matters of mutual interest and information is disseminated through in-house newsletters, the group Intranet, individual performance reviews and team or company briefings. Employees are encouraged to promote and participate in the progress and profitability of the group through profit bonus and other incentive schemes.

Directors' report *(continued)*

Political and charitable donations

The group made no political donations during the year. Contributions to local charities totalled £500 (2001: £926).

Directors and directors' interests

The directors who held office during the year and their interests in the ordinary shares of Sophos Plc according to the register of directors' interests were:

	Interest at end of year	Interest at start of year
Dr Peter Lammer	25,056	25,056
Dr Jan Hruska	25,056	25,056
Mr Peter Norman	40	40
Mr Mark Forrest	-	-
Mr Richard Jacobs	505	505

On 15 May 2002, Mr Ajit Nedungadi was appointed as a director of the company.

Auditors

Our auditors KPMG have indicated to the directors that their business has transferred to a limited liability partnership, KPMG LLP. Accordingly, a resolution is to be proposed at the annual general meeting for the appointment of KPMG LLP as auditors of the company.

By order of the board

Dr Peter Lammer
Director

The Pentagon
Abingdon Science Park
Abingdon
Oxon
OX14 3YP

20 May 2002

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 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 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.



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Report of the independent auditors to the members of Sophos Plc

We have audited the financial statements on pages 5 to 24.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, 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 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group 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 March 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

20 May 2002

Consolidated profit and loss account

for the year ended 31 March 2002

	<i>Note</i>	2002 £000	2001 £000
Turnover	2	31,582	22,625
Cost of sales		(1,197)	(1,254)
		<hr/>	<hr/>
Gross profit		30,385	21,371
Administrative expenses		(21,411)	(14,174)
Other operating income	25	106	104
		<hr/>	<hr/>
Operating profit		9,080	7,301
Interest receivable	6	676	529
		<hr/>	<hr/>
Profit on ordinary activities before taxation	3-5	9,756	7,830
Tax on profit on ordinary activities	7	(3,429)	(2,675)
		<hr/>	<hr/>
Profit for the financial year		6,327	5,155
Dividends paid and proposed	8	(1,898)	(1,546)
		<hr/>	<hr/>
Retained profit for the year	18	4,429	3,609
		<hr/> <hr/>	<hr/> <hr/>

Consolidated statement of total recognised gains and losses

for the year ended 31 March 2002

	2002 £000	2001 £000
Profit for financial year	6,327	5,155
Translation differences on foreign currency net investments	(1)	(143)
	<hr/>	<hr/>
Total gains and losses recognised for the year	6,326	5,012
	<hr/> <hr/>	<hr/> <hr/>

Consolidated balance sheet

at 31 March 2002

	<i>Note</i>	2002 £000	2002 £000	2001 £000	2001 £000
Fixed assets					
Tangible assets	9		15,687		7,108
Current assets					
Stocks	11	45		37	
Debtors	12	6,833		5,647	
Cash at bank and in hand		16,244		13,818	
		<hr/>		<hr/>	
Creditors: amounts falling due within one year	13	23,122 (18,854)		19,502 (12,891)	
		<hr/>		<hr/>	
Net current assets			4,268		6,611
			<hr/>		<hr/>
Total assets less current liabilities			19,955		13,719
Creditors: amounts falling due after more than one year	14		(5,085)		(3,347)
Provisions for liabilities and charges	15		(301)		(231)
			<hr/>		<hr/>
Net assets			14,569		10,141
			<hr/> <hr/>		<hr/> <hr/>
Capital and reserves					
Called up share capital	16		64		64
Share premium account			111		111
Profit and loss account	18		14,394		9,966
			<hr/>		<hr/>
Equity shareholders' funds			14,569		10,141
			<hr/> <hr/>		<hr/> <hr/>

These financial statements were approved by the board of directors on 20 May 2002 and were signed on its behalf by:

