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Comunica plc

Report and Financial Statements

Year Ended

31 May 2003



BDO
BDO Stoy Hayward
Chartered Accountants

Comunica plc

Annual report and financial statements for the year ended 31 May 2003

Contents

Page:

1	Report of the directors
4	Report of the independent auditors
6	Profit and loss account
7	Balance sheet
8	Notes forming part of the financial statements

Directors

P Pela
R Marshall
D Moëd FCA
R Bell

Secretary and registered office

D Moëd FCA, The Hallmarks, 146 Field End Road, Eastcote, Pinner, Middlesex, HA5 1RJ.

Company number

2027207

Auditors

BDO Stoy Hayward, 8 Baker Street, London, W1U 3LL

World Wide Web Address

www.comunicaplco.co.uk

Report of the directors for the year ended 31 May 2003

The directors present their report together with the audited financial statements for the year ended 31 May 2003.

Results and dividends

The profit and loss account is set out on page 6 and shows the result for the year.

An interim dividend of £0.14 (2002 - £0.22) per share was paid to ordinary shareholders during the year. The directors do not recommend the payment of a final dividend (2002 - £nil).

Principal activities, review of business and future developments

The principal activity of the company is the supply of tailor-made communication solutions through the design, implementation and maintenance of network and cabling infrastructures.

During the year, the industry in which the company operates saw a significant contraction in the aftermath of world events. The directors recognised the need to respond to these changed circumstances, and implemented a programme of restructuring, the costs of which are fully reflected in these accounts. While these costs resulted in an overall loss being reported, at the pure operating level, the company continues to be profitable. The directors have also taken the opportunity to extend the range of the company's activities into areas less correlated to external economic and political events, with encouraging results.

The directors believe the company is now positioned to perform well over the coming year.

Purpose and vision

As a business that operates in a fast changing sector, we have clearly defined our purpose and vision to underpin our philosophy for all our stakeholders.

Purpose

Comunica is dedicated to enabling its clients to maximise their communication infrastructure, so enhancing and adding value to their business.

Vision

- To be the choice for clients, suppliers and employees
- To be recognised as a leading edge provider
- To be seen as a centre of excellence
- To generate good profits which can be reinvested in the company, thus:
 - Providing staff with the opportunity of career development
 - Creating a satisfying place to work and providing growth for all stakeholders in the business.

Comunica plc

Report of the directors for the year ended 31 May 2003 (*Continued*)

Creditor payment policy

The company's policy for the year to 31 May 2003 for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms and to abide by the agreed terms of payment. Year end trade creditors represent 92 days' (2002 - 53 days') purchases.

Charitable and political contributions

During the year the company made charitable contributions of £7,374 (2002 - £25,282). There were no political contributions.

Directors

The directors of the company during the year were:

P Pela
R Marshall
D Moëd FCA
R Bell

No director had any interest in the ordinary shares of the company.

P Pela and D Moëd are also directors of the ultimate parent company, Comunica Holdings plc, and their interests in the share capital of that company are shown in its financial statements.

The interests of the other directors in the share capital of Comunica Holdings plc are as follows:

	D' ordinary shares of US\$0.016		F' ordinary shares of 1p each		G' ordinary shares of 0.01p each		H' ordinary shares of 0.0001p each	
	2003	2002	2003	2002	2003	2002	2003	2002
R Marshall	1,007,000	1,007,000	100,700	100,700	1,867,000	1,867,000	294,495,300	294,495,300
R Bell	-	-	-	-	2,974,700	2,974,700	294,495,300	294,495,300

Comunica plc

Report of the directors for the year ended 31 May 2003 (*Continued*)

Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

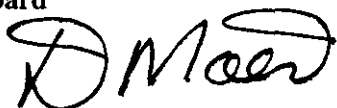
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

Auditors

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the board

D Moëd FCA



Secretary

Date: 24 October 2003

Comunica plc

Report of the independent auditors

To the shareholders of Comunica plc

We have audited the financial statements of Comunica plc for the year ended 31 May 2003 on pages 6 to 17 which have been prepared under the accounting policies set out on pages 8 to 10.

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 and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 company's circumstances, consistently applied and adequately disclosed.

