# Ultima Networks PLC

## Annual Report

31 December 2002
Registered number 1435584

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COMPANIES HOUSE 0899
17/06/03

## Contents

# DIRECTORS, REGISTERED OFFICE AND ADVISERS

| | | |
|---|---|---|
| Humayun A Mughal | | Executive Chairman |
| Peter J Barron | | Company Secretary |
| Dr Alan Aitken | (retired 19 June 2002) | Non-Executive Director |
| Peter J Barron | | Non-Executive Director |
| Peter Thoms | (appointed 29 April 2002) | Non-Executive Director |
| Registered Office | | Akhter House<br>Perry Road<br>Harlow<br>Essex CM18 7PN |
| Registered Number | | 1435584 |
| Registrars and Transfer Office | | Northern Registrars Limited<br>Northern House<br>Woodsome Park<br>Fenay Bridge<br>Huddersfield HD8 0LA |
| Auditors | | RSM Robson Rhodes<br>Colwyn Chambers<br>19 York Street<br>Manchester M2 3BA |
| Principal Bankers | | LloydsTSB Bank plc<br>City Office<br>PO Box 18436<br>1st Floor, 39 Threadneedle Street<br>London EC2R 8PT |
| Web Site | | www.ultima-networks.com |

## Chairman's Statement

**Trading Performance**

The Group continues its progress towards profitability despite difficult business conditions within the trading year. The gross margin for the current year increased from 42% (2001) to 67%. Net operating expenses reduced by 41% to £1.38 million (2001: £ 2.33 million). This substantially completes the restructure.

The Group continued to focus on areas of the business where profitable growth can be achieved. Good progress has been made by our software division where turnover increased by 20% to £1,133,000 (2001: £947,000). This resulted in an operating profit of £211,000 (2001: £94,000). Cognito Software Limited ("Cognito"), our legal accounting and workflow management software company, performed particularly well with an increase of over 12% in the number of users since January 2002 and an increase in recurring revenues of over 22% compared to 31 December 2001.

In contrast, the networking division's results continued to be disappointing and further steps have been taken to eliminate non-profitable elements of this business. The networking division's turnover decreased by 74% to £893,000 (2001: £3,444,000). This resulted in an operating loss of £42,000 (2001: loss £269,000).

**Financial highlights**

- Group turnover down 41% to £2,026,000 (2001: £3,408,000).
- Group gross profit margin increased from 42% to 67%.
- Group net operating expenses reduced by 41% from £2.33 million to £ 1.38 million.
- Software Division turnover up 20% to £1,133,000 (2001: £ 947,000).
- Networking Division turnover down 74% to £893,000 (2001: £3,444,000).

**Outlook**

Investment in research and development continued across the Group. In the software division approximately £68,000 was spent in the period on developing new products and enhancing the existing product range. Developments included web enabling the existing products and the introduction of new products such as digital dictation and voice recognition software.

In our networking products company, SilCom Manufacturing Technology Inc. ("SilCom"), development continues on the wireless links product range. The company is developing a gigabit bandwidth link, which is now in field trial stages. Research and development costs incurred in the period on this product were approximately £92,000.

At present the Group is researching into providing renewable energy and energy efficient products and services. More information about the results of this new venture will be given in the interim results.

The first quarter of 2003 was in line with management expectations with continuing cost controls and focus on profit generation.

Humayun A Mughal, Chairman

# Operational Overview

## NETWORKING DIVISION

### Networking Services

Our Networking Services operations specialise in providing complete network solutions to a range of clients in both the public and private sectors. Since the relocation to Burnley from last year our Network Management Centre has successfully maintained existing services and installations with reduced levels of staff costs.

### Networking Products

Our Networking Products operation, SilCom, based near Toronto, Canada, has traditionally specialised in the design and manufacture of products, including network management software, for the Local Area Network (LAN) marketplace. SilCom is now concentrating on widening its wireless product offering where the Directors' believe significant opportunities exist.

## SOFTWARE DIVISION

Cognito software built upon last year's consolidation of the business and there was record growth in 2002. Sales projections for 2002 rested largely upon a steady stream of DOS to Windows conversions and the rollout of Case Management Systems and concurrent with both, an increase in the numbers of users. In May 2002 there was 30% shortfall in projected revenues but immediate corrective action was initiated to arrest the anticipated shortfall. These actions must be set forth as the core element to improve revenue generation and sustainable growth in the coming year and beyond. The product is witnessing increasing operational stability, with a major version release incorporating several product improvements.

Integrated Publishing Supplies Limited ("IPS") continued to consolidate its client portfolio with the addition of a Liverpool based publishing house incorporating several titles early in the year. In keeping with this consolidation, the recurring revenue stream has registered growth. In addition, IPS has undertaken to deliver a number of enhancements for existing customer installations responding to their growing business needs as well as providing for chargeable support and services outside the scope of the maintenance remit. This has resulted in IPS now being poised for growth in terms of application functionality and a product line for web integration has been invested in, which will be launched at Newstec 2003 in May in Brighton. The management is confident that this addition to the product portfolio will provide an attractive proposition to existing and prospective clients offering business efficiency and immediate return on investment.

## RENEWABLE ENERGY DIVISION

This division has been set up as part of the holding company to explore business opportunities in renewable the energy sector. This exercise will initially be confined to Group's existing customers base.

# Financial Review

| | **2002** | 2001 |
|---|---|---|
| | **£000** | £000 |
| Turnover | **2,026** | 4,391 |
| Operating profit | **131** | 1,076 |
| Profit on ordinary activities before interest | **384** | 15 |
| Profit before taxation | **165** | 513 |
| Profit after taxation | **201** | 576 |
| Net liabilities | **(935)** | (1,168) |
| Net borrowings | **(3,567)** | (2,827) |
| Earnings per ordinary share | **0.10p** | 0.30p |

A summary of the operating results is shown above.

Net Group borrowings were £3,567,000 at 31 December 2002 compared to £2,827,000 at 31 December 2001. During the year bank borrowings in the UK were replaced by a secured loan from Akhter Group plc, a related party, amounting to £900,000 and Lloyds TSB Bank plc mortgage facility of £1,800,000.

# Report of the Directors

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

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is engaged in the design, manufacture, marketing and distribution of networking and computer related products, the development of professional software and the provision of technical networking services.

A detailed review of the Group's business and activities during the year is contained in the Chairman's Statement, Operational Overview and Financial Review on pages 3 to 5.

## RESULTS AND DIVIDENDS

The Group profit for the year before taxation amounted to £165,000 (2001: profit of £513,000). There is a taxation credit for the year of £36,000 (2001: credit of £63,000). The profit on ordinary activities after taxation was £201,000 (2001: £576,000).

The Directors do not recommend the payment of a dividend for 2002. No dividends were paid or proposed to be paid in 2001.

## FUTURE DEVELOPMENTS

The Group is continuing to invest in the development of new products and services. Reference is made to these matters in the Chairman's Statement and Operational Overview on pages 3 to 4.

## SUBSTANTIAL INTERESTS

At 29 April 2003 the following parties had notified the Company of a beneficial interest which represents 3% or more of the Company's issued ordinary share capital at that date:

| | No. of shares | % held |
|---|---|---|
| Akhter Group plc and related parties | 91,675,176 | 47.56% |
| Conics Technology Pte Limited | 19,167,828 | 9.94% |

No nominee shareholder held 10% or more of the Company's issued share capital on 29 April 2003.

## SHARE CAPITAL

The movements in the issued and authorised share capital are detailed in note 19 to the financial statements.

## DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the year are listed on page 2.

The emoluments, share interests and share options of the Directors are disclosed in the Remuneration Report on pages 12 to 14.

## Report of the Directors *(continued)*

### EXECUTIVE DIRECTOR

Mr H.A. Mughal, aged 49, is the co-founder of Akhter Group plc and its majority shareholder. He graduated in electronics from Liverpool University. Mr Mughal originally worked as a research engineer for ITT Components Group Limited prior to setting up Akhter Instruments Limited in 1979. For the past 23 years, he has been responsible for the overall control and direction of Akhter's business.

### NON-EXECUTIVE DIRECTORS

Mr P.J. Barron †∫‡, aged 60, has extensive operations experience in the electronics industry, notably with Texas Instruments Inc in the USA and with Systime Computers Limited and Chase Advanced Technologies Limited in the UK.

Mr P Thoms †∫, aged 57, a Chartered Accountant, has been Finance Director of NXT PLC since 1992. From 1989 to 1992 he was Finance Director of Amstrad plc, prior to which he spent 15 years with the Gillette Company in Canada and Europe.

