Ultima Networks PLC

Annual Report

31 December 2004

Contents

DIRECTORS, REGISTERED OFFICE AND ADVISERS

Executive Chairman	Humayun A Mughal
Finance Director and Company Secretary	Robert J Piper
Non-Executive Director	Peter J Barron
Non-Executive Director	Peter Y Thoms
Registered Office	Akhter House Perry Road Harlow Essex CM18 7PN
Registered Number	1435584
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
Auditors	RSM Robson Rhodes LLP Colwyn Chambers 19 York Street Manchester M2 3BA
Principal Bankers	Lloyds TSB Bank plc Lloyds TSB Corporate PO Box 18436 1st Floor, 39 Threadneedle Street London EC2R 8PT
Financial Adviser and Broker	ARM Corporate Finance Ltd 12 Pepper Street London E14 9RP
Web Site	www.ultima-networks.co.uk

Chairman's Statement

I am pleased to report the Group continues to make very good progress.

The operating profit for the Group has increased by 141% to £519,000 from £215,000 in the previous year and, ignoring the exceptional operating items in 2003, the operating profit for the Group has actually increased by 176% (2004: £519,000 from 2003: £188,000). Group sales have increased by more than 7% to £1,906,000 (2003: £1,770,000) and Group overheads were reduced by 9% to £843,000 (2003: £925,000). Therefore, I am pleased to report our objectives for 2004 have been achieved.

The IT and related services division contributed an operating profit of £216,000 (2003: £75,000), an increase of 188% over 2003. This was due in the main to a very impressive performance from legal software systems subsidiary, Cognito Software Limited ("Cognito"). This was achieved as a result of better margins and judicious cost control. The new, fully integrated, trust and probate software solution, Custodiens® should continue this positive trend.

The renewable energy and other products division contributed an operating profit of £303,000 (2003: £113,000), an increase of 168% over 2003. The completion of the balance of the contract to install "Grid connected Solar Plants" for Hertfordshire County Council, plus a full year contribution from energy saving lamps and educational electronic kits, were the most significant factors in the profit improvement.

New business opportunities in the Telecoms sector are being actively pursued through the investment in the new telecoms start-up subsidiary C2 Communications Limited ("C2"). In February 2005, the minority shareholders in C2 were bought out to allow for more flexible development plans for this subsidiary in the future. In 2005, C2 is expected to make a positive contribution to both Group sales and profits through the provision of IP telephony, other data and video services to a range of UK and international customers.

In March 2004, the company repaid £885,000 to 8% loan note holders, being capital of £584,000 and all outstanding interest up to 1 March 2004 of £301,000. To finance this, additional loans of £500,000 and £250,000 were arranged with Lloyds Bank Plc and major shareholder Akhter Group plc respectively.

Pre-tax profit showed an increase of 169% reaching £313,000 against £185,000 in the previous year. The tax charge of £28,000 (2003: £16,000) is all in respect of deferred tax as the Group has used only a small part of its substantial accumulated tax losses brought forward from earlier years, no corporation tax is payable by the Group.

The profit for the financial year after taxation is £285,000 compared with a profit of £169,000 for 2003.

Our main objectives in 2005 are to increase the market share of the established IT and related services businesses and build the new telecoms business profitably. We expect this to be achieved by organic growth and the acquisition of suitably complimentary businesses, particularly in the legal and telecoms sectors.

Given the Company's current size and its strategy for development and growth, the Board believes that it is appropriate to move the Company's listing to the Alternative Investment Market ("AIM") of the London Stock Exchange plc where the transaction costs for acquisitions and disposals are significantly lower than on the Official List of the UK Listing Authority. The Board believes that a move to AIM would be in the best interests of shareholders and therefore advises of the intention to give notice in accordance with paragraph 1.22 of the Listing Rules of the UK Listing Authority for the listing of its entire issued share capital on the Official List, comprising 204,394,191 ordinary shares of 1p each (the "Shares"), to be cancelled.

Therefore, once notice has been given, the Board will also be submitting an application to the London Stock Exchange plc for all of its Shares to be admitted to trading on AIM and for the listing of its Shares on the Official List to be cancelled at the same time. It is anticipated that this will happen before the end of May 2005.

Humayun A Mughal
Chairman

Operational Overview

IT AND RELATED SERVICES

Integrated Publishing Systems Limited ("IPS") & Cognito - Publishing and legal software

Sales revenues were £943,000 (2003: £861,000) producing operating profits of £342,000 (2003: £185,000). Higher margins were achieved from new sales of software systems and support on reduced operating costs. IPS continues to make a positive profit contribution and Cognito Software continues its increasing profits trend, which should be further consolidated by the release of its new, fully integrated, trust and probate software solution, Custodiens®.