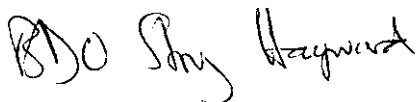
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Comunica plc

Report of the independent auditors (*Continued*)

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 May 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'BDO Stoy Hayward', is written above the company name.

BDO STOY HAYWARD

*Chartered Accountants
and Registered Auditors*
London

24 October 2003

Comunica plc

Profit and loss account for the year ended 31 May 2003

	Note	2003 £	2002 £
Turnover	2	32,375,986	46,148,847
Cost of sales		26,155,620	36,945,883
Gross profit		6,220,366	9,202,964
Administrative expenses		6,794,022	7,388,352
Operating (loss)/profit	3	(573,656)	1,814,612
Other interest receivable and similar income	6	5,321	7,846
Interest payable and similar charges	7	(28,552)	(90,845)
(Loss)/profit on ordinary activities before taxation		(596,887)	1,731,613
Taxation on (loss)/profit on ordinary activities	8	98,029	(644,389)
(Loss)/profit on ordinary activities after taxation		(498,858)	1,087,224
Dividends	9	125,000	202,461
(Accumulated loss)/retained profit		(623,858)	884,763
Retained profit brought forward		1,365,143	480,380
Retained profit carried forward		741,285	1,365,143

All amounts relate to continuing activities.

All recognised gains and losses in the current and prior year are included in the profit and loss account.

The notes on pages 8 to 17 form part of these financial statements.

Comunica plc

Balance sheet at 31 May 2003

	Note	2003 £	2003 £	2002 £	2002 £
Fixed assets					
Tangible assets	10		583,907		919,158
Current assets					
Stocks	11	488,454		326,092	
Debtors	12	9,532,853		10,775,459	
Cash at bank and in hand		18,873		41,634	
		<u>10,040,180</u>		<u>11,143,185</u>	
Creditors: amounts falling due within one year	13	8,707,807		9,732,166	
Net current assets			<u>1,332,373</u>		<u>1,411,019</u>
Total assets less current liabilities			<u>1,916,280</u>		<u>2,330,177</u>
Creditors: amounts falling due after more than one year	14		274,995		65,034
			<u>1,641,285</u>		<u>2,265,143</u>
Capital and reserves					
Called up share capital	15		900,000		900,000
Profit and loss account			741,285		1,365,143
Equity shareholders' funds	16		<u>1,641,285</u>		<u>2,265,143</u>

The financial statements were approved by the Board on 24 October 2003



D Moëd FCA
Director

The notes on pages 8 to 17 form part of these financial statements.

Comunica plc

Notes forming part of the financial statements for the year ended 31 May 2003

1 Accounting policies

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

The following principal accounting policies have been applied:

Cash flow statement

The company has taken advantage of the exemption conferred by Financial Reporting Standard 1 'Cash Flow Statements (Revised 1996)' not to prepare a cash flow statement on the grounds that at least 90% of the voting rights in the company are controlled within the group headed by Comunica Holdings plc and the company is included in the consolidated financial statements.

Turnover

Turnover represents sales to external customers at invoiced amounts together with the value of work carried out to the balance sheet date on long-term contracts less value added tax and discounts allowed.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, except for investment properties, freehold land and certain buildings, evenly over their expected useful lives. It is calculated at the following rates:

Improvements to premises	-	at either 2% or 20%
Motor vehicles	-	25%
Fixtures & fittings	-	20%
Office equipment	-	33 1/3%

Stocks

Stocks and work-in-progress are valued at the lower of cost and net realisable value. Cost is calculated as follows:

Raw materials	-	cost of purchase.
Work-in-progress	-	cost of raw materials and labour, together with attributable overheads.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

1 Accounting policies (*continued*)

Long-term contracts

Long-term contracts are assessed on a contract by contract basis and are reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Where the outcome of each long-term contract can be assessed with reasonable certainty before its conclusion the profit is recognised in the profit and loss account as the difference between the attributable turnover and related costs for that contract. Attributable turnover is based on the state of completion with reference to costs incurred.

Short-term contracts

For short-term contracts, including period schedule work, turnover and profit is recognised based upon the state of completion on an individual job basis.