† Member of Audit Committee ∫ Member of Remuneration Committee ‡ Senior Independent Director

### EMPLOYEE INVOLVEMENT

It is Group policy that employees should be kept as fully informed as is feasible and practicable about the activities of the Group through consultative meetings. In addition, managers hold regular meetings with representatives of their staff in order to encourage employees to make their views known on matters which affect them.

### EMPLOYMENT OF DISABLED PERSONS

The Group's policy is to give full consideration to applications from disabled persons and to ensure that those recruited receive training, career development and promotion which is similar to that of all other employees. Special attention would be given to the needs of any employee who became temporarily or permanently disabled whilst in employment.

### PENSIONS

During the year the Group did not contribute to any pension schemes for either employees or directors. The Company had previously operated a pension scheme for the benefit of the Display Division employees, initially as a final salary scheme but from 6 April 1997 as a money purchase scheme. Following the disposal of the Display Division in 1998 this scheme was frozen and, on 1 April 2001, the Trustees commenced winding it up.

## Directors Report *(continued)*

### SHARE OPTION SCHEMES

***Microvitec 1994 Inland Revenue Approved Executive Share Option Scheme***

During the year ended 31 December 2002 the Company granted no options in respect of the Microvitec 1994 Inland Revenue Approved Executive Share Option Scheme and no options lapsed. There were no options exercised during the year. On 31 December 2002 options were outstanding on ordinary shares 1,454,000 (2001: 1,454,000).

### CHARITABLE AND POLITICAL CONTRIBUTIONS

Donations to UK charitable organisations by the Group, amounted to £Nil (2001: £Nil). There were no political donations.

### PAYMENTS TO CREDITORS

The Group does not follow any code or standard on payment practice as the terms and conditions for its business transactions are agreed with individual suppliers. Payment is then made in accordance with those terms, subject to the other terms and conditions being met by the supplier. Creditor days at the end of the year for the Company were 96 days (2001: 97 days).

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE ANNUAL REPORT

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable United Kingdom accounting standards; and
- prepared the financial statements on the going concern basis.

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

The directors are responsible for ensuring that the directors' report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

The Annual Report is available on the Company's web site. The maintenance and integrity of Ultima Networks PLC's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

## Directors Report *(continued)*

### ANNUAL GENERAL MEETING

The shareholders will be asked to consider an item of special business at the Annual General Meeting.

Resolution 5 is to enable the Company to allot shares up to a maximum of one third of the Company's issued ordinary share capital and enables the Company to disapply shareholders' pre-emption rights in respect of rights issues, over the issue of shares for cash up to a maximum of 5% of the Company's issued ordinary share capital.

### AUDITORS

RSM Robson Rhodes have stated that, in early May 2003, they are intending to transfer their business to a limited liability partnership, incorporated under the Limited Liability Partnerships Act 2000, to be called RSM Robson Rhodes LLP. It is the current intention of the Directors to use their statutory powers to treat the appointment of RSM Robson Rhodes as extending to RSM Robson Rhodes LLP.

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of RSM Robson Rhodes as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
Peter Barron
Company Secretary
29 April 2003

Akhter House
Perry Road
Harlow
Essex, CM18 7PN

# Corporate Governance

The Board is committed to maintaining high standards of corporate governance. This statement describes how the principles set out in Section 1 of the Combined Code, as annexed to the Financial Service Authority's Listing Rules, are applied in practice by the Group.

## THE BOARD OF DIRECTORS

The activities of the Group are ultimately controlled by the Board of Directors, which at the year-end consisted of an Executive Chairman and two independent non-executive Directors, who bring a wide range of skills and experience to the Board. Biographical details of all Directors are to be found on page 7. Following a strategic Group review in February 2001, the Board of Directors was reduced to its current level, which is believed to be more appropriate for the reduced scale of Group operations.

All Directors are equally accountable under law for the proper stewardship of the Company's affairs. The non-executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Director are fully discussed and critically examined.

The Board, which has an agreed Schedule of Matters reserved for its consideration and approval, meets regularly throughout the year to consider key areas of the Group's affairs. These include strategy, major acquisitions or disposals, operating budgets and material contracts. The roles of Chairman and Chief Executive are combined, however the Board believe this to be appropriate given the current level of Group operations.

The current Directors do not have fixed term service contracts, however they are required to retire by rotation. Emoluments of the Executive Director, including participation in the Share Option Schemes, are determined by the Remuneration Committee which consists entirely of the non-executive Directors.

The Company has a procedure to enable Directors to take independent professional advice at the expense of the Company in the furtherance of their duties. All Directors have unrestricted access to the Company Secretary.

## AUDIT COMMITTEE

The Audit Committee, which meets regularly, currently comprises both non-executive Directors and assists the Board in its duties regarding the Group's financial statements and the maintenance of adequate internal financial controls. The Audit Committee's prime tasks are to receive reports from the Company's auditors, RSM Robson Rhodes, and to review the half-yearly and annual accounts before they are presented to the Board, focusing in particular on accounting policies and compliance and areas of management judgements and estimates.

## REMUNERATION COMMITTEE

The Remuneration Committee comprises both non-executive Directors' who take advice at all stages of their deliberations from the Company's professional advisers. The Committee sets remuneration for the executive Directors of Ultima Networks PLC. The remuneration of non-executive Directors' takes the form of fees, set by the Executive Director in line with those of peer group companies.

## SHAREHOLDER RELATIONS

The Board has a policy of providing any reasonably requested historical information and explanations to shareholders on request. Throughout the year the Group maintained regular dialogue with shareholders. The Group's Interim and Annual Reports are sent to all shareholders. All shareholders are encouraged to participate in the Company's Annual General Meeting.

The Annual General Meeting is attended by all the Directors.

## Corporate Governance *(continued)*

### INTERNAL CONTROL AND FINANCIAL REPORTING

The Board of Directors is responsible for the Group's systems of internal control which is designed to ensure effective and efficient operations, internal control and compliance with laws and regulations. In establishing the systems of internal control the Directors have regard to the materiality of relevant risks, the likelihood of a loss being incurred and costs of control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

Key business risks are identified and controlled by means of procedures such as physical control, credit, trading and other authorisation limits and segregation of duties. There are well established budgeting and forecasting procedures in place and regular reports are presented to the Board detailing the results of each principal subsidiary, variances against budget and prior year and other performance data. This process for identifying and managing business risks was in place for the year under review and up to the date of approval of the report.

The effectiveness of the internal control system is reviewed annually by the Board and the Audit Committee which also receives reports of reviews undertaken around the Group by the Group's finance function. The Company does not have an internal audit function. During 2001 the Directors commenced a review of the effectiveness of the Group's systems of internal control, the review considered the control environment, risk assessment, financial control and information systems, control procedures and monitoring systems. The review was aimed at identifying systems currently in place leading to an action plan to improve areas of control weakness.

### COMPLIANCE WITH THE CODE

Following a strategic Group review in February 2001, the Board of Directors was reduced to its current level, which is believed to be more appropriate for the reduced scale of Group operations. As a result the Company was not able to comply with all of the provisions set out in Section 1 of the Combined Code throughout the year.

The roles of Chairman and Chief Executive have now been combined, however the Board believe this to be appropriate given the current level of Group operations.

The Audit Committee no longer complies with the provisions of the Code as it comprises two non-executive directors only.

The appointment of Directors is a matter for the Board as a whole and therefore a nominations committee is considered unnecessary given the present number of Board members.

The Board has begun a review of non-financial internal controls, however this review was not completed at the date of this Report.

There is no internal audit function for the group as the Board did not think that this was appropriate given the size of the business.

The Board will continue to review this situation as trading develops, however the current Board composition is deemed appropriate at present.

### GOING CONCERN

As referred to further in note 1 to the financial statements, the Directors are satisfied that following completion of the Company Voluntary Arrangement for Ultima Networks PLC and given the financial support made available by Akhter Group plc the Group has adequate resources to continue to operate for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

## Directors' Remuneration Report

The directors present the Directors' Remuneration Report for the financial year ended 31 December 2002.

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002, which introduced new requirements in respect of financial periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority.

As required by the Directors' Remuneration Report Regulations 2002, a resolution to approve this Directors' Remuneration Report will be proposed at the company's Annual General Meeting.

The auditors are required to report to the shareholders on the "auditable part" of the Directors' Remuneration Report and to state whether in their opinion the "auditable part" of the Directors' Remuneration Report has been properly prepared in accordance with the Companies Act 1985. This Report therefore has separate sections containing unaudited and audited information.

**UNAUDITED INFORMATION**

**Remuneration Committee**

The Remuneration Committee consists wholly of independent non-executive directors. Peter J Barron, an independent non-executive director, served as members of the Remuneration Committee throughout the year and in the period to 29 April 2003.