UTN Solutions Limited ("UTN") & SilCom Manufacturing Inc. ("SilCom") - Networking services and production

Sales revenues were £155,000 (2003: £318,000) producing operating losses of £128,000 (2003: Losses £110,000). Networking business in the UK and Canada was very slow. To further reduce costs, we are relocating the Wireless production facility to Pakistan from Canada, a move which is expected to be completed by the first half of 2005. Research and development of the Wireless networking products will continue in Canada. New products are being introduced in the UK.

C2 Communications – Telecoms products and services

Sales revenues were £140,000 producing operating profits of £2,000 for this telecoms start-up subsidiary, which only traded for part of the second half of the year. Going forward this subsidiary is expected to make a major contribution to the Group providing IP telephony, other data and video services.

RENEWABLE ENERGY & OTHER

Ultima Networks PLC – Solar panels, energy saving lamps, educational electronic kits and property

Sales revenues were £668,000 (2003 £591,000) producing operating profits of £303,000 (2003 £113,000). The increase in sales revenues and operating profits was mainly due to a full year contribution from the supply of energy saving lamps and educational electronic kits.

Financial Review

Group turnover was up by over 7% at £1,906,000 (2003: £1,770,000) due to an increase in business from renewable energy and other of £77,000 and IT & related services of £59,000.

Gross margin for the year was 71% compared with 63% in 2003 due to high margin sales of new software and support services from Cognito and IPS.

Group selling and administration expenses were reduced by 9% to £843,000 (2003: £925,000).

Profit on ordinary activities before tax for the year was £313,000 compared with £185,000 in 2003.

Earnings per share increased to 0.14p (2003: 0.09p).

Consolidated balance sheet now positive with net assets of £836,000 (2003: net liabilities £789,000) due to the freehold properties being revalued this year.

Loan note capital of £584,000 and all outstanding interest to 1 March 2004 of £301,000 repaid to loan note holders.

Net debt reduced by £272,000 to £3,089,000 (2003: £3,361,000).

Report of the Directors

The Directors present their annual report and audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group during the year were the development, licensing and support of professional software, the supply of telecoms products and services, the installation and distribution of energy saving products, property rentals and the provision of networking products and 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 £313,000 (2003: profit of £185,000). There is a taxation charge for the year of £28,000 (2003: charge of £16,000). The profit on ordinary activities after taxation was £285,000 (2003: £169,000).

The Directors do not recommend the payment of a dividend for 2004. No dividends were paid or proposed to be paid in 2003.

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 5.

SUBSTANTIAL INTERESTS

At the date of this report 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:

Akhter Group plc and related parties

No. of shares	% held
99,375,176	48.62%

No nominee shareholder held 10% or more of the Company's issued share capital on 19 April 2005.

SHARE CAPITAL

The movements in the issued and authorised share capital are detailed in note 18 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 DIRECTORS

Mr H.A. Mughal, aged 51, is the co-founder of Akhter Group plc and is 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. He continues to be responsible for the overall control and direction of Akhter's business, a role he also performs for the Group.

Mr R.J. Piper, aged 47, was appointed as Finance Director on 26 October 2004. He previously held the role of Financial Controller and Company Secretary with the Company and will continue to act as Company Secretary. He is a fellow of the Chartered Association of Certified Accountants and is also Finance Director of Akhter Computers plc.

NON-EXECUTIVE DIRECTORS

Mr P.J. Barron †~‡, aged 62, 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. Chairman of remuneration and audit committees.

Mr P.Y. Thoms †~, aged 59, 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.

Report of the Directors *continued*

SHARE OPTION SCHEMES

Microvitec 1994 Inland Revenue Approved Executive Share Option Scheme

During the year ended 31 December 2004 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 2004 options were outstanding on 250,000 ordinary shares of 1p (2003: 250,000).

Ultima Networks plc 2004 Share Option Scheme

This new scheme was approved by the AGM held on 28 May 2004. During the year ended 31 December 2004 no options to subscribe for ordinary shares of 1p each were granted.

CHARITABLE AND POLITICAL CONTRIBUTIONS

Donations to UK charitable organisations by the Group amounted to £4,000 (2003: £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 28 days (2003: 13 days).

COMPANY WEBSITE

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.

