



240137



Annual Report and Accounts

30 June 2004



## HEAD OFFICE

2nd Floor  
19/20 Grosvenor Street  
London W1K 4QH

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## **DIRECTORS AND ADVISERS**

### **DIRECTORS**

M A Alikhani	Executive Director
M Ahmadi	Executive Director
M Edholm	Non-Executive Director
Z Navoth	Non-Executive Director

### **REGISTERED OFFICE**

2nd Floor  
19/20 Grosvenor Street  
London W1K 4QH

Registered No. 2401127

### **AUDITORS**

Mohan Mediratta & Co  
40 The Burroughs  
London NW4 4AP

### **SOLICITORS**

Beachcroft Wansbroughs  
100 Fetter Lane  
London EC4A 1BN

### **STOCKBROKERS**

Hichens, Harrison & Co plc  
Bell Court House  
11 Blomfield Street  
London EC2M 1LB

### **REGISTRARS**

Capita IRG Plc  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

## EXECUTIVE DIRECTOR'S REVIEW

### *Voice quality market*

We have made significant progress in product portfolio development and customised solutions for specific markets. Our marketing effort has developed coherently to take full advantage of our patented technologies and solutions.

### *Voice quality market*

We have made significant progress in product portfolio development and customised solutions for specific markets. Our marketing effort has developed coherently to take full advantage of our patented technologies and solutions.

Marketing strategy has undergone a significant shift in focus, in the period under review. Since early 2004 we have widened our target market and positioned ourselves more towards peripheral devices on the edge of the digital communication networks. The Company has also customised its products and technologies to utilise ultra-low power dsp platforms. This has enabled the Company to offer its voice quality and comfort listening products to an even wider range of markets and applications including, the manufacturers and solution providers of:

- Headset and helmet (call centre, personal, police, pilots, military, fire-fighters)
- Telephony (business, SMEs, residential)
- Digital Mobile Radio (TETRA, GSM & 3G)
- Switches (PSTN, VoPacket, ATM, soft-switches)
- Hands-free kits
- Audio Video conferencing units
- Micro-electronics Semiconductor

This change in our marketing strategy has proven very successful. We have concluded a partnership, post year end, with AMI Semiconductor (previously Dspfactory). We have signed licensing agreements with arca technologies and a major telecommunication equipment manufacturer. These contracts have gone very well with our technology being accepted and integrated on schedule and sales commenced. These are in addition to our ongoing negotiations with other telecommunication companies in the infrastructure domain and in the new markets identified.

Having completed our product customisation and off-the-shelf solutions, we are now totally focused on marketing and our current engineering development is customer driven.

We are currently in negotiations with several other parties and are confident that we will be in a position to announce new agreements in the first quarter of 2005.

### *Oil & Gas*

During February 2004, Dominion Oil USA, the wholly owned subsidiary of Dominion Energy PLC, started to apply a new optimisation technology known as Radial Drilling, this has proven very successful and has resulted in an increase in production in the declining well stock.

The lower overall production during the year was offset by the higher prices received.

During the year Dominion Energy PLC formed a new UK subsidiary, Dominion Mining PLC, which was dormant at the year end. Since then it has acquired a 51% interest in a South African diamond company. To secure this business, Dominion Mining PLC raised £1.15m via a private placement following which Dominion Energy PLC's shareholding in Dominion Mining PLC was 4.17%.



*Environmental statement*

Our US subsidiary operates four oil and six gas fields in Kansas. These fields are controlled by the Kansas State environmental agency and are directly managed by the operating group in Wichita, Kansas. Our subsidiary keeps daily inspection on the well sites, pumps and tank batteries and complies with the local regulations as well as maintaining good relations with the agricultural bodies in the area. Over the years the subsidiary has performed well in matters of preventative and spill free operations. Our subsidiary is dedicated to operate in a clean and safe environment.

We continue to review opportunities to expand and/or divest Dominion Energy PLC's operations.

*Results for the year*

For the year ended 30 June 2004, the group turnover was £267,091 compared with £208,430 for the same period in prior year. The loss for the year amounted to £700,815 compared with £1,453,191 for the prior year.

Administrative expenses for the year include £420,714 for the amortisation of the cost of the development of our voice quality and comfort listening technologies. There was no such amortisation in the prior year as the technology was still in its development stage.

Prior year results include a book loss of £912,500 on an investment in New Opportunities Investment Trust PLC (NOIT). The investment at the time gave a valuable net cash injection to the business.

Overall, the development expenditure has been considerably reduced as the focus has changed from pure development work in prior years to sales and marketing during the current period.

In order to provide working capital and repay debts, we issued shares during the year for the nominal value of £1,848,196.

*Outlook*

In addition to the contracts announced, a significant number of companies have shown considerable interest in our voice quality and comfort listening software modules and solutions. A number of these customers have either evaluated or are in the process of evaluating our technologies and we are optimistic regarding the outlook.

We are very happy with the progress made both during the period under review and subsequently. The new marketing strategy is beginning to pay dividends and in the second half of 2004, the Company has not only signed two new contracts but it has successfully completed and delivered the projects. Our products have been successfully integrated into the clients' own product and the potential sales levels are high.

Our unique products have been well received, we continue to ratchet up marketing and enquiry levels remain high. We have won our first orders, we now have an income stream, albeit small, and we expect to be in a position to announce further orders shortly. Overall, we have made significant progress and we look for this to continue as we further commercialise our product range.