Foreign currency

Foreign currency transactions are translated into sterling at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Comunica plc

Notes forming part of the financial statements for the year ended 31 May 2003 (*Continued*)

1 Accounting policies (*continued*)

Pension costs

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

2 Turnover

	2003 £	2002 £
Analysis by geographical market:		
United Kingdom	31,922,540	45,956,140
Europe	453,446	192,707
	32,375,986	46,148,847

Turnover is wholly attributable to the principal activity of the company.

3 Operating (loss)/profit

	2003 £	2002 £
This is arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	610,016	683,403
Profit on disposal of tangible fixed assets	(20,773)	(36,774)
Hire of plant and machinery - operating leases	194,704	229,314
Hire of other assets - operating leases	223,312	233,588
Redundancy costs	329,582	-
Auditors' remuneration - non audit services	153,947	151,917
Auditors' remuneration - audit services	32,000	32,000

Comunica plc

Notes forming part of the financial statements for the year ended 31 May 2003 (Continued)

4 Employees

Staff costs (including directors) consist of:

	2003 £	2002 £
Wages and salaries	6,780,886	8,041,365
Social security costs	800,145	981,047
Other pension costs	217,197	201,995
	<u>7,798,228</u>	<u>9,224,407</u>

The average number of employees (including directors) during the year was as follows:

	2003 Number	2002 Number
Administration	64	93
Direct staff	123	134
	<u>187</u>	<u>227</u>

5 Directors' remuneration

	2003 £	2002 £
Directors' emoluments	550,660	711,348
Company contributions to money purchase pension schemes	31,500	32,404
	<u>582,160</u>	<u>743,752</u>

There were 3 directors in the company's defined contribution pension scheme during the year (2002 - 3).

The total amount payable to the highest paid director in respect of emoluments was £194,356 (2002 - £234,711). Company pension contributions of £13,500 (2002 - £9,000) were made to a money purchase scheme on his behalf.

Comunica plc

Notes forming part of the financial statements for the year ended 31 May 2003 (*Continued*)

6 Other interest receivable and similar income

	2003 £	2002 £
Bank deposits	5,321	7,846

7 Interest payable and similar charges

	2003 £	2002 £
Bank loans and overdrafts	11,053	45,072
Finance leases and hire purchase contracts	17,499	45,773
	28,552	90,845

8 Taxation on (loss)/profit on ordinary activities

	2003 £	2002 £
<i>UK Corporation tax</i>		
Current tax on results for the year	(83,042)	644,389
Adjustment in respect of previous periods	(14,987)	-
Total current tax	(98,029)	644,389

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2003 £	2002 £
(Loss)/profit on ordinary activities before tax	(596,887)	1,731,613
(Loss)/profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2002 - 30%)	(179,066)	519,484
Effect of:		
Expenses not deductible for tax purposes	96,914	108,775
Capital allowances in excess of depreciation	(890)	16,130
Adjustment to tax charge in respect of previous periods	(14,987)	-
Current tax (credit)/charge for the year	(98,029)	644,389

Comunica plc

Notes forming part of the financial statements for the year ended 31 May 2003 (*Continued*)

9 Dividends

	2003 £	2002 £
<i>Equity shares</i>		
Interim paid of £0.14 (2002 - £0.22) per share	125,000	202,461

10 Tangible fixed assets

	Improvement to premises £	Motor vehicles £	Fixtures and fittings £	Office equipment £	Total £
<i>Cost</i>					
At 1 June 2002	94,453	1,479,938	229,751	1,643,156	3,447,298
Additions	19,870	-	25,474	358,548	403,892
Disposals	-	(799,356)	-	-	(799,356)
At 31 May 2003	114,323	680,582	255,225	2,001,704	3,051,834
<i>Depreciation</i>					
At 1 June 2002	94,019	1,003,442	140,044	1,290,635	2,528,140
Provided for the year	17,041	233,507	34,514	324,954	610,016
Disposals	-	(670,229)	-	-	(670,229)
At 31 May 2003	111,060	566,720	174,558	1,615,589	2,467,927
<i>Net book value</i>					
At 31 May 2003	3,263	113,862	80,667	386,115	583,907
At 31 May 2002	434	476,496	89,707	352,521	919,158

The net book value of tangible fixed assets includes an amount of £66,661 (2002 - £474,776) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge on these assets for the year was £99,372 (2002 - £382,647).