ANNUAL GENERAL MEETING

The Annual General Meeting of the company is to be held on 31 May 2005 at 12.00pm at Akhter House, Perry Road, Harlow, Essex CM18 7PN. An explanation of the resolutions to be proposed as special business at that Meeting appears in the Notice of Annual General Meeting provided with this Annual Report

AUDITORS

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

By order of the Board

Robert J Piper
Secretary
19 April 2005

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 areas of non-compliance are listed below.

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, a Finance Director 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.

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 Directors 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 Executive Directors do not have fixed term service contracts, however they are required to retire by rotation. Emoluments of the Executive Directors, 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 held two meetings in the year, 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 LLP, 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 as required 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 Directors in line with those of peer group companies.

Corporate Governance *continued*

SHAREHOLDER RELATIONS

The Board has a policy of providing any reasonably requested historical information and explanations to shareholders on request. 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.

INTERNAL CONTROL AND FINANCIAL REPORTING

The Board is responsible for ensuring that there is a system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has implemented the 'Guidance on Internal Control' (the 'Turnbull Guidance') and confirms that the necessary procedures and management structures have been in place for the year under review and up to the date of approval of the Annual Report and Accounts. These procedures provide for a continuous process of identifying, evaluating and managing the risks the Group faces. The Board has incorporated in its meeting calendar and agenda, procedures to enable risk management and internal control to be assessed and considered on a regular basis during the year.

The Board has, in compliance with the Combined Code, formally reviewed the effectiveness of the Group's system of internal control. The Board's monitoring procedures cover all controls including financial, operational and compliance controls and risk management. These monitoring procedures are based, principally, on complementary strategic and business unit risk appraisals. The Audit Committee has been delegated responsibility by the Board for discharging its internal control review responsibilities.

The management of each business unit is responsible for internal control and risk management within its own business and for ensuring compliance with the Group's risk management and internal control programme. Reports from management are also reviewed to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring.

There is a group-wide system of budget planning with frequent reporting of results to each level of management as appropriate, including monthly reporting to the Board. Budgetary planning reviews include the identification and assessment of business and financial risks inherent in each business with the key issues evaluated by the Board.

The Board has formal procedures in place for the approval of investment and acquisition projects, with designated levels of authority, supported by post investment review processes for all major acquisitions and major capital expenditure.

Treasury policies and financial risks are reviewed on a regular basis by the board. The purpose of treasury policies is to ensure that adequate cost effective funding is available to the Group at all times and that exposure to treasury risks is minimised.

Corporate Governance *continued*

The Directors believe that, taken as a whole, the systems of internal control are appropriate to the business for the year ended 31 December 2004.

COMPLIANCE WITH THE CODE

The current composition of the Board of Directors is believed to be appropriate for the 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 are 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.

There is no internal audit function for the Group as the Board does not believe that this is 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

The Directors are satisfied that the Group has adequate resources to continue to operate for the foreseeable future, a period of not less than twelve months from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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; and
- followed applicable United Kingdom accounting standards

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.

Directors' Remuneration Report

The Directors present the Directors' Remuneration Report for the financial year ended 31 December 2004.

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 and Peter Y Thoms, both independent non-executive directors, served as members of the Remuneration Committee throughout the year and in the period to 19 April 2005.

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. A new scheme was approved by the AGM held on 28 May 2004, being the Ultima Networks plc 2004 Share Option Scheme, but no options to subscribe for ordinary shares of 1p each were granted in the year ended 31 December 2004.