Dr Peter Lammer
Director

Company balance sheet

at 31 March 2002

	<i>Note</i>	2002 £000	2002 £000	2001 £000	2001 £000
Fixed assets					
Tangible assets	9		15,272		6,789
Investments	10		110		104
			<hr/>		<hr/>
			15,382		6,893
Current assets					
Stocks	11	45		37	
Debtors	12	8,326		6,874	
Cash at bank and in hand		14,484		13,043	
			<hr/>	<hr/>	
Creditors: amounts falling due within one year	13	22,855 (15,426)		19,954 (11,041)	
			<hr/>	<hr/>	
Net current assets			7,429		8,913
			<hr/>		<hr/>
Total assets less current liabilities			22,811		15,806
Creditors: amounts falling due after more than one year					
	14		(3,872)		(2,662)
Provisions for liabilities and charges	15		(202)		(231)
			<hr/>		<hr/>
Net assets			18,737		12,913
			<hr/> <hr/>		<hr/> <hr/>
Capital and reserves					
Called up share capital	16		64		64
Share premium account			111		111
Profit and loss account	18		18,562		12,738
			<hr/>		<hr/>
Equity shareholders' funds			18,737		12,913
			<hr/> <hr/>		<hr/> <hr/>

These financial statements were approved by the board of directors on 20 May 2002 and were signed on its behalf by:

Dr Peter Lammer
Director

Consolidated cash flow statement

for the year ended 31 March 2002

	<i>Note</i>	2002 £000	2001 £000
Cash flow statement			
Cash flow from operating activities	22	14,225	11,719
Return on investments and servicing of finance	23	676	530
Taxation		(3,390)	(1,979)
Capital expenditure and financial investment	23	(7,916)	(2,480)
Equity dividends paid		(1,165)	(1,053)
		<hr/>	<hr/>
Cash inflow before management of liquid resources and financing		2,430	6,737
Management of liquid resources	23	(2,527)	(6,376)
		<hr/>	<hr/>
(Decrease) / increase in cash in the period		(97)	361
		<hr/> <hr/>	<hr/> <hr/>
Reconciliation of net cash flow to movement in net funds			
(Decrease) / increase in cash in the period	24	(97)	361
Cash inflow from decrease in liquid resources	24	2,527	6,376
		<hr/>	<hr/>
Change in net funds resulting from cash flows		2,430	6,737
Exchange differences	24	(4)	30
		<hr/>	<hr/>
Movement in net funds in the period		2,426	6,767
Net funds at the start of the period		13,818	7,051
		<hr/>	<hr/>
Net funds at the end of the period		16,244	13,818
		<hr/> <hr/>	<hr/> <hr/>

Reconciliations of movements in shareholders' funds

for the year ended 31 March 2002

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Profit for the financial year	6,327	5,155	7,722	6,096
Dividends	(1,898)	(1,546)	(1,898)	(1,546)
	<hr/>	<hr/>	<hr/>	<hr/>
Exchange differences	4,429 (1)	3,609 (143)	5,824 -	4,550 -
	<hr/>	<hr/>	<hr/>	<hr/>
Net addition to shareholders' funds	4,428	3,466	5,824	4,550
Opening shareholders' funds	10,141	6,675	12,913	8,363
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	14,569	10,141	18,737	12,913
	<hr/> <hr/>	<hr/> <hr/>	<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 March 2002. 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.

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

In the company's financial statements, investments in subsidiary undertakings are stated at cost, less any provision for impairment.

Under the exemption within Financial Reporting Standard 8, the group has elected not to disclose transactions made between companies within the group.

Turnover

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

Customers enter into annual or longer term contracts with the group. Most commonly, customers receive software products at the start of the contract and are also entitled to receive regular updates or other services during the contract period. The contract revenue is allocated between these elements. Revenue attributable to the initial software product is recognised in full upon delivery. Revenue attributable to updates and services is recognised rateably over the duration of the contract.