In addition Dr Alan Aitken, an independent non-executive director of the company until 19 June 2002, was a member of the Remuneration Committee in the period from 1 January 2001 until 19 June 2002, and Peter Thoms, an independent non-executive director of the company from 29 April 2002, was a member of the Remuneration Committee from that date.

The Remuneration Committee makes recommendations to the Board, within agreed terms of reference, concerning the company's framework of executive remuneration. The Remuneration Committee determines the remuneration and benefits packages of the executive directors and, considers their service contracts, salaries, other benefits, including bonuses and participation in the company's share option plans, and other terms and conditions of employment including any compensation payments on termination of office.

**Remuneration Policy**

Basic salaries and benefits in kind are set to be comparable with those of peer group companies. Share options are granted to strengthen the link between personal interests and those of the shareholders. Full details of the Directors' share options are given below.

**Non-executive directors**

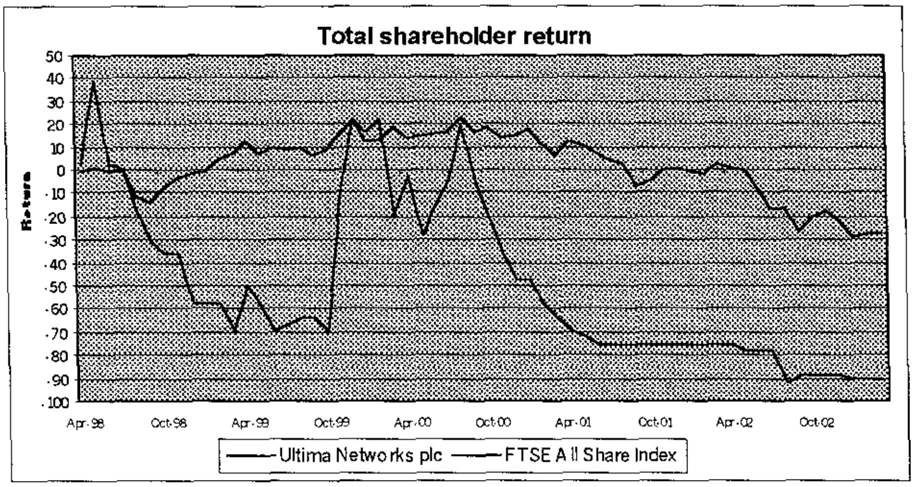
The non-executive directors do not have service contracts. The non-executive directors have letters of appointment concerning, amongst other things, the initial terms for which they are appointed, a general statement of their role and duties the fees they will receive as a director and the supplementary fees receivable for additional work, such as being a member of more than one Board committee.

The fees of non-executive directors are determined by the full Board within the limits set out in the Memorandum and Articles of Association.

## Directors' Remuneration Report *(continued)*

### Performance Graph

The following graph shows the Company's performance for the last five years, as measured by the Total Shareholder Return (TSR) (with dividends reinvested), for equity shareholders of Ultima Networks plc, compared with the TSR for the FTSE All Share index. This index was chosen as it represents a broad equity market index of which the company is a constituent member.




### Service Contracts and Letters of Appointment

The company does not have a service contract in respect of the executive director, Humayun Mughal. The letters of appointment in respect of the non-executive directors who served during the year ended 31 December 2002 are for a rolling 12 month period. The letters of appointment do not contain notice periods or provision for termination payments.

### INFORMATION SUBJECT TO AUDIT

Directors' remuneration payable for the year to 31 December 2002 was as follows:

| | Basic Salary £000 | Fees £000 | Benefits in kind £000 | 2002 Total £000 | 2001 Total £000 | Pension contri-butions 2002 £000 | Pension contri-butions 2001 £000 |
|---|---|---|---|---|---|---|---|
| **Executive** | | | | | | | |
| H.A Mughal | - | - | - | - | - | - | - |
| **Non-Executive** | | | | | | | |
| Dr A. Aitken (resigned 19 June 2002) | - | - | - | - | 9 | - | - |
| P. Thoms (appointed 29 April 2002) | - | 8 | - | 8 | - | | |
| P.J. Barron | - | 10 | - | 10 | 15 | - | - |
| | - | 18 | - | 18 | 24 | - | - |
| 2001 | 27 | 24 | - | 51 | | | |

Fees for P.J. Barron include fees of £Nil (2001: £5,000) paid to Barron Consultancy, a company controlled by P.J. Barron, for consultancy services provided during the year.

## Directors' Remuneration Report *(continued)*

The beneficial interests in the share capital of the Company of those persons who were Directors at the year-end, as recorded in the register of Director's interests, were as follows:

| | 31 December 2002 | | 1 January 2002 | |
|---|---|---|---|---|
| | Ordinary shares of 1p | Ordinary share options | Ordinary shares of 1p | Ordinary share options |
| H.A. Mughal* | 91,675,176 | - | 91,675,176 | - |
| P.J. Barron | - | - | - | - |
| Dr A. Aitken | - | - | 73,390 | - |
| P. Thoms | - | - | - | - |

*Mr H.A. Mughal's holding includes 54,055,336 Ordinary Shares beneficially owned by Akhter Group plc, of which he is the majority shareholder and 4,783,360 and 200,000 Ordinary Shares beneficially owned by the trustees of the Akhter Group plc Directors' SSAS Pension Fund and the Akhter Unapproved Pension Fund respectively, under both of which he is a beneficiary.

At 31 December 2002 no options were outstanding over shares granted to directors. No Director was granted or exercised any share options during this or the previous year nor did any lapse.

No Director has any interest in the shares of any subsidiary of Ultima Networks PLC.

There have been no changes in the above interests between 31 December 2002 and 29 April 2003.

Beneficial holdings include the Director's personal holdings and those of their spouse and minor children as well as holdings in family trusts of which the Director's spouse or their minor children are beneficiaries or potential beneficiaries.

The Company's shares were suspended from trading on the London Stock Exchange on 10 August 2001 at the Company's request pending clarification of the Company's financial position. The shares remained suspended until 24 May 2002. At the date of lifting of the suspension the market price of the Company's shares was 2.25p and the range during the year was 0.75p to 2.25p. The market price at 31 December 2002 was 1p.

**Approval**

The Directors' Remuneration Report was approved by the Board on 29 April 2003 and signed on its behalf by:

Barron

Peter Barron

# RSM Robson Rhodes

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ULTIMA NETWORKS PLC**

We have audited the financial statements on pages 16 to 37. We have also audited the information in the Directors' Remuneration report that is described as having been audited.

This report is made solely to the company's shareholders, as a 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 shareholders those matters we are required to state to them in an auditor's 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 shareholders 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law 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 Company'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. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review, the Corporate Governance Statement and the Five Year Summary. 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 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 and the part of the Directors' remuneration report to be audited.

**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 2002 and of the group's profit for the year then ended; and

- The financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

RSM Robson Rhodes

RSM Robson Rhodes
Chartered Accountants and Registered Auditors
**Manchester, England**

29 April 2003

## Consolidated profit and loss account

***for the year ended 31 December 2002***

| | *Note* | 2002 £000 | 2001 £000 |
|---|---|---|---|
| **Turnover** | | | |
| Continuing operations | | **2,026** | 3,408 |
| Discontinued operations | | - | 983 |
| **Turnover** | *2,8* | **2,026** | 4,391 |
| **Cost of sales** | | **(672)** | (2,533) |
| **Gross profit** | | **1,354** | 1,858 |
| Net operating expenses | *2* | **(1,381)** | (2,327) |
| Exceptional credit on approval of voluntary arrangement | *7a* | **158** | 980 |
| Exceptional credit on provision for onerous leases | *7a* | - | 291 |
| Exceptional operating costs | *7a* | - | 274 |
| **Analysis of operating profit** | | | |
| Continuing operations | *8* | **131** | 843 |
| Discontinued operations | *8* | - | 233 |
| **Operating profit** | *8* | **131** | 1,076 |
| Profit/ (loss) on termination of an operation | *7b* | **253** | (1,061) |
| **Profit on ordinary activities before interest** | *2* | **384** | 15 |
| Exceptional gain on extinguishment of debt | *7b* | - | 779 |
| Interest payable and similar charges | *3* | **(219)** | (281) |
| **Profit on ordinary activities before taxation** | *4* | **165** | 513 |
| **Tax on profit on ordinary activities** | *6* | **36** | 63 |
| **Profit for the financial year** | *20* | **201** | 576 |
| **Basic earnings per share** | *10* | **0.10p** | 0.30p |
| **Diluted earnings per share** | *10* | **0.10p** | 0.30p |

There is no material difference between the profit as disclosed above and the profit calculated on the historical cost basis.

The notes on pages 21 to 37 form part of these financial statements.