Comunica plc

Notes forming part of the financial statements for the year ended 31 May 2003 (Continued)

11 Stocks

	2003	2002
	£	£
Raw materials	247,996	194,793
Work in progress	240,458	131,299
	488,454	326,092

In the opinion of the directors, the replacement value of stock is not materially different from cost.

12 Debtors

	2003	2002
	£	£
Amounts receivable within one year		
Trade debtors	3,596,442	5,428,451
Corporation tax recoverable	102,848	-
Other debtors	308,506	18,506
Prepayments and accrued income	269,809	232,443
Amounts recoverable on contracts	5,130,743	5,096,059
	9,408,348	10,775,459
Amounts receivable after more than one year		
Amounts recoverable on contracts	124,505	-
Total debtors	9,532,853	10,775,459

Comunica plc

Notes forming part of the financial statements for the year ended 31 May 2003 (Continued)

13 Creditors: amounts falling due within one year

	2003 £	2002 £
Bank loans and overdrafts (secured - see note 14)	479,229	-
Payments received on account	654,171	598,561
Trade creditors	4,835,347	3,856,895
Amounts owed to group undertakings	810,691	963,797
Corporation tax	-	250,695
Obligations under finance lease and hire purchase contracts	57,144	412,881
Other creditors including taxation and social security	1,545,960	2,498,257
Accruals and deferred income	325,265	1,151,080
	<u>8,707,807</u>	<u>9,732,166</u>

14 Creditors: amounts falling due after more than one year

	2003 £	2002 £
Obligations under finance lease and hire purchase contracts	14,995	65,034
Other creditors including taxation and social security	260,000	-
	<u>274,995</u>	<u>65,034</u>

Obligations under finance leases are repayable as follows:

	2003 £	2002 £
In one year or less, or on demand	57,144	412,881
	<u> </u>	<u> </u>
In more than one year but not more than two years	14,995	50,039
In more than two years but not more than five years	-	14,995
	<u>14,995</u>	<u>65,034</u>

Comunica plc

Notes forming part of the financial statements for the year ended 31 May 2003 (Continued)

14 Creditors: amounts falling due after more than one year (Continued)

The bank borrowings are secured by a fixed and floating charge over the assets of the company together with an unlimited guarantee given by the parent company.

The obligations under finance leases are secured on the respective assets financed.

15 Share capital

	2003	Authorised 2002	Allotted, called up and fully paid 2003	2002
	£	£	£	£
<i>Equity share capital</i>				
Ordinary shares of £1 each	900,000	900,000	900,000	900,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

16 Reconciliation of movements in shareholders' funds

	2003 £	2002 £
(Loss)/profit for the year	(498,858)	1,087,224
Dividends	(125,000)	(202,461)
	<u> </u>	<u> </u>
	(623,858)	884,763
Opening shareholders' funds	2,265,143	1,380,380
	<u> </u>	<u> </u>
Closing shareholders' funds	1,641,285	2,265,143
	<u> </u>	<u> </u>

17 Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge represents contributions payable by the company to the fund and amounted to £217,197 (2002 - £201,995). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

18 Commitments under operating leases

The company had annual commitments under non-cancellable operating leases as set out below:

	2003 Land and buildings £	2003 Other £	2002 Land and buildings £	2002 Other £
Operating leases which expire:				
Within one year	16,575	145,070	16,575	-
In two to five years	206,737	299,463	206,737	388,299
	<u>223,312</u>	<u>444,533</u>	<u>223,312</u>	<u>388,299</u>

19 Contingent liabilities

The company has received notice that the cost of repairing damage caused by weather conditions at a particular site three years ago may not be covered by insurance as a result of the insurer's insolvency. In the event that a claim is made, and alternative insurance policies do not cover it, the company may be liable for repairs totalling approximately £375,000. The company strongly believes that any claim would be without foundation and will vigorously contest any such claim if it is made. Accordingly, no provision for any liability from any such claim has been made in these financial statements.

20 Related party disclosures

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with members of the group headed by Comunica Holdings plc on the grounds that at least 90% of the voting rights in the company are controlled within that group and the company is included in the consolidated financial statements.

21 Ultimate parent company and parent undertaking of larger group

The smallest and largest groups in which the results of the company are consolidated is that headed by Comunica Holdings plc. The consolidated accounts of this company are available to the public and may be obtained from Companies House.