Where the company contracts with a service provider rather than an end user, it mirrors the above policy and defers the revenue attributable to updates and services in line with the licence term granted to the end user.

Tangible fixed assets and depreciation

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

Freehold buildings	-	4% per annum
Leasehold improvements	-	over the life of the lease
Computer equipment	-	33 $\frac{1}{3}$ % per annum
Other plant and equipment	-	20% per annum
Motor vehicles	-	25% per annum
Fixtures and fittings	-	15% per annum

No depreciation is provided on freehold land.

Buildings in the course of construction include direct construction costs, legal and professional fees and any other costs directly attributable to bringing them into their intended working condition. No depreciation will be provided on such buildings until they are occupied.

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 rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Leases

There are no finance leases. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Post retirement benefits

The group operates defined contribution pension schemes. The assets of the schemes are held separately from those of the group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

Research and development expenditure

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

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the FIFO method is used.

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. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash) and investments in money market managed funds.

Notes *(continued)*

2 Segmental information

All sales originate from the UK.

Turnover by destination	2002	2001
	£000	£000
United Kingdom	14,981	11,308
United States of America	7,293	4,635
Continental Europe	7,396	5,562
Rest of the World	1,912	1,120
	<hr/> 31,582 <hr/>	<hr/> 22,625 <hr/>

The directors consider there to be a single class of business.

3 Profit on ordinary activities before taxation

	2002	2001
	£000	£000
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging:</i>		
Auditors' remuneration:		
- audit (including in respect of company £10,000; 2001 : £8,000)	17	10
- fees paid to the auditors and its associates in respect of other services	68	56
Depreciation and other amounts written off tangible fixed assets:	1,134	816
Hire of plant and machinery - rentals payable under operating leases	112	105
Hire of other assets - operating leases	421	230
Research and development expenditure	2,873	2,021
<i>after crediting:</i>		
Profit on sale of fixed assets	5	6
	<hr/> 5 <hr/>	<hr/> 6 <hr/>

Notes *(continued)*

4 Remuneration of directors

	2002	2001
	£000	£000
Directors' emoluments	550	479
Amounts receivable under long term incentive schemes	65	47
	<u> </u>	<u> </u>
Company contributions to money purchase pension schemes	14	13
	<u> </u>	<u> </u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £229,000 (2001: £207,000), and company pension contributions of £2,000 (2001: £3,000) were made to a money purchase scheme on his behalf.

	Number of directors	
	2002	2001
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	4	3
	<u> </u>	<u> </u>

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2002	2001
Technical	142	96
Sales and marketing	112	67
Administration	47	35
	<u> </u>	<u> </u>
	301	198
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£000	£000
Wages and salaries	10,195	6,917
Social security costs	1,108	778
Other pension costs	228	135
	<u> </u>	<u> </u>
	11,531	7,830
	<u> </u>	<u> </u>

Notes (continued)

6 Interest receivable

	2002	2001
	£000	£000
Bank interest receivable	676	529
	<hr/> <hr/>	<hr/> <hr/>

7 Taxation

	2002	2001
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the period at 30% (2001: 30%)	3,435	2,690
Adjustments in respect of prior periods	23	-
	<hr/>	<hr/>
	3,458	2,690
<i>Foreign tax</i>		
Current tax on income for the period	-	1
	<hr/>	<hr/>
Total current tax	3,458	2,691
Deferred tax (see note 15)	(29)	(16)
	<hr/>	<hr/>
	3,429	2,675
	<hr/> <hr/>	<hr/> <hr/>

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2001: higher) than the standard rate of corporation tax in the UK of 30% (2001: 30%). The differences are explained below.