## Consolidated balance sheet
***at 31 December 2002***

| | Note | 2002 £000 | 2002 £000 | 2001 £000 | 2001 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | *11* | | **3,148** | | 3,229 |
| **Current assets** | | | | | |
| Stocks | *13* | **156** | | 32 | |
| Debtors | *14* | **514** | | 705 | |
| Cash at bank and in hand | | **99** | | 74 | |
| | | **769** | | 811 | |
| **Creditors: amounts falling due within one year** | *15* | **(1,402)** | | (4,107) | |
| **Net current liabilities** | | | **(633)** | | (3,296) |
| **Total assets less current liabilities** | | | **2,515** | | (67) |
| **Creditors: amounts falling due after one year** | *16* | | **(3,450)** | | (1,101) |
| **Net liabilities** | | | **(935)** | | (1,168) |
| **Capital and reserves** | | | | | |
| Called up share capital | *19* | | **7,434** | | 7,434 |
| Share premium account | *20* | | **5,520** | | 5,520 |
| Revaluation reserve | *20* | | **1,102** | | 1,124 |
| Other reserves | *20* | | **1,334** | | 1,334 |
| Profit and loss account – deficit | *20* | | **(16,325)** | | (16,580) |
| **Deficit of shareholders' funds** | | | **(935)** | | (1,168) |
| **Analysis of shareholders' deficit** | | | | | |
| Equity interests | | | **(6,442)** | | (6,675) |
| Non-equity interests | | | **5,507** | | 5,507 |
| | | | **(935)** | | (1,168) |

These financial statements were approved by the board of directors on 29 April 2003 and were signed on its behalf by:

**H.A. Mughal**
*Chairman*

# Company balance sheet
***at 31 December 2002***

| | *Note* | **2002** **£000** | **£000** | 2001 £000 | £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | *11* | | **3,041** | | 3,103 |
| Investments | *12* | | **613** | | 2,528 |
| | | | **3,654** | | 5,631 |
| **Current assets** | | | | | |
| Debtors | *14* | **2,718** | | 2,426 | |
| Cash | | **44** | | 4 | |
| | | **2,762** | | 2,430 | |
| **Creditors: amounts falling due within one year** | *15* | **(824)** | | (2,651) | |
| **Net current assets/(liabilities)** | | | **1,938** | | (221) |
| **Total assets less current liabilities** | | | **5,592** | | 5,410 |
| **Creditors: amounts falling due after one year** | *16* | | **(3,450)** | | (1,101) |
| **Net assets** | | | **2,142** | | 4,309 |
| **Capital and reserves** | | | | | |
| Called up share capital | *19* | | **7,434** | | 7,434 |
| Share premium account | *20* | | **5,520** | | 5,520 |
| Revaluation reserve | *20* | | **1,102** | | 1,124 |
| Other reserves | *20* | | **5,618** | | 5,618 |
| Profit and loss account – deficit | *20* | | **(17,532)** | | (15,387) |
| **Shareholders' funds** | | | **2,142** | | 4,309 |
| **Analysis of shareholders' deficit** | | | | | |
| Equity interests | | | **(3,365)** | | (1,198) |
| Non-equity interests | | | **5,507** | | 5,507 |
| | | | **2,142** | | 4,309 |

These financial statements were approved by the board of directors on 29 April 2003 and were signed on its behalf by:

**H.A. Mughal**
*Chairman*

# Consolidated cash flow statement

***for the year ended 31 December 2002***

## Cash flow statement

| | *Note* | **2002 £000** | 2001 £000 |
|---|---|---|---|
| **Cash (outflow)/ inflow from operating activities** | *25* | **(521)** | 359 |
| **Returns on investments and servicing of finance** | *26* | **(219)** | (149) |
| **Taxation** | | **1** | - |
| **Capital expenditure and financial investment** | *26* | **(1)** | 15 |
| **Cash (outflow)/ inflow before management of liquid resources and financing** | | **(740)** | 225 |
| **Financing** | *26* | **765** | (84) |
| **Increase in cash in the year** | | **25** | 141 |

## Reconciliation of net cash flow to movement in net debt

| | | **£000** | £000 |
|---|---|---|---|
| **Increase in cash in the year** | | **25** | 141 |
| Cash (inflow)/ outflow from decrease in debt and lease financing | | **(765)** | 84 |
| **(Increase)/ decrease in net debt from cashflows** | | **(740)** | 225 |
| Other loans written-off | | **-** | 779 |
| **Movement in net debt in the year** | | **(740)** | 1,004 |
| **Net debt at the start of the year** | | **(2,827)** | (3,831) |
| **Net debt at the end of the year** | *27* | **(3,567)** | (2,827) |

## Consolidated statement of total recognised gains and losses
***for the year ended 31 December 2002***

| | 2002 £000 | 2001 £000 |
|---|---|---|
| **Profit for the financial year** | **201** | 576 |
| Unrealised surplus on revaluation of properties | **-** | 1,124 |
| Currency translation differences on foreign investment | **32** | 60 |
| **Total recognised gains and losses relating to the financial year** | **233** | 1,760 |

## Reconciliation of movement in shareholders' funds
***for the year ended 31 December 2002***

| | Group | | Company | |
|---|---|---|---|---|
| | **2002 £000** | 2001 £000 | **2002 £000** | 2001 £000 |
| **Profit/(loss) for the financial year** | **201** | 576 | **(2,167)** | 777 |
| Unrealised surplus on revaluation of properties | **-** | 1,124 | **-** | 1,124 |
| Currency translation differences on foreign currency | **32** | 60 | **-** | - |
| Goodwill transferred to profit and loss account in respect of business discontinued | **-** | 1,061 | **-** | - |
| **Net increase/(decrease) to shareholders' funds** | **233** | 2,821 | **(2,167)** | 1,901 |
| Opening shareholders' (deficit) / funds | **(1,168)** | (3,989) | **4,309** | 2,408 |
| **Closing shareholders' (deficit) / funds** | **(935)** | (1,168) | **2,142** | 4,309 |

## Notes

*(forming part of the financial statements)*

### 1 ACCOUNTING POLICIES

**Basis of preparation:**
The financial statements are prepared under the historical cost convention supplemented by the revaluation of certain tangible fixed assets and in accordance with applicable accounting standards.

**Going concern:**
The Group has net liabilities of £0.9 million and net current liabilities of £0.6 million at 31 December 2002. However, the Directors consider it appropriate to prepare the accounts on the Going Concern basis based on continued financial support of Akhter Group plc.

On 24 May 2002 the creditors voluntary arrangements in respect of Ultima Networks plc was fully implemented and completed. At 31 December 2002 each of the following companies have fulfilled their obligations under the creditors voluntary arrangements entered into during 2001, Cognito Software Limited, Integrated Publishing Solutions Limited, UTN Solutions (North) Limited and Silcom Manufacturing Technology Inc.

**New accounting standards:**
FRS 19 "Deferred Tax" has been adopted for the first time in these accounts. The change had no effect on the Group.

**Consolidation:**
The consolidated financial statements incorporate the financial statements of Ultima Networks PLC and all its subsidiary undertakings with the exception of UTN Solutions (South) plc. On 18 April 2002 a subsidiary of the Group, UTN Solutions (South) plc was placed in creditors voluntary liquidation. Conseqently the company is no longer under the control of the Group and has not been consolidated at 31 December 2002.

The consolidated profit and loss account includes the results of any Companies acquired during the year from their effective dates of acquisition.

A separate profit and loss account dealing with the results of the parent Company only has not been presented in accordance with Section 230 Companies Act 1985. Within the consolidated profit, a loss of £2.2 million (2001: profit of £777,000) is dealt with in the financial statements of the parent Company.

**Goodwill:**
As allowed under the transitional arrangements set out in FRS 10, goodwill previously eliminated against reserves has not been reinstated. This goodwill was eliminated against reserves as a matter of accounting policy and will be charged to the profit and loss account on any subsequent disposal of the businesses to which it is related. Any goodwill arising on future acquisitions will be capitalised and accounted for in accordance with the requirements set out in FRS 10.

**Turnover:**
Turnover consists of the invoiced value (excluding VAT) for goods and services supplied to third parties.

**Depreciation:**
All land and buildings are included at valuation. Valuations are kept up-to-date. Depreciation is provided evenly on the cost (or valuation where appropriate) of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. Where there is evidence of impairment, fixed assets are written down to recoverable amount. No depreciation is provided on freehold land. The principal annual rates used for other assets are:

| | |
|---|---|
| Freehold buildings | - 50 years |
| Short leasehold property | - over the period of the lease |
| Plant, machinery and fixtures | - 3 to 5 years |

## Notes (continued)

**ACCOUNTING POLICIES continued**

**Deferred taxation:**
Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes.

In accordance with FRS 19 deferred tax is not provided on timing differences arising from:

a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date;

b) gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets;

c) extra tax payable on the unremitted earnings of the overseas subsidiaries and associates where there is no commitment to remit these earnings; and

d) fair value adjustment gains to fixed assets and stock to uplift prices to those ruling when an acquisition is made.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses in due course.