MA Alikhani  
Executive Director

A handwritten signature in black ink, appearing to read "MA Alikhani", written over a horizontal line.

23 December 2004

## DIRECTORS' REPORT

The directors present their annual report together with the audited financial statements, for the year ended 30 June 2004.

### REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The group's performance during the year and expected future developments are described in the Executive Director's Review on page 3.

### RESULTS AND DIVIDENDS

The results for the year are set out in the group profit and loss account on page 14. The directors do not recommend the payment of a dividend on the ordinary shares (2003: nil)

### PRINCIPAL ACTIVITIES

During the year the Company has developed hardware independent echo cancellation software for the telecommunications market. The Company's subsidiary, Dominion Energy PLC, is engaged in the acquisition, development and production of reserves of oil and natural gas in the United States of America.

### DIRECTORS AND THEIR INTERESTS

The names of the directors who served throughout the period, except where shown otherwise, are as follows:

MAAlikhani  
M Ahmadi  
Z Navoth  
M Edholm

In accordance with the Articles of Association, Z Navoth retires and, being eligible, offers himself for re-election. None of the directors standing for re-election has a service contract with the Company.

The interests (as defined in the Companies Act 1985) of the directors holding office at 30 June 2004 or at date of resignation in the share capital are shown below.

	<i>ordinary shares of 5p 30 June 2004 or date of resignation</i>	<i>ordinary shares of 5p 30 June 2003 or date of appointment if later</i>
<i>In Tecteon PLC:</i>		
Z Navoth (Note 1)	1,064,220	1,064,220
MAAlikhani	1,065,358	1,065,358
M Ahmadi	1,260,000	1,260,000
M Edholm	100,000	100,000

Note 1: The 1,064,220 (2003: 1,064,220) shares disclosed under Z Navoth are held by Startup Holdings Limited whose entire share capital is held in trust of which Z. Navoth is the sole beneficiary.

	<i>ordinary shares of 5p 30 June 2004 or date of resignation</i>	<i>ordinary shares of 5p 30 June 2003 or date of appointment if later</i>
<i>In Dominion Energy PLC:</i>		
MAAlikhani	573,000	573,000
M Ahmadi	66,667	66,667

Other than as set out above, none of the directors at 30 June 2004 held any interest in shares of the



Company or its subsidiary undertakings during the year. All of the interests reported are beneficial. There have been no changes in directors interests since the end of the financial year.

#### **NON-EXECUTIVE DIRECTORS**

##### **ZIV NAVOTH**

Ziv Navoth, aged 35, was Executive Director at the Institute for Technology and Enterprise in New York. The Institute is a research centre in the area of the Internet and Electronic Business. He is an active member of the New York New Media Association, The Association of Computer Machines and the World Technology Network. He is the author of various articles on the Internet Economy.

From 1995 to 1996, he was a New Media Manager at Pixel, a multimedia development house. He holds a Bachelor's degree and received his MBA in Innovation, Strategy and Information Technology from the Theseus Institute in France, where he also specialised in the economic, cultural and business aspects of the Internet.

##### **MIKAEL EDHOLM**

Mikael Edholm, aged 48, has valuable expertise and knowledge of the current technology within the communications industry. He is a director of Corporate Business Development at LM Ericsson, a leading provider in the new telecommunications world offering communications solutions that combine telecom and datacom technologies. He currently serves on the Board of Roaminfo AB, Gothenburg, Sweden which specialises in mobile services for roaming professionals.

#### **SUBSTANTIAL SHAREHOLDINGS**

On 26 November 2004 the Company was aware of the following interests in 3 per cent. or more of the Company's ordinary share capital:

<i>Shareholder</i>	<i>No. of ordinary shares</i>	<i>% holding</i>
Anaconda Limited	5,500,000	3.08
Barclayshare Nominees Limited	17,389,825	9.75
Glover Finance Limited	5,500,000	3.08
HSBC Global Custody Nominees (UK) Ltd	10,485,572	5.88
I-Fin Services (IOM) Ltd	12,000,000	6.73
Pershing Keen Nominees Limited	5,916,578	3.32
Raven Nominees Limited	17,471,820	9.79
Rock (Nominees) Limited	10,214,392	5.73
Waterhouse Nominees Europe Limited	11,939,530	6.69

#### **TRANSACTIONS WITH DIRECTORS AND RELATED PARTIES**

Details of transactions with related parties are set out in note 19 to the accounts.

#### **ISSUES OF SHARES AND WARRANTS**

During the year 36,963,929 ordinary shares were issued at 5 pence each to provide working capital of £1,848,196.

After 1 July 2004, an additional 8,068,922 ordinary shares have been issued to provide further working capital. The Board has approved in principle a number of Enterprise Management Incentive and unapproved share options for key directors, employees and consultants.

#### **ANNUAL GENERAL MEETING**

Resolutions will be proposed at the Annual General Meeting as set out in the formal notice on pages 26

and 27. The following explanatory notes relate to Resolutions numbered 5 and 6 which will constitute Special Business.