	2002	2001
	£000	£000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	9,756	7,830
	<hr/> <hr/>	<hr/> <hr/>
Current tax at 30% (2001: 30%)	2,927	2,349
<i>Effects of:</i>		
Expenses not deductible for tax purposes	32	14
Depreciation for period in excess of capital allowances	29	16
Depreciation on assets not qualifying for capital allowances	29	29
Unutilised tax losses from group companies	418	282
Higher tax rates on overseas earnings	-	1
Adjustments to tax charge in respect of previous periods	23	-
	<hr/>	<hr/>
Total current tax charge (see above)	3,458	2,691
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

8 Dividends paid and proposed

	2002	2001
	£000	£000
Ordinary shares:		
Interim dividend	1,511	304
Final dividend proposed	-	928
	<hr/>	<hr/>
	1,511	1,232
Preference shares:		
Interim dividend	387	77
Final dividend proposed	-	237
	<hr/>	<hr/>
	1,898	1,546
	<hr/> <hr/>	<hr/> <hr/>

The interim dividends were paid on 14 May 2002 (2001: paid on 31 October 2000).

9 Tangible fixed assets

	Freehold land and buildings £000	Buildings in course of construction £000	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
Group						
<i>Cost</i>						
At beginning of year	5,860	990	2,813	104	372	10,139
Additions	5	8,512	1,067	36	96	9,716
Disposals	-	-	(44)	(24)	-	(68)
Exchange movement	-	-	3	-	3	6
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	5,865	9,502	3,839	116	471	19,793
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>						
At beginning of year	689	-	2,111	67	164	3,031
Charge for year	177	-	788	24	145	1,134
On disposals	-	-	(44)	(18)	-	(62)
Exchange movement	-	-	2	-	1	3
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	866	-	2,857	73	310	4,106
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>						
At 31 March 2002	4,999	9,502	982	43	161	15,687
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2001	5,171	990	702	37	208	7,108
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Within freehold land and buildings, the gross cost which is depreciable is £4,426,000 (2001: £4,421,000)

Notes *(continued)*

9 Tangible fixed assets *(continued)*

Company	Freehold land and buildings £000	Buildings in course of construction £000	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
Cost						
At beginning of year	5,860	990	2,390	71	194	9,505
Additions	5	8,512	686	14	33	9,250
Disposals	-	-	-	(11)	-	(11)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	5,865	9,502	3,076	74	227	18,744
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation						
At beginning of year	689	-	1,863	56	108	2,716
Charge for year	177	-	547	11	31	766
On disposals	-	-	-	(10)	-	(10)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	866	-	2,410	57	139	3,472
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value						
At 31 March 2002	4,999	9,502	666	17	88	15,272
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2001	5,171	990	527	15	86	6,789
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Within freehold land and buildings, the gross cost which is depreciable is £4,426,000 (2001: £4,421,000).

Notes (continued)

10 Fixed asset investments

Company	Shares in group undertakings £000
<i>Cost</i>	
At beginning of year	104
Additions	6
	110
At end of year	110

The principal undertakings in which the company's interest at the year-end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class of shares held	Percentage of shares held
<i>Subsidiary undertakings</i>				
Sophos Inc	United States of America	Selling software for computer security	Ordinary	100%
Sophos GmbH	Germany	Selling software for computer security	Ordinary	100%
Sophos Pty Ltd	Australia	Selling software for computer security	Ordinary	100%
Sophos Sarl	France	Selling software for computer security	Ordinary	100%
Sophos KK	Japan	Selling software for computer security	Ordinary	100%
Sophos Srl	Italy	Selling software for computer security	Ordinary	100%
Sophos Anti-Virus Asia Pte Ltd	Singapore	Selling software for computer security	Ordinary	100%

All the above investments have been included in the consolidated financial statements.