**Stocks:**
Stocks are valued at the lower of cost and net realisable value. In respect of work in progress and finished goods cost includes attributable overheads.

**Foreign currencies:**
Assets and liabilities denominated in foreign currency are translated into sterling at the rates of exchange ruling at 31 December. Exchange differences arising from the treatment of the net investments in overseas subsidiaries and related foreign currency loans are taken directly to reserves. The trading results of foreign subsidiaries are translated into sterling using the average exchange rate for the year, and the difference in relation to closing rates is taken to reserves. All other currency differences are taken to the profit and loss account.

**Research and development:**
All research and development expenditure is written off in the year in which it is incurred.

**Leased assets:**
Assets acquired under finance leases or similar agreements are shown as fixed assets and depreciated in accordance with the accounting policy shown above. The corresponding liability for the capital element is shown in creditors and the interest element, which is calculated on the basis of the amount outstanding, is charged against profits over the period of the agreement. The rental costs of all other leased assets are charged to the profit and loss account on a straight line basis over the period of the leases.

## Notes *(continued)*

**ACCOUNTING POLICIES continued**

**Pensions:**
The Group contributes to personal pension schemes with defined contribution levels covering certain of its employees. The schemes are independently administered by insurance companies. Pension costs for the schemes represent contributions payable by the Group in the year.

**Investments:**
Investments are stated at cost less provision for impairment where necessary to reduce book value to the estimated recoverable amount. Cost is purchase price including any acquisition expenses. Where subsidiaries are acquired by means of a share exchange, cost includes the premium on shares issued irrespective of whether the premium is taken to share premium account or other reserves.

2 **SEGMENTAL REPORTING**

Turnover represents sales of products and services to customers outside the Group excluding value added tax or equivalent sales tax. The analysis of turnover by geographical destination is as follows:

| | | **2002** | | 2001 |
|---|---|---|---|---|
| | **£000** | **£000** | £000 | £000 |
| **TURNOVER** | | | | |
| United Kingdom | | **1,924** | | 3,633 |
| North America | | **102** | | 758 |
| Total | | **2,026** | | 4,391 |
| **TURNOVER** | | | | |
| Networking Division | | **893** | | 3,444 |
| Software Division | | **1,133** | | 947 |
| Total | | **2,026** | | 4,391 |

| | | **2001** | | 2001 |
|---|---|---|---|---|
| | | **£000** | | £000 |
| **NET OPERATING EXPENSES** | | | | |
| Distribution costs | | **117** | | 521 |
| Administrative expenses before exceptional items | **1,264** | | 1,806 | |
| Administrative expenses – net exceptional credit | **(158)** | | (1,545) | |
| Administrative expenses | | **1,106** | | 261 |
| Total | | **1,223** | | 782 |

| | **2002** | 2001 |
|---|---|---|
| | **£000** | £000 |
| **PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST** | | |
| Networking Division | **(42)** | (269) |
| Software Division | **211** | 94 |
| Group overheads | **(38)** | (294) |
| Exceptional non-operating items (excluding gain on extinguishment of debt) - see note 7 | **253** | 484 |
| Total | **384** | 15 |

# Notes *(continued)*

## 2 SEGMENTAL REPORTING continued

The Group's Canadian operations made an operating loss of £57,000 (2001 profit: £285,000) on turnover of £222,000 (2001: £758,000). Net liabilities of the Canadian operations were £1,623,000 (2001: £1,548,000).

Net liabilities of the Group analysed by Division are as follows:

| | **2002 £000** | 2001 £000 |
|---|---|---|
| Networking Division | **(2,267)** | (2,639) |
| Software Division | **(260)** | (615) |
| Unallocated assets/ (liabilities) | **1,592** | 2,086 |
| Total | **(935)** | (1,168) |

## 3 INTEREST PAYABLE AND SIMILAR CHARGES

| | **2002 £000** | 2001 £000 |
|---|---|---|
| Bank loans and overdrafts | **63** | 141 |
| Other loans (Akhter Group plc) | **68** | 29 |
| Loan notes | **88** | 88 |
| Finance leases and hire purchase agreements | **-** | 23 |
| | **219** | 281 |

## 4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| | **2002 £000** | 2001 £000 |
|---|---|---|
| ***Operating profit is stated after charging*** | | |
| Depreciation and other amounts written off tangible fixed assets | **80** | 151 |
| Research and development expenditure | **92** | 404 |
| Auditors' remuneration: | | |
| Audit (Company £3,500, (2001 - £3,250)) | **17** | 17 |
| Other services | **9** | - |
| Operating leases – property | **-** | 145 |
| – plant and machinery | **-** | 111 |
| Foreign exchange loss | **1** | 36 |

## 5 EMPLOYEES

| | **2002 £000** | 2001 £000 |
|---|---|---|
| Employees costs including directors during the year amounted to: | | |
| Wages and salaries | **870** | 1,387 |
| Social security costs | **48** | 130 |
| Other pension costs | **-** | 9 |
| | **918** | 1,526 |

## Notes *(continued)*

### 5 EMPLOYEES continued

| | Number of employees | |
|---|---|---|
| | **2002** | 2001 |
| The average number of persons employed during the year including directors analysed by category was made up as follows: | | |
| Production | **2** | 2 |
| Selling and distribution | **6** | 14 |
| Engineering and development | **22** | 29 |
| Administration | **11** | 19 |
| | **41** | 64 |

| | **2002** | 2001 |
|---|---|---|
| | **£000** | £000 |
| The total remuneration of Directors was as follows: | | |
| Fees | **17** | 24 |
| Remuneration as executives (including benefits in kind) | **-** | 27 |
| Pension contributions | **-** | - |
| | **17** | 51 |

Details of Directors' interests in the share capital of the Company together with further details of the directors' remuneration are contained in the Remuneration Report on pages 12 to 14.

### 6 TAXATION

| | **2002** | 2001 |
|---|---|---|
| | **£000** | £000 |
| **Corporation Tax** | | |
| Current tax on income for the year | **-** | (63) |
| Adjustments in respect of prior years | **68** | - |
| **Current taxation** | **68** | (63) |
| **Deferred taxation** | | |
| Net origination (reversal) of timing differences | **(104)** | - |
| **Tax on profit on ordinary activities** | **(36)** | (63) |

## Notes *(continued)*

### 6 TAXATION continued

| **Current tax reconciliation** | **2002 £000** | 2001 £000 |
|---|---|---|
| Profit on ordinary activities before taxation | **165** | 513 |
| Theoretical tax at UK corporation tax rate 30% (2001: 30%) | **51** | 154 |
| Effects of: | | |
| - income not chargeable to corporation tax | **(118)** | (629) |
| - expenditure not tax deductible | **19** | 231 |
| - adjustments in respect of prior years | **68** | - |
| - movement on deferred tax not provided | **54** | 199 |
| - accelerated capital allowances | **(4)** | - |
| - losses | **(2)** | - |
| - tax in overseas subsidiary | **-** | (18) |
| | **68** | (63) |

There is no UK corporation tax charge for the year due to the availability of trading losses brought forward and tax losses incurred during the year. The Group has significant trading losses carried forward which will impact on future taxation charges.

### 7a EXCEPTIONAL OPERATING ITEMS

| | **2002 £000** | 2001 £000 |
|---|---|---|
| **Gain on approval of Company Voluntary Arrangement ("CVA")** | | |
| Ultima Networks PLC | **-** | 271 |
| SilCom Manufacturing Technology Inc | **19** | 389 |
| UTN Solutions (North) Limited | **139** | 221 |
| Integrated Publishing Systems Limited | **-** | 41 |
| Cognito Software Limited | **-** | 58 |
| | **158** | 980 |
| **Other** | | |
| Release of onerous lease provision (Ultima Networks PLC) | **-** | 291 |
| Microvitec plc pension plan provision (Ultima Networks PLC) | **-** | 274 |

The exceptional profits in the current year represent the difference between actual payments made or to be made in settlement of the voluntary arrangements and the estimate liability to the creditors within the scope of voluntary arrangements at the date of approval.

In accordance with FRS12 'Provisions for liabilities and contingent assets', provision has been made in earlier years' accounts in respect of obligations under onerous leases and an actuarial deficit on the Microvitec plc New Pension and Life Assurance Plan. These liabilities fell within the scope of the Company Voluntary Arrangement entered into on 9 November 2001 and accordingly the provisions have been released to the profit and loss account as part of the exceptional gain on approval of the voluntary arrangement in 2001.