Directors' Remuneration Report *continued*

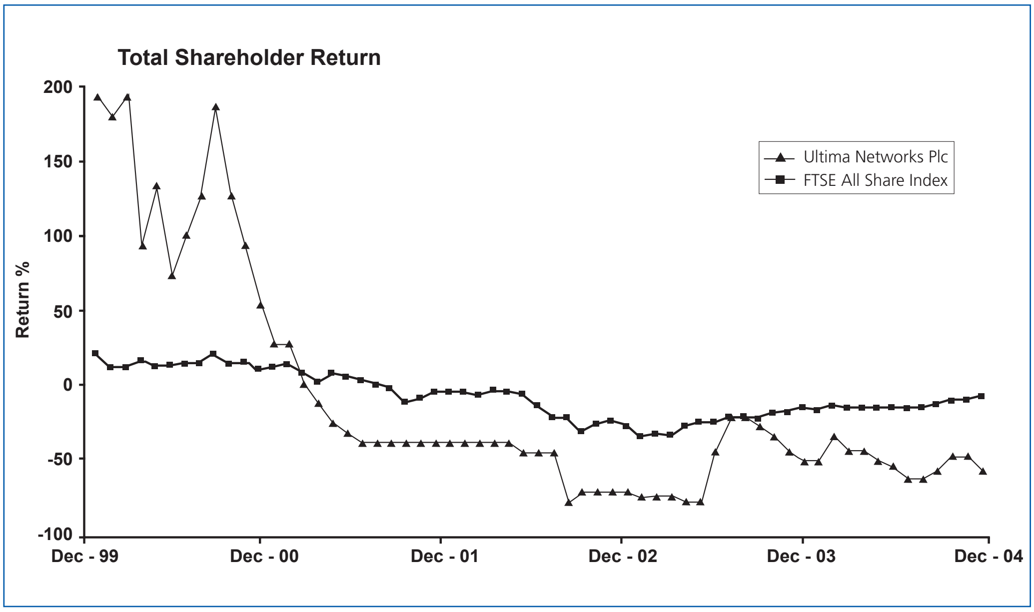
Non-executive directors

The non-executive directors do not have contracts for services. 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.

Performance Graph

The following graph shows the Company's performance for the last five years, as measured by the Total Shareholder Return (TSR) (without dividends), for equity shareholders of Ultima Networks PLC, compared with the TSR (without dividends) 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 service contracts in respect of the Executive Directors. The letters of appointment in respect of the non-executive directors who served during the year ended 31 December 2004 are for a rolling 12 month period. The letters of appointment do not contain notice periods or provision for termination payments.

Directors’ Remuneration Report *continued*

INFORMATION SUBJECT TO AUDIT

Directors’ remuneration payable for the year to 31 December 2004 was as follows:

	Basic Salary £000	Fees £000	Benefits in kind £000	2004 Total £000	2003 Total £000	Pension contributions 2004 £000	Pension contributions 2003 £000
Executive							
H.A. Mughal	-	-	-	-	-	-	-
R.J. Piper	-	-	-	-	-	-	-
Non-Executive							
P.J. Baron	-	10	-	10	10	-	-
P.Y. Thoms	-	12	-	12	12	-	-
	-	22	-	22	22	-	-
2003	-	22	-	22			

Note: Both the Executive Directors are directors of Akhter Group plc. No remuneration is paid to the Executive Directors by the Group. There is currently no pension provision for any of the directors and therefore no pension is accrued to them.

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 2004		31 December 2003	
	Ordinary shares of 1p	Ordinary share options	Ordinary shares of 1p	Ordinary share options
H.A. Mughal*	99,375,176	-	91,675,176	-
R.J. Piper	-	-	-	-
P.J. Baron	-	-	-	-
P.Y. 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 5,483,360 and 530,000 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 2004 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 2004 and 19 April 2005.

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 market price at 31 December 2004 was 1.88p and the range during the year was 1.86p to 3.00p.

Approval

The Directors' Remuneration Report was approved by the Board on 19 April 2005 and signed on its behalf by:

Peter J Barron
Chairman, Remuneration Committee

Independent Auditors' Report to the Shareholders of Ultima Networks PLC

We have audited the financial statements on pages 17 to 39. 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, the Directors' Remuneration 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 and the part of the Directors' Remuneration Report to be audited 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 whether 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.

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 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 of the Financial Services Authority 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 Chairman's Statement, the Operational Overview, the Financial Review, the Report on the Statement of Corporate Governance, the Directors' Report, the un-audited part of the Directors' Remuneration Report 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.

Independent Auditors' Report to the Shareholders of Ultima Networks PLC *continued*

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 and the part of the Directors' Remuneration Report to be audited. 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 and the part of the Directors' Remuneration Report to be audited 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 2004 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 LLP

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

19 April 2005

Consolidated profit and loss account

for the year ended 31 December 2004

	Note	**2004 £000**	2003 £000
Turnover	*2*	**1,906**	1,770
Cost of sales		**(544)**	(657)
Gross profit		**1,362**	1,113
Selling and administration expenses		**(843)**	(925)
- Exceptional operating items	*7a*	**-**	27
Net operating expenses		**(843)**	(898)
Operating profit	*4*	**519**	215
Exceptional non-operating items	*7b*	**-**	175
Profit on ordinary activities before interest	*2*	**519**	390
Net Interest payable and similar charges	*3*	**(206)**	(205)
Profit on ordinary activities before taxation		**313**	185
Tax on profit on ordinary activities	*6*	**(28)**	(16)
Profit for the financial year	*19*	**285**	169
Basic earnings per share	*9*	**0.14p**	0.09p
Diluted earnings per share	*9*	**0.14p**	0.09p

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

The notes on pages 22 to 39 form part of these financial statements.

All operations are continuing.