Notes (continued)

11 Stocks

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Finished goods and goods for resale	45	37	45	37
	<u>45</u>	<u>37</u>	<u>45</u>	<u>37</u>

12 Debtors

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Trade debtors	6,252	5,244	4,017	3,341
Amounts owed by group undertakings	-	-	4,137	3,380
Other debtors	367	212	107	103
Prepayments	214	191	65	50
	<u>6,833</u>	<u>5,647</u>	<u>8,326</u>	<u>6,874</u>
	<u>6,833</u>	<u>5,647</u>	<u>8,326</u>	<u>6,874</u>

13 Creditors: amounts falling due within one year

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Trade creditors	422	367	230	273
Corporation tax	1,772	1,704	1,772	1,704
Social security and other taxes	888	726	621	595
Other creditors	25	2	-	-
Dividends proposed	1,898	1,165	1,898	1,165
Accruals and deferred income	13,849	8,927	10,905	7,304
	<u>18,854</u>	<u>12,891</u>	<u>15,426</u>	<u>11,041</u>
	<u>18,854</u>	<u>12,891</u>	<u>15,426</u>	<u>11,041</u>

Notes (continued)

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Accruals and deferred income	5,085	3,347	3,872	2,662
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

15 Provisions for liabilities and charges

Group	Vacant property	Deferred tax	Total
	£000	£000	£000
At beginning of year	-	231	231
Amounts provided during the year	99	-	99
Amounts credited to the profit and loss account	-	(29)	(29)
	<u> </u>	<u> </u>	<u> </u>
At end of year	99	202	301
	<u> </u>	<u> </u>	<u> </u>
Company	Vacant property	Deferred tax	Total
	£000	£000	£000
At beginning of year	-	231	231
Amounts provided during the year	-	-	-
Amounts credited to the profit and loss account	-	(29)	(29)
	<u> </u>	<u> </u>	<u> </u>
At end of year	-	202	202
	<u> </u>	<u> </u>	<u> </u>

The vacant property provision is the excess of a residual lease commitment over any anticipated rental income on property no longer occupied by a subsidiary.

The deferred tax liability is due to the timing difference between accumulated depreciation and capital allowances and is fully provided for. No discounting is applied. No deferred tax asset has been recognised on unutilised tax losses of group companies. The group does not recognise deferred tax assets on a subsidiary's tax losses until such time as utilisation is reasonably assured.

Notes (continued)

16 Called up share capital

	2002 £000	2001 £000
<i>Authorised</i>		
Ordinary shares of £1 each	9,000	9,000
Preference shares of £1 each	1,000	1,000
	10,000	10,000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	51	51
Preference shares of £1 each	13	13
	64	64

The preference shares are equity shares. They carry entitlement to a dividend of 30% of the attributable profit. The attributable profit represents the group profit for the year before the payment or provision of any dividends, before any transfers to reserves or amortisation of goodwill and after any provision for corporation tax, divided by the aggregate number of preference and ordinary shares in issue during the financial year. Ordinary shareholders are entitled to a dividend equal to the dividend paid to the preference shareholders. Preference shareholders have the right on a winding up to receive, in priority to the ordinary shareholders, a sum equal to any arrears, deficiency or accruals of preference dividends calculated to the date of the return of capital and payable whether the dividend has been declared or earned. The balance of net assets is distributed equally between the preference and ordinary shareholders.

17 Post balance sheet events

On 15 May 2002 the company adopted new Articles of Association and the members passed a number of other written resolutions, the primary object of which was to reorganise the share capital of the company.

The company's share capital is now as follows:

	Number	£000
<i>Authorised</i>		
Ordinary Shares of £0.001 each	8,000,000,000	8,000
B Ordinary Shares of £0.001 each	1,000,000,000	1,000
Convertible Preferred Ordinary Shares of £0.001 each	1,000,000,000	1,000
		10,000
<i>Allotted, called up and fully paid</i>		
Ordinary Shares of £0.001 each	49,594,680	50
B Ordinary Shares of £0.001 each	-	-
Convertible Preferred Ordinary Shares of £0.001 each	14,022,320	14
		64

All classes of shares are equity shares and rank pari passu for any dividend declared by the company. On a Qualifying Listing or at the election of the holders, the Convertible Preferred Ordinary Shares convert into Ordinary Shares on a one-for-one basis. The Convertible Preferred Ordinary Shares also carry priority over the assets of the company available for distribution in a winding up or other return of capital.