## Notes (continued)

### 7b EXCEPTIONAL NON-OPERATING ITEMS

| | 2002 £000 | 2001 £000 |
|---|---|---|
| ***Ultima Networks PLC*** | | |
| Gain on extinguishment of debt (see note 28) | - | 779 |
| Loss on closure of business | - | (1,061) |
| Gain on liquidation of subsidiary | **253** | - |

The loss on closure of a business above is the transfer of goodwill previously written-off directly to reserves to the profit and loss account in respect of UTN Solutions (South) plc.

On 18 April 2002 a subsidiary of the Group, UTN Solutions (South) plc was placed in creditors voluntary liquidation. Consequently the company is no longer under the control of the Group. The gain arising reflects the net liabilities of the company (excluding any inter-group balances) at the date of liquidation no longer due from the Group. UTN Solutions (South) Limited ceased trading during 2001.

### 8 GROUP OPERATING PROFIT

| **2002** | **Continuing £000** | **Discontinued £000** | **Total £000** |
|---|---|---|---|
| **Turnover** | 2,026 | - | 2,026 |
| Cost of sales | (672) | - | (672) |
| **Gross profit** | 1,354 | - | 1,354 |
| Distribution cost | | - | |
| Administrative expenses | (1,381) | - | (1,381) |
| Administrative expenses – net exceptional credit | 158 | - | 158 |
| **Group operating profit** | 131 | - | 131 |

| **2001** | **Continuing £000** | **Discontinued £000** | **Total £000** |
|---|---|---|---|
| **Turnover** | 3,408 | 983 | 4,391 |
| Cost of sales | (1,952) | (581) | (2,533) |
| **Gross profit** | 1,456 | 402 | 1,858 |
| Distribution cost | (389) | (132) | (521) |
| Administrative expenses before exceptional items | (1,380) | (426) | (1,806) |
| Administrative expenses – net exceptional credit | 1,156 | 389 | 1,545 |
| **Group operating profit** | 843 | 233 | 1,076 |

### 9 DIVIDENDS ON EQUITY SHARES

The Directors do not propose the payment of a dividend (2001: Nil).

## Notes *(continued)*

### 10 EARNINGS PER SHARE

| | **2002** **No.** | 2001 No. |
|---|---|---|
| The earnings per ordinary share has been calculated taking into account the weighted average number of ordinary shares in issue during the year | **192,744,191** | 192,744,191 |
| Earnings attributable to shareholders | **£201,000** | £576,000 |

The basic and diluted earnings per Ordinary Share has been calculated taking into account the same weighted average number of Ordinary Shares and profit attributable to shareholders.

### 11 TANGIBLE FIXED ASSETS

| | **Freehold land and buildings** | **Short leasehold property** | **Plant, machinery, fixtures, vehicles and tooling** | **Total** |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| **GROUP** | | | | |
| ***Cost or valuation*** | | | | |
| At beginning of year | 3,758 | 105 | 1,067 | 4,930 |
| Additions | - | - | 1 | 1 |
| Disposals | - | (105) | (321) | (426) |
| Exchange differences | - | - | (6) | (6) |
| At end of year | 3,758 | - | 741 | 4,499 |
| ***Depreciation*** | | | | |
| At beginning of year | 655 | 105 | 941 | 1,701 |
| Charge for year | 62 | - | 18 | 80 |
| Disposals | - | (105) | (321) | (426) |
| Exchange differences | - | - | (4) | (4) |
| At end of year | 717 | - | 634 | 1,351 |
| ***Net book value*** | | | | |
| **At 31 December 2002** | **3,041** | **-** | **107** | **3,148** |
| At 31 December 2001 | 3,103 | - | 126 | 3,229 |

## Notes *(continued)*

### 11 TANGIBLE FIXED ASSETS continued

| | Freehold land and buildings £000 |
|---|---|
| **COMPANY** | |
| ***Cost or valuation*** | |
| At beginning and end of year | 3,758 |
| *Depreciation* | |
| At beginning of year | 655 |
| Charge for year | 62 |
| At end of year | 717 |
| ***Net book value*** | |
| **At 31 December 2002** | **3,041** |
| At 31 December 2001 | 3,103 |

The aggregate amounts at which freehold land and buildings would have been shown in the financial statements had they not been revalued are as follows:

| **GROUP AND COMPANY** | **2002 £000** | 2001 £000 |
|---|---|---|
| Cost | **2,757** | 2,757 |
| Depreciation | **(779)** | (719) |
| | **1,978** | 2,038 |

Freehold land and buildings include depreciable assets of £1,605,000 (2001: £1,605,000).

The freehold land and buildings owned by the company and the group were revalued as at 25 April 2002 on the basis of open market value. The valuations were independent and external carried out by Grimleys in accordance with the Appraisal and Valuation manual of the Royal Institute of Chartered Surveyors.

## Notes *(continued)*

### 12 FIXED ASSET INVESTMENTS - INVESTMENTS IN SUBSIDIARIES

**COMPANY**

| | **£000** |
|---|---|
| ***Cost*** | |
| At beginning and end of year | **2,702** |
| ***Provision*** | |
| At beginning and end of year | **174** |
| Provision made in the year | **1,915** |
| | **2,089** |
| ***Net book value*** | |
| **At 31 December 2002** | **613** |
| At 31 December 2001 | **2,528** |

The principal subsidiary undertakings, which are all wholly owned, and consolidated are as follows:

| | *Principal activity* |
|---|---|
| SilCom Manufacturing Technology Inc. | } Design and manufacture of specialist networking products |
| UTN Solutions (North) Limited | } Provision of consultancy, design, support services |
| Integrated Publishing Systems Limited | } Provision of computer related consultancy services |
| Cognito Software Limited | } Provision of computer related consultancy services |

A full list of subsidiary undertakings will be filed with the Registrar of Companies. All Companies were incorporated and trade in the UK, other than SilCom Manufacturing Technology Inc. which was incorporated in Canada and trades principally in Canada and the USA.

At 31 December 2001, SilCom Manufacturing Technology Inc ("SilCom"), Integrated Publishing Systems Limited ("IPS"), UTN Solutions (North) Limited ("North") and Cognito Software Limited ("Cognito") were subject to creditors voluntary arrangements ("CVAs"), these companies have satisfied their obligations under these arrangements during 2002. The CVA proposed for UTN Solutions (South) plc was challenged by the Inland Revenue and the company was placed into creditors voluntary liquidation on 18 April 2002. Conseqently, the company is no longer under the control of the Group and has been excluded from the consolidation on this basis.

There are no balances due to or from the Group in respect of UTN (Solutions) South Limited and no transactions have taken place between the parties during the year. The investment held by the Company in respect of UTN Solutions (South) Limited had previously been written off.

## Notes *(continued)*

### 13 STOCKS

| | Group 2002 £000 | Group 2001 £000 | Company 2002 £000 | Company 2001 £000 |
|---|---|---|---|---|
| Raw materials | **30** | 32 | **-** | - |
| Finished goods | **126** | - | **-** | - |
| | **156** | 32 | **-** | - |

### 14 DEBTORS: DUE WITHIN ONE YEAR

| | Group 2002 £000 | Group 2001 £000 | Company 2002 £000 | Company 2001 £000 |
|---|---|---|---|---|
| Trade debtors | **371** | 621 | **31** | - |
| Amounts owed by group undertakings | **-** | - | **2,283** | 2,417 |
| Other debtors | **24** | - | **-** | - |
| Prepayments and accrued income | **15** | 15 | **2** | 9 |
| Group Relief | **-** | - | **398** | |
| Income tax recoverable – overseas operations | **-** | 69 | **-** | - |
| Deferred taxation (see note 18) | **104** | - | **4** | - |
| | **514** | 705 | **2,718** | 2,426 |

### 15 CREDITORS: AMOUNTS DUE WITHIN ONE YEAR

| | Group 2002 £000 | Group 2001 £000 | Company 2002 £000 | Company 2001 £000 |
|---|---|---|---|---|
| Trade creditors | **80** | 622 | **29** | 23 |
| Amounts owed to subsidiary undertakings | **-** | - | **211** | 588 |
| Borrowings (see note 16 b) | **216** | 1,800 | **216** | 1,800 |
| Owed to related party (see note 28) | **98** | 952 | **-** | 70 |
| Other taxes and social security | **81** | 47 | **18** | 8 |
| Accruals and deferred income | **927** | 686 | **350** | 162 |
| | **1,402** | 4,107 | **824** | 2,651 |

## Notes *(continued)*

### 16a CREDITORS: AMOUNTS DUE AFTER ONE YEAR

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **£000** | £000 | **£000** | £000 |
| Borrowings (see note 16 b) | **3,450** | 1,101 | **3,450** | 1,101 |