Consolidated balance sheet

at 31 December 2004

	Note	**2004**		2003	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*10*		**4,121**		3,082
Current assets					
Stocks	*12*	**130**		131	
Debtors	*13*	**416**		628	
Cash at bank and in hand		**237**		85	
		783		844	
Creditors: Amounts falling due within one year	*14*	**(1,576)**		(2,583)	
Net current liabilities			**(793)**		(1,739)
Total assets less current liabilities			**3,328**		1,343
Creditors: Amounts falling due after more than one year	*15*		**(2,492)**		(2,132)
Net assets/ (liabilities)			**836**		(789)
Capital and reserves					
Called up share capital	*18*		**7,551**		7,434
Share premium account	*19*		**5,598**		5,520
Revaluation reserve	*19*		**2,142**		1,080
Other reserves	*19*		**1,334**		1,334
Profit and loss account	*19*		**(15,834)**		(16,157)
Shareholders' funds			**791**		(789)
Minority interest	*11*		**45**		-
			836		(789)

These financial statements were approved by the board of directors on 19 April 2005 and were signed on its behalf by:

Humayun A Mughal
Chairman

Company balance sheet
at 31 December 2004

	Note	2004		2003	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*10*		**4,020**		2,999
Investments	*11*		**668**		613
			4,688		3,612
Current assets					
Stocks	*12*	**102**		48	
Debtors	*13*	**1,515**		1,842	
Cash		**41**		27	
		1,658		1,917	
Creditors: amounts falling due within one year	*14*	**(1,108)**		(2,002)	
Net current assets/(liabilities)			**550**		(85)
Total assets less current liabilities			**5,238**		3,527
Creditors: amounts falling due after more than one year	*15*		**(2,492)**		(2,132)
Net assets			**2,746**		1,395
Capital and reserves					
Called up share capital	*18*		**7,551**		7,434
Share premium account	*19*		**5,598**		5,520
Revaluation reserve	*19*		**2,142**		1,080
Other reserves	*19*		**5,618**		5,618
Profit and loss account – deficit	*19*		**(18,163)**		(18,257)
Shareholders' funds			**2,746**		1,395

These financial statements were approved by the board of directors on 19 April 2005 and were signed on its behalf by:

Humayun A Mughal
Chairman

Consolidated cash flow statement

for the year ended 31 December 2004

Cash flow statement

	Note	2004 £000	2003 £000
Cash inflow from operating activities	*24*	**301**	290
Returns on investments and servicing of finance	*25*	**(206)**	(205)
Taxation		**–**	–
Minority interest		**45**	–
Capital expenditure and financial investment	*25*	**(63)**	121
Cash inflow before management of liquid resources and financing		**77**	206
Financing	*25*	**75**	(220)
Increase/(decrease) in cash in the year		**152**	(14)

Reconciliation of net cash flow to movement in net debt

	Note	2004 £000	2003 £000
Increase/(decrease) in cash in the year		**152**	(14)
Cash outflow from decrease in debt and lease financing		**120**	220
Decrease in net debt from cashflows		**272**	206
Movement in net debt in the year		**272**	206
Net debt at the start of the year		**(3,361)**	(3,567)
Net debt at the end of the year	*26*	**(3,089)**	(3,361)

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2004

	2004 **£000**	2003 £000
Profit for the financial year	**285**	169
Currency translation differences on foreign investment	**16**	(23)
Total recognised gains and losses relating to the financial year	**301**	146

Reconciliation of Movement in Shareholders' Funds

for the year ended 31 December 2004

	Group		**Company**	
	2004 **£000**	2003 £000	**2004** **£000**	2003 £000
Profit/(loss) for the financial year	**285**	169	**72**	(747)
Issue of ordinary share capital	**195**	-	**195**	-
Revaluation of Freehold property	**1,084**	-	**1,084**	-
Currency translation differences on foreign currency	**16**	(23)	**-**	-
Net increase/(decrease) to shareholders' funds	**1,580**	146	**1,351**	(747)
Opening shareholders' (deficit)/funds	**(789)**	(935)	**1,395**	2,142
Closing shareholders' funds/(deficit)	**791**	(789)	**2,746**	1,395

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.

Consolidation:

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

Goodwill:

Goodwill on acquisitions comprises the excess of the fair value of the purchase consideration over the fair value of identifiable assets and liabilities acquired. Goodwill arising on acquisitions after 1 June 1998 is recognised within fixed assets in the year of acquisition. Amortisation is calculated on a straight line basis so as to write off the goodwill over its economic life, depending on the nature of the acquisition, for a period normally not exceeding 10 years.