- (i) Resolution 5 - The Directors currently have a general authority to allot unissued shares of the company, but this expires on the conclusion of the Annual General Meeting. Resolution 5 is proposed as an Ordinary Resolution to provide the Directors with authority to issue ordinary shares up to an aggregate nominal amount of £5,006,051 such authority shall expire on whichever is earlier of the conclusion of the Annual General Meeting of the company to be held in 2006 or the date falling 15 months from the date of passing of this Resolution.
- (ii) Resolution 6 - Is to renew the Directors' authority to allot relevant securities up to a nominal value of £5,006,051 representing 50.1 percent of the nominal value of the Company's issued share capital. This will provide the Directors with the authority to issue ordinary shares of 5p for cash when the Board considers it to be in the best interest of shareholders, such authority shall expire whichever is the earlier of the conclusion of the Annual General Meeting of the company to be held in 2006 or the date falling 15 months from the date of passing of this Resolution.

#### **ENVIRONMENTAL MATTERS**

The group undertakes a review of environmental matters prior to deciding to proceed with an investment in a new operation. Once the investment is made the environmental implications are monitored on a regular basis and where necessary improvements are proposed.

#### **CREDITOR PAYMENT POLICY**

The Company's policy is normally to pay trade creditors according to agreed terms of business. These terms are usually agreed with the trade creditors before they provide any goods or services. The Company's policy is to adhere to the payment terms providing the relevant goods or services have been supplied in accordance with the agreements. The average number of days in respect of trade creditors at 30 June 2004 was 32 (2003: 72) days.

#### **AUDITORS**

A resolution proposing the re-appointment of the auditors Mohan Mediratta & Co. will be put to shareholders at the Annual General Meeting.

Approved by the board of directors and signed on behalf of the board.

MAAlikhani  
Director  
19/20 Grosvenor Street  
London W1K 4QH  
23 December 2004

A handwritten signature in black ink, appearing to be "M. Alikhani", written over a horizontal line.



## CORPORATE GOVERNANCE

The Company has given consideration to the code provisions set out in Section 1 of the Combined Code ("the Code") on Corporate Governance annexed to the Financial Services Authority Listing Rules. The directors support the objectives of the Code and intend to comply with it having due regard to the group's circumstances.

A statement of the directors' responsibilities in respect of the financial statements is set out on page 11. Below is a brief description of the role of the board and its committees, including a statement regarding the group's system of internal financial control.

### THE WORKINGS OF THE BOARD AND ITS COMMITTEES

#### *The Board of Directors*

The board currently comprises two executive and two non-executive directors. The non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The board meets on average every two months and is responsible, inter alia, for setting and monitoring group strategy, reviewing trading performance, ensuring adequate funding, examining major acquisition opportunities, formulating policy on key issues and reporting to shareholders.

#### *The Audit Committee*

The Audit Committee comprised the following directors during the year:

M Edholm and Z Navoth

The committee provides a forum for reporting by the group's external auditors. Meetings are held not less than twice annually and are also attended, by invitation, by the executive directors. The present Committee Chairman is M Edholm.

The Audit Committee is responsible for reviewing a wide range of financial matters including the annual and half year results, financial statements and accompanying reports before their submission to the board and monitoring the controls which are in force to ensure the integrity of the financial information reported to the shareholders. The Audit Committee also advises the board on the appointment of external auditors and on their remuneration both for audit and non-audit work.

#### *The Remuneration Committee*

The Remuneration Committee, which is currently chaired by M Edholm, comprised the following directors during the year:

M Edholm  
Z Navoth

The Committee is responsible for recommending to the board the terms and conditions of employment of the executive directors.

#### *The Nomination Committee*

The Nomination Committee, which currently comprises M Edholm and Z Navoth, is responsible for proposing to the board any new appointments of executive or non-executive directors.

#### *Internal Financial Control*

The board is responsible for establishing and maintaining the group's system of internal financial control.



Internal financial control systems are designed to meet the particular needs of the group concerned and the risk to which it is exposed, and by their nature can provide reasonable assurance but not absolute assurance against material misstatement or loss.

The directors are conscious of the need to keep effective internal financial control, particularly in view of the cash constraints that the group has faced over the year under review. Due to the relatively small size of the group's operations, the directors are very closely involved in the day-to-day running of the business and as such have less need for a detailed formal system of internal financial control. The directors have reviewed the effectiveness of the procedures presently in place and consider that they are still appropriate to the nature and scale of the operations of the group.

*Going Concern*

The directors have reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.



## REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee (the "Committee") was chaired by M Edholm and comprised, during the year ended 30 June 2004, M Edholm and Z Navoth. The Committee currently comprises M Edholm and Z Navoth. Remuneration packages are determined with reference to market remuneration levels, individual performance and the financial position of the Company.

Executive directors are granted a basic salary which is reviewed at regular intervals.

None of the executive directors have service contracts which are terminable on greater than one years' notice.

### *Directors*

The remuneration of the individual directors is as follows:

Director	Fees	Salary	Total 2004	Total 2003
	£	£	£	£
Z Navoth	2,000	-	2,000	2,000
M A Alikhani	-	-	-	17,000
M Edholm	2,000	-	2,000	2,000
M Ahmadi	2,000	30,000	32,000	32,000
<b>Total</b>	<b>6,000</b>	<b>30,000</b>	<b>36,000</b>	<b>53,000</b>

On behalf of the Remuneration Committee.