### 16b BORROWINGS ANALYSIS

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **£000** | £000 | **£000** | £000 |
| **Due within one year** | | | | |
| Bank loans | **144** | - | **144** | - |
| Akhter Group loan | **72** | 1,800 | **72** | 1,800 |
| | **216** | 1,800 | **216** | 1,800 |
| **Due after more than one year** | | | | |
| 8% unsecured loan notes | **1,101** | 1,101 | **1,101** | 1,101 |
| Bank loans | **1,564** | - | **1,564** | - |
| Akhter Group loan | **785** | - | **785** | - |
| | **3,450** | 1,101 | **3,450** | 1,101 |
| **Repayable** | | | | |
| Due within 1 year | **216** | 1,800 | **216** | 1,800 |
| Over 1 but ≤ 2 years | **245** | - | **245** | - |
| Over 2 but ≤ 5 years | **2,420** | 1,101 | **2,420** | 1,101 |
| After 5 years | **785** | - | **785** | - |
| | **3,666** | 2,901 | **3,666** | 2,901 |

Under the terms of the Loan Note Instrument dated 16 June 1999 the loan notes were to be redeemed in four installments in December 2000, June 2001, December 2001 and June 2002. No repayment of capital has been made to date due to the financial position of the company. The payment of interest and repayment of capital have been deferred by agreement of the Company and an extraordinary resolution of the noteholders in accordance with the Loan Note Instrument. 93.9% of the loan notes are held by related parties (see note 28).

The loan from Akhter Group plc attracts an interest rate of 1.25% above the Base Rate and is secured by a second charge over the property in Bradford (see note 28). The loan from Lloyds TSB Bank plc attracts an interest rate of 1.25% above the Base Rate and is secured by a first legal charge over the property in Bradford.

## Notes *(continued)*

### 17 FINANCIAL INSTRUMENTS

The Group's financial instruments comprise borrowings, loan notes, cash and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of these instruments is to raise finance for operations. The Group has not entered into derivative transactions nor does it trade in financial instruments as a matter of policy.

Operations are financed through a mixture of retained profits, loan notes and other borrowings, other than the 8% Unsecured Loan Notes. At the year end the Group had an undrawn overdraft facility of £200,000.

The Board believes that the volatility of the high technology industries in which the Group operates is suited to equity finance. Accordingly, significant funds have been raised in recent years through share issues.

**Financial assets**: excluding debtors within 1 year

Financial assets (excluding short term debtors) comprise cash at bank which attracts interest at rates at floating rates that vary with bank rates in the countries concerned. Amounts held are:

| | **2002 £000** | 2001 £000 |
|---|---|---|
| Sterling | **91** | **53** |
| Canadian Dollars | **8** | **21** |
| | 99 | 74 |

**Financial liabilities:** excluding non-debt current liabilities
The interest rate profile is as follows:

| | **2002** | | 2001 | |
|---|---|---|---|---|
| | **Floating rate £000** | **Fixed rate £000** | Floating rate £000 | Fixed rate £000 |
| Sterling | **2,565** | **1,101** | 1,800 | 1,101 |

The floating rate borrowings are linked to the base rates of the relevant country.

The Sterling fixed rate financial liabilities have a weighted average interest rate of 8% (2001: 8%). The maturity profile is shown in note 16.

**Fair value of financial assets and liabilities**

There is no material difference between the book value and fair value of financial assets and liabilities.

**Currency risk and exposure**

The sterling Group balance sheet can be affected by movements in the Sterling/Canadian Dollar exchange rate because of the investments in the of Canadian subsidiary, Silcom Manufacturing Technology Inc.

The Group also has transactional currency exposure. The main exposure arises from the Canadian subsidiary trading in America with prices set in local currency. To date it has not been considered necessary to hedge these transactions. At 31 December 2002, the Canadian subsidiary had net liabilities denominated in Canadian Dollars of CN$3.9 million (2001: CN$3.6 million). The Group does not hedge against any exposure on intercompany balances as this is not considered to be significant.

## Notes *(continued)*

### 18 DEFERRED TAXATION

| GROUP | Provided | | Not provided | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **£000** | £000 | **£000** | £000 |
| Accelerated capital allowances | **(9)** | - | **(13)** | (28) |
| Losses | **(95)** | - | **(1,387)** | (1,435) |
| | **(104)** | - | **(1,400)** | (1,463) |

| COMPANY | Provided | | Not provided | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **£000** | £000 | **£000** | £000 |
| Accelerated capital allowances | **-** | - | **-** | - |
| Losses | **(4)** | - | **(1,084)** | (1,030) |
| | **(4)** | - | **(1,084)** | (1,030) |

### 19 CALLED UP SHARE CAPITAL

| | **2002** | 2001 |
|---|---|---|
| | **£000** | £000 |
| ***Authorised*** | | |
| 259,302,276 ordinary shares of 1p each – equity | **2,593** | 2,593 |
| 137,674,431 deferred shares of 4p each – non equity | **5,507** | 5,507 |
| | **8,100** | 8,100 |
| | **£000** | £000 |
| ***Allotted, called up and fully paid up*** | | |
| 192,744,191 ordinary shares of 1p each – equity | **1,927** | 1,927 |
| 137,674,431 deferred shares of 4p each – non equity | **5,507** | 5,507 |
| | **7,434** | 7,434 |

Deferred 4p shares are non-equity and have no right to dividends nor do the holders thereof have the right to receive notice of or to attend or vote at any General Meeting of the Company. On a return of capital on a winding up of the Company the holders of the deferred shares shall only be entitled to receive the amount paid up on such shares after the holders of the ordinary shares have received the sum of £1,000,000 for each ordinary share held by them.

**Employee Share Option Schemes**
During the year ended 31 December 2002 no options were granted, no options lapsed and no options were exercised. At 31 December 2002 no options remained under the Employee Share Option.

## Notes *(continued)*

### 19 CALLED UP SHARE CAPITAL continued

**Executive Share Option Schemes**

Options to subscribe for ordinary shares of 1p each are exercisable in accordance with the 1994 Microvitec Inland Revenue Approved Executive Share Option Scheme. During the year ended 31 December 2002 no options were granted, no options lapsed and no options were exercised. At 31 December 2002 options were outstanding on 1,454,000 ordinary shares as follows:

| *Dates exercisable* | *No. of shares* | *Price* |
|---|---|---|
| 15 March 1998 – 14 March 2005 | 16,000 | 33.5p |
| 10 March 1999 – 9 March 2006 | 4,000 | 55.5p |
| 10 April 2000 – 9 April 2007 | 59,000 | 23.5p |
| 25 July 2002 – 24 July 2009 | 1,275,000 | 2.75p |
| 16 April 2003 – 15 April 2010 | 100,000 | 7.5p |

Options to subscribe for ordinary shares of 1p each are exercisable in accordance with the 1994 Microvitec Unapproved Executive Share Option Scheme. During the year ended 31 December 2002 no options were granted, no options lapsed and no options were exercised. At 31 December 2002 no options remained under the 1994 Microvitec Unapproved Executive Share Option Scheme.

The Company's shares were suspended from trading on the London Stock Exchange on 10 August 2001 at the Company's request pending clarification of the Company's financial position. The shares remained suspended until 24 May 2002. At the date of lifting the suspension the market price of the Company's shares was 2.25p and the range during the year was 0.75p to 2.25p.

### 20 RESERVES

| | **Share premium £000** | **Revaluation Reserve £000** | **Other Reserves £000** | **Profit and Loss Account £000** |
|---|---|---|---|---|
| **GROUP** | | | | |
| At beginning of year | 5,520 | 1,124 | 1,334 | (16,580) |
| Exchange movements | - | - | - | 32 |
| Profit for the financial year | - | - | - | 201 |
| Transfer from revaluation reserve | - | (22) | - | 22 |
| At end of year | 5,520 | 1,102 | 1,334 | (16,325) |

| | **Share Premium £000** | **Revaluation Reserve £000** | **Other Reserves £000** | **Profit and Loss Account £000** |
|---|---|---|---|---|
| **COMPANY** | | | | |
| At beginning of year | 5,520 | 1,124 | 5,618 | (15,387) |
| Retained loss for the financial year | - | - | - | (2,167) |
| Transfer from revaluation reserve | - | (22) | - | 22 |
| At end of year | 5,520 | 1,102 | 5,618 | (17,532) |

In the Group financial statements the cumulative amount of goodwill written-off to reserves, net of the goodwill attributable to business disposals, for acquisitions prior to 1 January 1999 is £3,350,000 (2001: £3,350,000).

## Notes *(continued)*

### 21 CAPITAL COMMITMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **£000** | £000 | **£000** | £000 |
| Contracted Capital Expenditure | - | - | - | - |

### 22 FUTURE OPERATING LEASE COMMITMENTS

The Group surrendered its property and motor vehicle leases as part of the voluntary arrangements it entered into on 9 November 2001. Accordingly, there are no material lease commitments at the balance sheet date.