Goodwill arising on acquisitions prior to 1 June 1998 has been set off against reserves in the year of acquisition as a matter of accounting policy. On disposal of a previously acquired subsidiary undertaking any attributable goodwill previously set off against reserves is written back to reserves brought forward and charged through the profit and loss account.

Turnover:

Turnover consists of the invoiced value (excluding VAT) for goods and services supplied to third parties. Turnover from the sale of software product licenses is recognised at the time the software licence is granted. Turnover relating to hardware and software support is recognised proportionally over the period to which it relates.

Depreciation:

All land and buildings are included at valuation. Valuations are kept up-to-date through periodic valuations carried out by external valuers. 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*

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:

The results and cash flows of overseas undertakings are translated into sterling at the average rates of exchange ruling throughout the period. The balance sheets of overseas undertakings are translated into sterling at the rates ruling at the balance sheet dates. Exchange differences arising on consolidation are taken directly to reserves. Assets and liabilities denominated in foreign currencies are converted at the rates of exchange ruling at the balance sheet date or at rates specified in related derivative instruments.

Notes *continued*

1. ACCOUNTING POLICIES *continued*

Foreign Currencies *continued*

Transactions in foreign currencies are converted at the rate of ruling at the date of each transaction or at rates specified in related derivative instruments. Exchange differences are included in the profit and loss account where they relate to trading transactions. Exchange differences arising on foreign currency borrowings, to the extent that they are used to provide a hedge against foreign equity investments, are taken directly to reserves, together with the exchange differences on the carrying amount of the related investments.

Research and development:

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

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.

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.

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.

Notes *continued*

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:

	2004 £000	2003 £000
TURNOVER		
United Kingdom	**1,840**	1,687
North America	**66**	83
Total	**1,906**	1,770
TURNOVER		
IT and related services	**1,238**	1,179
Renewable energy and other	**668**	591
Total	**1,906**	1,770

	2004 £000	2003 £000
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		
IT and related services	**216**	75
Renewable energy and other	**303**	113
	519	188
Exceptional items - see note 7a	**-**	27
Exceptional items - see note 7b	**-**	175
Total	**519**	390

The Group's Canadian operations made an operating loss of £73,000 (2003 loss: £43,000) on turnover of £66,000 (2003: £83,000). Net liabilities of the Canadian operations were £1,221,000 (2003: £1,156,000). Net assets/(liabilities) of the Group analysed by Division are as follows:

	2004 £000	2003 £000
IT and related services	**(1,242)**	(1,538)
Renewable energy and other	**2,078**	749
Total	**836**	(789)

Notes *continued*

3. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £000	2003 £000
Bank loans and overdrafts	**108**	82
Other loans (Akhter Group plc)	**54**	35
Loan notes	**47**	88
Bank interest receivable	**(3)**	-
	206	205

4. OPERATING PROFIT

	2004 £000	2003 £000
Operating profit is stated after charging		
Depreciation and other amounts written off tangible fixed assets	**86**	99
Research and development expenditure	**108**	94
Loss/(profit) on disposal of fixed assets	**22**	(152)
Auditors' remuneration:		
Audit (Company £3,000, (2003 - £3,500))	**18**	15
Other services	**-**	3

5. EMPLOYEES

	2004 £000	2003 £000
Employees costs including executive directors during the year amounted to:		
Wages and salaries	**464**	553
Social security costs	**41**	51
Other pension costs	**-**	3
	505	607

Number of employees	2004	2003
The average number of persons employed during the year including executive directors analysed by category was made up as follows:		
Production	**2**	2
Selling and distribution	**2**	3
Engineering and development	**12**	14
Administration	**10**	12
	26	31

The total remuneration of Directors was as follows:	2004 £000	2003 £000
Fees	**22**	22
Remuneration as executives (including benefits in kind)	**-**	-
Pension contributions	**-**	-
	22	22

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.

Notes *continued*

6. TAXATION

	2004 £000	2003 £000
Corporation Tax		
Current tax on income for the year	-	-
Adjustments in respect of prior years	-	-
Current taxation	-	-
Deferred taxation		
Net origination of timing differences (note 17)	28	16
Tax charge on profit on ordinary activities	28	16

Current tax reconciliation

	2004 £000	2003 £000
Profit on ordinary activities before taxation	313	185
Theoretical tax at UK corporation tax rate 30% (2003: 30%)	94	55
Effects of:		
- income not chargeable to corporation tax	-	(154)
- group relief	(15)	-
- expenditure not tax deductible	15	289
- accelerated capital allowances	(12)	(6)
- movement in losses	(45)	(28)
- R&D tax credits	(59)	-
- tax in overseas subsidiary	22	(156)
	-	-

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 tax losses to carry forward of £4,679,000 (2003: £4,954,000) which will be available for offset against future trading profits.