Notes *(continued)*

18 Profit and loss reserve

	Group £000	Company £000
At beginning of year	9,966	12,738
Retained profit for the year	4,429	5,824
Exchange differences	(1)	-
	14,394	18,562
At end of year	14,394	18,562

19 Contingent liabilities

An action has been brought by one ex-employee against a group company. Following an initial judgement in favour of the subsidiary, an appeal has been heard for which final judgement has not been given. The group remains confident that judgement will be for the subsidiary and believes that it has no material contingent liability in this matter. The group had no other contingent liabilities at 31 March 2002 or 31 March 2001.

The company had no contingent liabilities at 31 March 2002 or 31 March 2001.

20 Commitments

(a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	Group		Company	
	2002 £000	2001	2002 £000	2001
Contracted but not provided for	21,134	12	21,124	11
	21,134	12	21,124	11
Authorised but not contracted for	-	29,985	-	29,985
	-	29,985	-	29,985

(b) At the end of the financial year the group had entered into no commitments in respect of finance leases or hire purchase contracts, the inception of which occurs after the year-end.

Notes *(continued)*

20 Commitments *(continued)*

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

Group	2002	Other	2001	Other
	Land and buildings £000	£000	Land and buildings £000	£000
Operating leases which expire:				
Within one year	20	11	32	-
In the second to fifth years inclusive	565	77	159	83
Over five years	38	-	59	-
	<u>623</u>	<u>88</u>	<u>250</u>	<u>83</u>
	<u><u>623</u></u>	<u><u>88</u></u>	<u><u>250</u></u>	<u><u>83</u></u>

Company	2002	Other	2001	Other
	Land and buildings £000	£000	Land and buildings £000	£000
Operating leases which expire:				
Within one year	-	10	-	-
In the second to fifth years inclusive	-	39	-	73
Over five years	-	-	-	-
	<u>-</u>	<u>49</u>	<u>-</u>	<u>73</u>
	<u><u>-</u></u>	<u><u>49</u></u>	<u><u>-</u></u>	<u><u>73</u></u>

21 Pension scheme

The group contributes to money purchase personal pension schemes in the UK and to similar or state pension schemes overseas for the benefit of the employees and directors. The assets of the schemes are administered by trusts or by other bodies in funds independent from the group. The pension cost charge for the period represents contributions payable by the group to the funds and amounted to £228,000 (2001: £135,000)

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Notes (*continued*)

22 Reconciliation of operating profit to operating cash flows

	2002	2001
	£000	£000
Operating profit	9,080	7,301
Depreciation	1,134	816
Profit on sale of fixed assets	(5)	(6)
Decrease in stocks	(8)	24
Increase in debtors	(1,186)	(2,046)
Increase in creditors	5,111	5,630
Increase in provisions	99	-
	14,225	11,719
Net cash inflow from operating activities	14,225	11,719

23 Analysis of cash flows

	<i>Notes</i>	2002	2002	2001	2001
		£000	£000	£000	£000
Returns on investment and servicing of finance					
Interest received			676		530
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(7,927)		(2,486)	
Sale of tangible fixed assets		11		6	
			(7,916)		(2,480)
Management of liquid resources					
Cash transferred to short-term deposit			(2,527)		(6,376)

Notes *(continued)*

24 Analysis of net funds

	At beginning of year £000	Cash flow £000	Exchange movement £000	At end of year £000
Cash in hand, at bank	856	(97)	(4)	755
Short term deposits	12,962	2,527	-	15,489
Total	13,818	2,430	(4)	16,244

25 Related party disclosures

The company shares premises, printing, management and marketing services with Virus Bulletin Limited, a company in which Peter Lammer and Jan Hruska have interests. A contribution of £106,000 (2001: £104,000) to the costs of such services was receivable by the company in the year. At 31 March 2002 an amount of £106,000 (2001: £103,000) was due to the company from Virus Bulletin Limited.