### 23 CONTINGENT LIABILITIES

The Company and Group have given fixed and floating charges over Group borrowings of £0.8 million from Akhter Group plc.

### 24 PENSIONS

The Group did not contribute to personal pension schemes in respect of any of its employees or Directors. During 2001 the Group contributed to personal pension schemes with defined contribution levels covering certain of its employees, including Directors. The schemes were independently administered by insurance companies.

The pension cost charge represents contributions payable by the Group to the schemes and amounted to £Nil (2001: £9,000). Contributions of £Nil (2001: £nil) were payable to the schemes at the year end.

### 25 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW

| | **2002** | 2001 |
|---|---|---|
| | **£000** | £000 |
| Operating profit | **131** | 1,076 |
| Exceptional gain on liquidation of subsidiary | **253** | - |
| Depreciation charge | **80** | 151 |
| Decrease in provisions | - | (679) |
| (Increase)/ decrease in stocks | **(124)** | 183 |
| Decrease in debtors | **226** | 356 |
| Decrease in creditors | **(1,087)** | (728) |
| **Net cash (outflow)/ inflow from operating activities** | **(521)** | 359 |

## Notes *(continued)*

### 26 ANALYSIS OF CASHFLOWS

| | 2002 £000 | 2001 £000 |
|---|---|---|
| **Returns on investment and servicing of finance** | | |
| Interest paid | **(219)** | (126) |
| Interest element of finance lease rental payments | **-** | (23) |
| **Net cash outflow from returns on investment and servicing of finance** | **(219)** | (149) |
| **Capital expenditure and financial investment** | | |
| Purchase of tangible fixed assets | **(1)** | (18) |
| Sale of tangible fixed assets | **-** | 33 |
| **Net cash (outflow)/ inflow from capital expenditure and financial investment** | **(1)** | 15 |
| **Financing** | | |
| Bank loan drawdowns | **1,800** | - |
| Repayment of bank loans | **(92)** | - |
| Repayment of other loans | **(1,843)** | - |
| Other loan drawdowns | **900** | |
| Repayment of finance leases | **-** | (84) |
| **Net cash inflow/ (outflow) from financing** | **765** | (84) |

### 27 ANALYSIS OF NET DEBT

| | At beginning of year £000 | Cash flow £000 | At end of year £000 |
|---|---|---|---|
| Cash at bank and in hand | 74 | 25 | **99** |
| Bank loans and overdrafts | - | (1,708) | **(1,708)** |
| Other loans | (1,800) | 943 | **(857)** |
| | (1,726) | (740) | **(2,466)** |
| Loan notes | (1,101) | - | **(1,101)** |
| | (1,101) | - | **(1,101)** |
| **Total** | (2,827) | (740) | **(3,567)** |

### 28 RELATED PARTY TRANSACTIONS

The Executive Chairman, Mr H.A. Mughal, is the majority shareholder of Akhter Group plc. As a Director of both the Company and Akhter, Mr Mughal does not take part in any discussions or votes of the Board of the Company which relate in any way to matters involving Akhter Group plc and related parties. Akhter Group plc and related parties hold 91,675,176 shares representing 47.6% of the Company's issued ordinary share capital. Akhter Group plc and related parties also hold £1,033,730 (93.9%) of the Unsecured Loan Notes (see note 16).

During the year the Group made purchases from Akhter Group plc totalling £838,000 (2001: £1,419,000) and of this amount £98,000 (2001: £952,000) was payable to Akhter Group plc at 31 December 2002. All transactions between Akhter Group plc and related parties and Ultima Networks PLC are conducted at arm's length and on a normal commercial basis, but with extended credit terms.

During the year the Group entered a secured loan agreement with Akhter Group plc. Details are given in note 16.

# Results in brief

| | 1998<br>£000 | 1999<br>£000 | 2000<br>£000 | 2001<br>£000 | 2002<br>£000 |
|---|---|---|---|---|---|
| Turnover | 14,437 | 12,541 | 6,952 | 4,391 | 2,206 |
| Profit/(loss) before taxation | (5,093) | (783) | (783) | 513 | 165 |
| Net liabilities | (2,758) | (3,175) | (3,989) | (1,168) | (1,039) |
| Net liabilities per share | (2.2)p | (1.6)p | (2.1)p | (0.7)p | (0.7)p |
| Basic (loss)/ earnings per share | (3.97)p | (0.44)p | (0.41)p | 0.30p | 0.10p |
| Dividends on ordinary shares | - | - | - | - | - |

## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held on 30 June 2003 at 11.00am at Akhter House, Perry Road, Harlow, Essex for the following purposes:

**ORDINARY BUSINESS**

1 To receive and adopt the Financial Statements of the Company for the year ended 31 December 2002 together with the Directors' and Auditors' Reports thereon.

2 To elect H.A. Mughal as a Director of the Company who retires by rotation and offers himself for re-election.

3 To elect P. Thoms as a Director of the Company who retires, having been appointed during the year, and offers himself for re-election.

4 To re-appoint RSM Robson Rhodes as auditors of the Company and to authorise the Directors to determine their remuneration.

**SPECIAL BUSINESS**

5 (a) The Directors be generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise all of the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £642,481 for a period expiring on the earlier of fifteen months from the date of the passing of this resolution or the conclusion of the next Annual General Meeting of the Company.

(b) Pursuant to Section 95 of the Companies Act 1985 the Directors be and are hereby empowered to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority conferred by paragraph (a) above as if Section 89(1) of the Act did not apply to such allotment provided that this power shall be limited:

(i) to the allotment of equity securities in connection with a rights issue, open offer or otherwise in favour of the holders of equity securities in proportion (as nearly as may be reasonably practicable in the circumstances having regard to fractional entitlements or legal and practical problems arising on the laws of or requirements of any regulatory body, stock exchange or similar authority in any territory) to their holdings; and

(ii) to the allotment (other than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal amount of £96,372;

and shall expire at the conclusion of the next Annual General Meeting of the Company or 15 months after the passing of this resolution (whichever is the earlier) 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 offer or agreement as if the power conferred hereby had not expired and the authority hereby granted shall replace all existing authorities.

Registered Office:
Akhter House
Perry Road
Harlow
Essex
CM18 7PN

By order of the Board
Peter Barron
Secretary

**NOTES**

(1) A member entitled to attend and vote at the above mentioned Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. To be valid the form of proxy must be duly executed and deposited at the Company's Registered office at Akhter House, Perry Road, Harlow, Essex CM18 7PN no later than 48 hours before the Meeting. Completion and return of the form of proxy will not prevent a member attending at the Meeting and voting in person if he or she so wishes. A form of proxy for use at the above Meeting is enclosed herewith.

(2) The register of Directors' interests and copies of Directors' contracts of employment will be available for inspection at the registered office of the Company during business hours on any weekday (Saturdays and public holidays excluded) from the date of this Notice until the conclusion of the Annual General Meeting.

✂

## Form of Proxy

I/We ..........................................................................................................

being (a) member(s) of Ultima Networks PLC hereby appoint the Chairman of the Meeting (see note 1) or

..........................................................................................................

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 30 June 2003 at 11.00am and at any adjournment thereof. This proxy is to be used as follows (see note 2):

### RESOLUTIONS

| | FOR | AGAINST |
|---|---|---|
| 1. To receive and adopt the Financial Statements for the year ended 31 December 2002 and the Directors' and Auditors' Reports thereon | | |
| 2. To re-elect H.A. Mughal as a director | | |
| 3. To re-elect P. Thoms as a director | | |
| 4. To re-appoint RSM Robson Rhodes as auditors of the Company and to authorise the Directors to determine their remuneration | | |
| 5. To give the directors authority to allot shares and to disapply pre-emption rights on allotment of equity securities (special resolution) | | |

Signature ........................................................... Date ..........................................

**Notes:**

1. If you wish to appoint some other person, please insert his/her name and address, initial the insertion and strike out the words "the Chairman of the Meeting".
2. Please indicate with an X how you wish your vote to be cast. Unless otherwise instructed, the proxy will vote or abstain as he/she thinks fit.
3. A form of proxy executed by a corporation must be executed as a deed or under the hand of a duly appointed officer or attorney.
4. To be valid, this proxy form must be lodged, together with any power of attorney or written authority under which it is signed (or notarially certified copy of such power of authority) at the Company's Registered Office at Akhter House, Perry Road, Harlow, Essex CM18 7PN not less than 48 hours before the time fixed for the Meeting.
5. In the case of joint holders, the signature of any one holder will be sufficient but the names of all joint holders should be stated.
6. Completion and return of the form of proxy will not preclude ordinary shareholders attending and voting at the Meeting should they subsequently decide to do so.