7a. EXCEPTIONAL ITEMS

	2004 £000	2003 £000
Gain on approval of Company Voluntary Arrangement ("CVA")		
Ultima Networks PLC	-	27
	-	27

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

Notes *continued*

7b. EXCEPTIONAL NON-OPERATING ITEMS

	2004 **£000**	2003 £000
Ultima Networks PLC		
(i) Gain on disposal of freehold property	**-**	152
(ii) Gain on write back of balances owed to dormant subsidiaries	**-**	23
	-	175

(i) On 11 August 2003 the company sold its freehold property, Flair House, Crediton. This property was used by the Cognito software operation, which relocated to new premises earlier in the year.

(ii) The write-back of inter-company balances owed to dormant subsidiaries not consolidated.

8. DIVIDENDS ON EQUITY SHARES

The Directors do not propose the payment of a dividend (2003: Nil).

9. EARNINGS PER SHARE

	2004 **No.**	2003 No.
Weighted average number of ordinary shares in issue during the year	**204,394,191**	192,744,191
Earnings attributable to shareholders	**£285,000**	£169,000

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

Earnings attributable to shareholders include the retained profit for the year after taxation.

Notes *continued*

10. TANGIBLE FIXED ASSETS

	Freehold land and buildings £000	Plant, machinery, fixtures, vehicles and tooling £000	Total £000
GROUP			
Cost or valuation			
At beginning of year	3,755	758	4,513
Additions	-	63	63
Disposals	-	(22)	(22)
Revaluation	265	-	265
At end of year	4,020	799	4,819
Depreciation			
At beginning of year	756	675	1,431
Charge for year	63	23	86
Disposals	-	-	-
Revaluation	(819)	-	(819)
At end of year	-	698	698
Net book value			
At 31 December 2004	**4,020**	**101**	**4,121**
At 31 December 2003	2,999	83	3,082

Notes *continued*

10. TANGIBLE FIXED ASSETS *continued*

	Freehold land and buildings £000
COMPANY	
Cost or valuation	
At beginning and end of year	3,755
Additions	-
Revaluation	265
At end of year	4,020
Depreciation	
At beginning of year	756
Charge for year	63
Revaluation	(819)
At end of year	-
Net book value	
At 31 December 2004	**4,020**
At 31 December 2003	2,999

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	**2004 £000**	2003 £000
Cost	**2,754**	2,754
Depreciation	**(899)**	(839)
	1,855	1,915

Freehold land and buildings include depreciable assets of £1,605,000 (2003: £1,605,000).

The freehold land and buildings owned by the company and the group were revalued on the basis of market value and rental value. The valuation report, dated 1 December 2004, was prepared by H.W. Petty and Co., and was undertaken strictly in accordance with the R.I.C.S. Appraisal and Valuation Standards, fifth edition (as amended), and the valuer was independent of any interested parties involved in the transaction.

Notes *continued*

11. FIXED ASSET INVESTMENTS - INVESTMENTS IN SUBSIDIARIES

COMPANY

	£000
Cost	
At beginning of year	**6,066**
Addition at cost	**55**
At end of year	**6,121**
Provision	
At beginning and end of year	**5,453**
Net book value	
At 31 December 2004	**668**
At 31 December 2003	**613**

The principal subsidiary undertakings which, with the exception of C2 Communications Limited being 55% owned, are all wholly owned. All subsidiaries are consolidated and include the following:

	Principal activity
SilCom Manufacturing Technology Inc.	} Design and manufacture of specialist networking products
UTN Solutions (North) Limited	} Installation and maintenance of computer networks
Integrated Publishing Systems Limited	} Provision of computer hardware and software services
Cognito Software Limited	} Development and marketing of computer software
C2 Communications Limited	} Provision of telecoms products and services

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

Minority interests of £45,000 arise in respect of C2 Communications Limited (2003:£nil). Further details are included at note 28.