M Edholm  
Committee Chairman

23 December 2004

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit and loss account of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and 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 accounts; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## **REPORT OF THE INDEPENDENT AUDITORS**

**to the members of Tecteon PLC**

We have audited the financial statements of Tecteon PLC for the year ended 30 June 2004, on pages 14 to 25. These financial statements have been prepared under the historic cost convention and the accounting policies set out therein.

This report is made solely to Company's members, as body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

The directors' responsibility for preparing the annual report and the financial statements in accordance with applicable laws, and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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 or the Listing Rules regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the Corporate Governance Statement reflects the group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Executive Directors' Review, the Directors' Report, the Corporate Governance Statement and Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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 consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, 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.

**Fundamental uncertainty**

In forming our opinion we have considered the adequacy of the disclosure made in the accounts concerning the preparation of the accounts on a going concern basis, the validity of which depends on the company's ability to finance the group's operation. The accounts do not include any adjustments that would result from a failure of financing. Our opinion is not qualified in this respect.

**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 30 June 2004 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Mohan Mediratta & Co   
Registered Auditor  
40 The Burroughs  
London  
NW4 4AP

24 December 2004



## GROUP PROFIT AND LOSS ACCOUNT

for the year ended 30 June 2004

	Notes	2004 £	2003 £
TURNOVER	2	267,091	208,430
Depreciation and amortisation - ordinary	3	(28,914)	(43,953)
Other costs of sales		(153,276)	(138,574)
GROSS PROFIT		84,901	25,903
Administrative expenses		(784,780)	(1,480,928)
OPERATING LOSS	3	(699,879)	(1,455,025)
Interest receivable and similar income		294	60
Interest payable and similar charges	4	(14,102)	(5,488)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(713,687)	(1,460,453)
Tax on loss on ordinary activities	5	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	14	(713,687)	(1,460,453)
Equity minority interest		12,872	7,262
LOSS FOR THE FINANCIAL YEAR		(700,815)	(1,453,191)
Loss per ordinary share			
- Basic	6	(0.45)p	(1.20)p
- Diluted	6	(0.45)p	(1.20)p

The activities for the year 2004 are continuing

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 30 June 2004

		2004 £	2003 £
Loss for the financial year before minority interest		(713,687)	(1,460,453)
Exchange differences on translation into sterling of net assets of subsidiary undertaking		(53,368)	(20,382)
Total gains and losses recognised in the financial year	15	(767,055)	(1,480,835)

**GROUP BALANCE SHEET**  
as at 30 June 2004

	<i>Notes</i>	<i>2004</i> £	<i>2003</i> £
<b>FIXED ASSETS</b>			
Intangible asset	8	2,384,049	2,212,139
Tangible fixed assets	9	616,721	720,535
Investment in trade	10(a)	-	87,500
		<u>3,000,770</u>	<u>3,020,174</u>
<b>CURRENT ASSETS</b>			
Debtors	11	307,353	39,672
Cash at bank and in hand		29,943	60,950
		<u>337,296</u>	<u>100,622</u>
CREDITORS: amounts falling due within one year	12	(1,077,338)	(1,941,209)
<b>NET CURRENT LIABILITIES</b>		<u>(740,042)</u>	<u>(1,840,587)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,260,728</u>	<u>1,179,587</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	8,711,301	6,863,105
Share premium account	14	1,820,872	1,820,872
Merger reserve	14	1,824,000	1,824,000
Exchange reserve	14	(136,580)	(83,212)
Profit and loss account	14	(9,958,865)	(9,245,178)
<b>SHAREHOLDERS' FUNDS</b>		<u>2,260,728</u>	<u>1,179,587</u>
Equity minority interests		45,469	64,916
Non-equity shareholders' funds		195,799	195,799
Equity shareholders' funds		2,019,460	918,872
		<u>2,260,728</u>	<u>1,179,587</u>

These financial statements were approved by the Board of Directors on 23 December 2004

Signed on behalf of the Board of Directors:

MA Alikhani





**COMPANY BALANCE SHEET**  
as at 30 June 2004

	<i>Notes</i>	<i>2004</i> £	<i>2003</i> £
<b>FIXED ASSETS</b>			
Intangible asset	8	2,384,049	2,212,139
Investments – subsidiaries	10(b)	715,513	715,513
Tangible fixed assets	9	91,071	114,352
Investment – trade	10(a)	–	87,500
		<u>3,190,633</u>	<u>3,129,504</u>
<b>CURRENT ASSETS</b>			
Debtors	11	282,763	24,162
Cash at bank and in hand		4,451	–
		<u>287,214</u>	<u>24,162</u>
CREDITORS: amounts falling due within one year	12	<u>(913,970)</u>	(1,862,780)
<b>NET CURRENT LIABILITIES</b>		<u>(626,756)</u>	(1,838,618)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><u>2,563,877</u></u>	<u><u>1,290,886</u></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	8,711,301	6,863,105
Share premium account	14	1,820,872	1,820,872
Merger reserve	14	1,824,000	1,824,000
Profit and loss account	14	(9,792,296)	(9,217,091)
<b>SHAREHOLDERS' FUNDS</b>		<u><u>2,563,877</u></u>	<u><u>1,290,886</u></u>
Non-equity shareholders' funds		195,799	195,799
Equity shareholders' funds		2,368,078	1,095,087
		<u><u>2,563,877</u></u>	<u><u>1,290,886</u></u>

These financial statements were approved by the Board of Directors on 23 December 2004:

Signed on behalf of the Board of Directors:

**MA Alikhani**



**GROUP CASH FLOW STATEMENT**  
for the year ended 30 June 2004

	<i>Notes</i>	<b>2004</b> £	<b>2003</b> £
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	16	<b>(1,347,058)</b>	250,368
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		294	60
Interest paid	4	<b>(14,102)</b>	(5,488)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<b>(13,808)</b>	(5,428)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of intangible fixed assets		<b>(592,624)</b>	(943,529)
Purchase of tangible fixed assets		<b>(13,213)</b>	(74,813)
Purchase of investment		–	(1,250,000)
NET CASH OUTFLOW FOR CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS		<b>(605,837)</b>	(2,268,342)
CASH OUTFLOW BEFORE FINANCING		<b>(1,966,703)</b>	(2,023,402)
FINANCING			
Issue of ordinary shares		<b>1,848,196</b>	1,776,300
Sale of investment		<b>87,500</b>	250,000
NET CASH INFLOW FROM FINANCING		<b>1,935,696</b>	2,026,300
(DECREASE)/INCREASE IN CASH	17	<b>(31,007)</b>	2,898

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (note 17)**

	£	£
(DECREASE)/INCREASE IN CASH	<b>(31,007)</b>	2,898
Cash outflow from decrease in debt financing	–	177,058
Movement in net (funds)/debt during the year	<b>(31,007)</b>	179,956
Net funds/(debt) at 1 July 2003	<b>60,950</b>	(119,006)
NET FUNDS AT 30 JUNE 2004	<b>29,943</b>	60,950



## NOTES TO THE ACCOUNTS

year ended 30 June 2004

### 1. ACCOUNTING POLICIES

#### *Basis of Accounting*

The financial statements have been drawn up under the historical cost convention, in accordance with applicable accounting standards and on the going concern basis since the directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which demonstrate that the Company will be able to continue to trade and to meet its liabilities as they fall due.

#### *Basis of consolidation*

The group financial statements consolidate the financial statements of the Company and its operating subsidiary undertakings. No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985.

#### *Foreign exchange*

Transactions of UK companies denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of transactions. Any foreign exchange differences are taken to the profit and loss account. Balances at the year end denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date.

Assets and liabilities of foreign currency subsidiary undertakings are translated into sterling at closing rates of exchange; profit and loss financial statements are translated at average rates of exchange.

Exchange differences resulting from the translation at closing rates of net investments in foreign currency subsidiary undertakings, together with the differences between profit and loss financial statements translated at average rates and at a closing rates, are taken to reserves and separately identified as an Exchange Reserve.

#### *Intangible fixed asset*

Intangible fixed asset relates to voice quality and comfort listening solutions which the company is developing. This asset is being amortised at 15% per annum. The Company considers the amortisation over 7 years as a reasonable period for these solutions.

#### *Investments*

Investments held as fixed assets are stated at cost less provision for any impairment to their carrying values.

#### *Tangible fixed assets*

Costs of acquiring undeveloped acreage and of successful exploration and appraisal activity are capitalised.

Unsuccessful exploration and appraisal activity and geology and geophysical costs are expensed.

Costs of acquiring developed acreage, drilling and equipping productive wells, including development of dry holes, related production facilities and related pre-production interest are capitalised. All capitalised exploration and development costs are classified as tangible assets.

#### *Depreciation and amortisation*

The acquisition costs of acreage for which there are no development plans are amortised over the lives of the related leases or such shorter periods as necessary to fully depreciate the acreage. Depreciation and amortisation of successful exploration and appraisal acreage, wells and oil and gas production equipment is determined under the unit of production method based on the estimated proven producing oil and gas reserves by field.

Under the unit of production method, the effects of any changes in estimates are dealt with prospectively. Additional depreciation charges are provided for field assets where the directors consider that there has been an indicator of impairment and the test, carried out in accordance with FRS11, results in an impairment of the asset. Depreciation of other fixed assets is determined under the straight line method using various rates of up to 20 per cent, designed to write assets off over their estimated useful lives.



*Deferred taxation*

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

*Leases*

Rentals paid under operating leases are charged to the profit and loss on a straight-line basis over the term of the lease

**2. TURNOVER AND SEGMENTAL INFORMATION**

Turnover represents the amount of goods sold and services provided during the year stated net of any value added tax or any royalty interests to external customers.

	<i>2004</i>	<i>2003</i>
Turnover – UK	96,209	–
– USA	170,882	208,430
	<u>267,091</u>	<u>208,430</u>

	<i>Profit/(loss) analysis</i>		<i>Asset/(liability) analysis</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	£	£	£	£
US activities	(95,644)	(42,624)	530,895	549,572
UK activities	(604,235)	(1,412,401)	1,699,890	569,065
Loss on ordinary activities before interest and tax	(699,879)	(1,455,025)		
US net interest income/expense	(37)	–		
UK net interest income/expense	(13,771)	(5,428)		
Loss on ordinary activities before taxation	<u>(713,687)</u>	<u>(1,460,453)</u>		
Total operating assets			2,230,785	1,118,637
Cash			29,943	60,950
Total net assets			<u>2,260,728</u>	<u>1,179,587</u>

**3. OPERATING LOSS**

	<i>2004</i>	<i>2003</i>
	£	£
Operating loss is stated after charging:		
In cost of sales:		
Depreciation – ordinary	28,914	43,953
In administrative expenses:		
Depreciation	36,494	33,852
Operating lease rental – plant and machinery	32,800	32,800
Auditors' remuneration – audit services	9,000	9,000
– non audit services	4,000	4,000
Exceptional costs included in administrative expenses:		
Loss on disposal of shares in trade investment in NOIT	–	750,000
Provision for trade investment in NOIT	–	162,500
	<u>–</u>	<u>912,500</u>

**4. INTEREST PAYABLE AND SIMILAR CHARGES**

	<i>2004</i>	<i>2003</i>
	£	£
On bank loans and overdrafts	<b>14,102</b>	5,488
	<u><b>14,102</b></u>	<u>5,488</u>

**5. TAX ON LOSS ON ORDINARY ACTIVITIES**

There is no charge to U.K. Corporation Tax or US Federal Tax for the company or the group for the current or prior period due to the availability of losses. The group is carrying forward tax losses in the UK of £4.7 million.

**6. LOSS PER ORDINARY SHARE**

The loss per share of 0.45p (2003: loss 1.2p) has been calculated on the basis of the loss of £700,815 (2003: £1,453,191) and on 156,797,487 (2003: 120,584,620) ordinary shares, being the weighted average number of ordinary shares in issue during the year ended 30 June 2004.

**7. DIRECTORS AND STAFF**

Directors:

	<i>2004</i>	<i>2003</i>
	£	£
Emoluments for qualifying services	<b>36,000</b>	53,000
	<u><b>36,000</b></u>	<u>53,000</u>

No retirement benefits are accruing to directors (2003: nil) under pension schemes.

	<i>2004</i>	<i>2003</i>
	£	£
Highest paid director		
Emoluments for qualifying services	<b>32,000</b>	32,000
	<u><b>32,000</b></u>	<u>32,000</u>

Details of emoluments are included in the Remuneration Committee Report on page 10.

	<i>2004</i>	<i>2003</i>
	£	£
Staff costs including directors:		
Wages and salaries	<b>316,301</b>	724,780
Social security costs	<b>24,819</b>	71,899
	<u><b>341,120</b></u>	<u>796,679</u>

Staff costs include the costs of individuals engaged in the development of technology included within the intangible fixed asset below.

	<i>2004</i>	<i>2003</i>
	£	£
The average monthly number of persons employed by the group in the year (including executive directors)		
Management	<b>7</b>	18
	<u><b>7</b></u>	<u>18</u>

8. INTANGIBLE FIXED ASSET – DEVELOPMENT EXPENDITURE

*Group and Company*

	£
<b>Cost:</b>	
At 1 July 2003	2,212,139
Additions	592,624
At 30 June 2004	<u>2,804,763</u>
<b>Amortisation</b>	
At 1 July 2003	–
Additions	420,714
At 30 June 2004	<u>420,714</u>
<b>NETBOOK VALUE</b>	
At 30 June 2004	<u>2,384,049</u>
At 30 June 2003	<u>2,212,139</u>

The development expenditure comprises salaries of scientists, consulting fees and other direct expenditure incurred in the development of voice quality and comfort listening solutions. The development costs are amortised at 15% per annum. Amortisation period of 7 years is considered to be a reasonable period for this development expenditure.

9. TANGIBLE FIXED ASSETS

	<i>Subsidiaries Producing fields £</i>	<i>Company Office equipment £</i>	<i>Group Total £</i>
<b>Cost:</b>			
At 1 July 2003	4,968,118	169,258	5,137,376
Additions	–	13,213	13,213
Foreign exchange	(431,831)	–	(431,831)
At 30 June 2004	<u>4,536,287</u>	<u>182,471</u>	<u>4,718,758</u>
<b>Depreciation and amortisation</b>			
At 1 July 2003	(4,361,935)	(54,906)	(4,416,841)
Charge for the year	(28,914)	(36,494)	(65,408)
Foreign exchange	380,212	–	380,212
At 30 June 2004	<u>(4,010,637)</u>	<u>(91,400)</u>	<u>(4,102,037)</u>
<b>Net book value</b>			
At 30 June 2004	<u>525,650</u>	<u>91,071</u>	<u>616,721</u>
At 30 June 2003	<u>606,183</u>	<u>114,352</u>	<u>720,535</u>



10(a). INVESTMENT—TRADE

*Group and Company*

**Cost:**

At 1 July 2003	250,000
Disposal	(250,000)
At 30 June 2004	<u>—</u>

**Provision**

At 1 July 2003	162,500
Disposal	(162,500)
At 30 June 2004	<u>—</u>

**Carrying amount**

At 1 July 2004	<u>—</u>
At 30 June 2003	<u>87,500</u>

The trade investment comprised the cost of the Company's investment in shares of 5p each in New Opportunities Investment Trust plc. The investment was sold during the year to provide working capital of £87,500.

10(b). INVESTMENT—SUBSIDIARIES

*Company*

£

**Cost:**

At 1 July 2003 and at 30 June 2004	<u>1,173,615</u>
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**Provision**

At 1 July 2003 and 30 June 2004	<u>458,102</u>
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**Carrying amount**

At 30 June 2003 and 30 June 2004	<u>715,513</u>
----------------------------------	----------------

*Subsidiary undertakings:*

	<i>Activity</i>	<i>Country of Incorporation</i>	<i>Ordinary shares portion held</i>	<i>Country of operation</i>
<b>Held by the Company:</b>				
Dominion Energy PLC	Oil and gas	Great Britain	87.68%	Great Britain
Startup Station Ltd	Dormant	Great Britain	100%	Great Britain
<b>Held by the Group:</b>				
Dominion Mining PLC	Dormant	Great Britain	100%	Great Britain
Dominion Oil				
USA Corporation	Oil and gas	USA	100%	USA

**11. DEBTORS**

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Trade debtors	36,792	-	36,792	-
Other debtors	270,561	39,672	245,971	24,162
	<u>307,353</u>	<u>39,672</u>	<u>282,763</u>	<u>24,162</u>

**12. CREDITORS: amounts falling due within one year**

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Trade creditors	133,408	447,155	114,523	441,467
Bank overdraft	-	136,983	-	136,983
Amounts owed to subsidiary undertakings	-	-	110,003	109,692
Other taxes and social security	447,174	521,618	438,171	510,225
Accruals	448,532	63,124	221,122	52,351
Other creditors	48,224	772,329	30,151	612,062
	<u>1,077,338</u>	<u>1,941,209</u>	<u>913,970</u>	<u>1,862,780</u>

**13. SHARE CAPITAL**

	<i>2004</i>	<i>2004</i>	<i>2003</i>	<i>2003</i>
	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
Authorised:				
Equity ordinary shares of 5p each	200,000,000	10,000,000	200,000,000	10,000,000
Non-equity deferred shares of 1p each	19,579,925	195,799	19,579,925	195,799
	<u>219,579,925</u>	<u>10,195,799</u>	<u>219,579,925</u>	<u>10,195,799</u>
Issued and fully paid:				
Equity ordinary shares of 5p each	170,310,044	8,515,502	133,346,115	6,667,306
Non-equity deferred shares of 1p each	19,579,925	195,799	19,579,925	195,799
	<u>189,889,969</u>	<u>8,711,301</u>	<u>152,926,040</u>	<u>6,863,105</u>

The deferred 1p shares confer no rights to vote at a general meeting of the Company or to a dividend. On a winding-up the holders of the deferred shares are only entitled to the paid-up value of the shares after the repayment of the capital paid on the ordinary shares and £5,000,000 on each ordinary share.

Ordinary shares allotted during the year were as follows:

	<i>No.</i>	<i>Nominal value</i>	<i>Consideration</i>
	36,963,929	£1,848,196	£1,848,196
	<u>36,963,929</u>	<u>£1,848,196</u>	<u>£1,848,196</u>

**Share Warrants and options**

The Board has approved in principle a number of Enterprise Management Incentive and unapproved share options for key directors, employees and consultants but no contracts have yet been entered into.

14. RESERVES

*Group*

	<i>Share premium</i>	<i>Merger reserve</i>	<i>Exchange reserve</i>	<i>Profit and loss</i>
	£	£	£	£
At 1 July 2003	1,820,872	1,824,000	(83,212)	(9,245,178)
Foreign currency translation differences	–	–	(53,368)	–
Retained loss for the year before minority interest	–	–	–	(713,687)
At 30 June 2004	<u>1,820,872</u>	<u>1,824,000</u>	<u>(136,580)</u>	<u>(9,958,865)</u>

*Company*

	<i>Share premium</i>	<i>Merger reserve</i>	<i>Profit and loss</i>
	£	£	£
At 1 July 2003	1,820,872	1,824,000	(9,217,091)
Retained loss for the year	–	–	(575,205)
At 30 June 2004	<u>1,820,872</u>	<u>1,824,000</u>	<u>(9,792,296)</u>

15. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS/(LIABILITIES)

	<i>2004</i>	<i>2003</i>
	£	£
Total recognised gains and losses	(767,055)	(1,480,834)
Issue of shares	1,848,196	1,773,491
Share premium on shares	–	2,809
	<u>1,081,141</u>	<u>295,466</u>
At 1 July 2003	1,179,587	884,121
At 30 June 2004	<u>2,260,728</u>	<u>1,179,587</u>

16. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	<i>2004</i>	<i>2003</i>
	£	£
Operating loss	(699,879)	(1,455,025)
Depreciation and amortisation	486,122	77,805
Loss on disposal of investment	–	750,000
Provision for investment	–	162,500
(Increase)/decrease in debtors	(267,681)	14,083
(Decrease)/increase in creditors	(863,871)	672,111
Foreign currency translation differences	(1,749)	28,894
Net cash inflow/(outflow) from operating activities	<u>(1,347,058)</u>	<u>250,368</u>

**17. ANALYSIS OF CHANGE IN NET (DEBT)/FUNDS**

	1 July 2003	Cash flow	30 June 2004
	£	£	£
Cash at bank	60,950	(31,007)	29,943
Net funds	<u>60,950</u>	<u>(31,007)</u>	<u>29,943</u>

**18. FINANCIAL INSTRUMENTS**

In reporting financial instruments, the group has taken advantage of the exemption available under FRS13 not to provide numerical disclosures in relation to short-term debtors and creditors.

The group's principal financial instruments comprise borrowings and cash. The main purpose of those financial instruments is to provide financing for the group's operations. The group has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations.

It is, and has been throughout the year under review, the group's policy that no dealing in financial instruments shall be undertaken, except for the purpose of hedging the group's financial risks.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board considers each of these risks on a regular basis and the group's policy stance towards each of these risks has remained unchanged during the year.

***Interest rate risk***

The group finances its operations through a mixture of equity capital, cash, bank overdrafts and bank borrowings. The group has financed its acquisitions primarily through the issue of shares and share warrants. The group borrows in the desired currencies mainly at floating rates of interest, to manage the group's exposure to interest rate fluctuations.

***Liquidity risk***

The group's objective is to maintain a balance between a continuity of funding and flexibility through the use of bank overdrafts and bank borrowings. In addition the group maintains undrawn committed borrowing facilities, after taking into account anticipated expenditure on acquisitions, in order to provide flexibility in the management of the group's liquidity. Short term flexibility is achieved by the use of bank overdrafts.

***Foreign currency risks***

Although the group is based in the UK, it has a significant investment in the US. As a result, the group's sterling balance sheet can be affected by movements in the US Dollar exchange rate. The movements in the year have not been material (2001: movements were material).

**19. RELATED PARTY TRANSACTIONS**

Swan Overseas Ltd ("Swan"), a company of which MA Alikhani is a director was due at 30 June 2004, £7,032 (2003: £10,208) inclusive of value added tax (VAT) in respect of development and administrative expenditure funded by Swan on behalf of the Company during the year. The maximum amount outstanding during the year was £19,012. Swan funded a total of £8,804 in respect of such expenditure during the year.

Farangtec Limited, a company of which MAhmadi is a director was due at 30 June 2004, £16,780.40 (2003: £8,814) inclusive of VAT in respect of consultancy fees. Farangtec Limited has invoiced Tecteon PLC to the value of £23,503 inclusive of VAT during the year ended 30 June 2004 (2003: £23,472).

**20. CONTINGENT LIABILITY**

HSBC Bank plc had a fixed and floating charge on all assets of the group. The outstanding indebtedness to the bank at 30 June 2004 in respect of the charge amounted to nil (2003: £136,084). The fixed and floating charge was removed on 23 November 2004.



## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the company will be held at 11.00 a.m. on 4 February 2005 at the offices of Tecteon PLC ("the Company") 2nd floor, 19/20 Grosvenor Street, London W1K 4QH for the purpose of considering and if thought fit, passing the following resolutions, of which Resolutions Numbered 1 to 5 will be proposed as Ordinary Resolutions and Resolution Numbered 6 will be proposed as a Special Resolution:

### Ordinary business

1. To receive the report of the Directors and Auditors and to adopt the financial statements for the year ended 30 June 2004.
2. To re-appoint Mohan Mediratta & Co as Auditors of the Company and to authorise the directors to agree their remuneration.
3. To re-elect Mr Ziv Navoth as a director of the Company (Member of the Audit, Remuneration and Nomination Committees).
4. To increase the authorised share capital of the company to £15,195,799.25 by the creation of 100,000,000 additional ordinary share of five pence each.

### Special business

5. That subject to the passing of the previous resolution, in substitution for all existing authorities the Directors be generally and unconditionally authorised pursuant to Section 80 of the Companies Act ("the Act") to exercise all or any of the powers of the company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £5,006,051 for a period expiring (unless previously renewed, varied or revoked by the company in general meeting) fifteen months after the date of passing this resolution or at the conclusion of the Annual General Meeting of the company to be held in 2006 which ever first occurs, save that the company may make an offer or agreement which would or might require securities to be allotted after expiry of this authority and the directors may allot relevant securities in pursuance of that offer or agreement as if the authority conferred hereby had not expired.
6. That subject to the passing of the previous resolution the directors be and they are hereby empowered (in substitution for and to the exclusion of any other existing powers save to the extent that the same have been previously exercised) pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) of the company for cash pursuant to the authority conferred on them in accordance with Section 80 of the Act by this meeting of the members of the company to allot relevant securities (as defined in Section 80(2) of the Act) as if Section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited:
  - (a) to allotments of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the company in proportion (as nearly as maybe) to their existing holdings of ordinary shares but subject to the directors having a right to make such exclusions or other arrangements in connection with the offering as they deem necessary or expedient:
    - (i) to deal with equity securities representing fractional entitlements; or
    - (ii) to deal with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory; and
  - (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities which are, or are to be, wholly paid up in cash up to an aggregate nominal amount of £5,006,051.



This power shall (unless previously revoked or varied by the company in general meeting) expire fifteen months after the date of the passing of this Resolution or at the conclusion of the Annual General Meeting of the Company to be held in 2006 whichever first occurs save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

*Registered office*  
19/20 Grosvenor Street  
London W1K 4QH

*By order of the Board*

A handwritten signature in black ink, appearing to read "M. A. Alikhani", written over a horizontal line.

MAAlikhani  
23 December 2004

Note

A member of the Company who is entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her place. A proxy need not be a member of the Company. A Form of Proxy accompanies this document for your use. To be valid Forms of Proxy together with the power of attorney or authority (if any) under which it is signed, or notarially certified copy of such power of attorney, must be deposited at the offices of the Registrars, Capita Registrars Plc, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than forty-eight hours before the time of the meeting. Deposit of a Form of Proxy will not prevent a member from attending and voting in person should he/she so wish to.