Notes *continued*

12. STOCKS

	Group		Company	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Finished goods	**130**	131	**102**	48
	130	131	**102**	-

13. DEBTORS: DUE WITHIN ONE YEAR

	Group		Company	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Trade debtors	**319**	485	**73**	271
Amounts owed by group undertakings	**-**	-	**1,428**	1,541
Other debtors	**17**	-	**-**	-
Prepayments and accrued income	**20**	55	**14**	30
Deferred taxation (see note 17)	**60**	88	**-**	-
	416	628	**1,515**	1,842

14. CREDITORS: AMOUNTS DUE WITHIN ONE YEAR

	Group		Company	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Trade creditors	**62**	58	**54**	5
Borrowings (see note 15b)	**834**	1,314	**834**	1,314
Owed to related party (see note 27)	**120**	63	**-**	-
Other taxes and social security	**61**	78	**15**	38
Accruals and deferred income	**499**	1,070	**205**	645
	1,576	2,583	**1,108**	2,002

Notes *continued*

15a. CREDITORS: AMOUNTS DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Borrowings (see note 15b)	**2,492**	2,132	**2,492**	2,132

15b. BORROWINGS ANALYSIS

	Group		Company	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Due within one year				
Bank loans	**206**	142	**206**	142
Akhter Group loan	**111**	71	**111**	71
8% unsecured loan notes	**517**	1,101	**517**	1,101
	834	1,314	**834**	1,314
Due after more than one year				
Bank loans	**1,661**	1,421	**1,661**	1,421
Akhter Group loan	**831**	711	**831**	711
	2,492	2,132	**2,492**	2,132
Repayable				
Due within 1 year	**834**	1,314	**834**	1,314
Over 1 but ≤ 2 years	**831**	241	**831**	241
Over 2 but ≤ 5 years	**1,661**	806	**1,661**	806
After 5 years	**-**	1,085	**-**	1,085
	3,326	3,446	**3,326**	3,446

Under the terms of the Loan Note Instrument dated 16 June 1999 the loan notes were to be redeemed in four instalments in December 2000, June 2001, December 2001 and June 2002. In March 2004 the company repaid £885,000 to 8% loan note holders, being capital of £584,000 and all outstanding interest up to 1 March 2004 of £301,000. All of the remaining loan notes are held by related parties (see note 27).

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 27). 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*

16. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise bank and other borrowings, loan notes, some cash and various items, such as trade debtors and creditors that arise directly from its operations. Short-term debtors and creditors have been excluded from all of the following disclosures except in relation to currency risk. The main risks arising from, and impacted by, the financial assets and liabilities of the Group are interest rate risk, foreign currency risk and liquidity risk. The Board reviews and agrees policies for managing these risks and they are summarised below. The Group does not trade in financial instruments.

Interest rate risk

The Group finances its operations through a mixture of retained profits, loan notes and bank and other borrowings. The interest rate exposure of the financial liabilities of the Group was as follows:

	2004		2003	
	Floating rate £000	**Fixed rate £000**	Floating rate £000	Fixed rate £000
Sterling - loans	**2,809**	**517**	2,345	1,101

The sterling floating rate borrowings have an interest rate of 1.25% above the Base Rate (2003: 1.25% above the Base Rate). The Sterling fixed rate borrowings have a weighted average interest rate of 8.0% (2003: 8.0%). The maturity profile of these loan balances is shown in note 15b. The only financial assets held by the Group are cash at bank. Amounts held at the year end were:

	2004 £000	2003 £000
Sterling	**232**	57
Canadian Dollars	**5**	28
	237	85

All cash attracts interest at floating rates that vary with bank rates in the countries concerned.

Notes *continued*

16. FINANCIAL INSTRUMENTS *continued*

Currency risk
The Group is exposed to translation and transaction foreign exchange risk. The Group regularly reviews its exposure to translation risk and where appropriate will match this risk with an appropriate level of borrowings in the same currency. If necessary, transaction risk would be minimised by the use of the forward hedge market. At the year end, there are no currency hedging arrangements in place (2003: none).

Liquidity risk
It is the Group's policy to maintain a mix of short, medium and long term borrowings with its bankers and other finance providers. Flexibility is achieved by the use of fixed term loan facilities and bank overdrafts.

The floating rate borrowings are repayable monthly with the last payment scheduled for May 2012. At the year end the Group had an undrawn overdraft facility of £300,000. The current overdraft facility is scheduled for review at 31 December 2005.

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

17. DEFERRED TAXATION

	Group	Company
	£000	£000
Deferred tax asset at 1 January 2004	**88**	-
Released to profit and loss account in the year	**(28)**	-
Deferred tax asset at 31 December 2004	**60**	-

GROUP	**Provided**		**Not provided**	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Accelerated capital allowances	**(5)**	(17)	**-**	-
Losses	**(55)**	(71)	**(1,348)**	(1,377)
	(60)	(88)	**(1,348)**	(1,377)

COMPANY	**Provided**		**Not provided**	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Accelerated capital allowances	**-**	-	**-**	-
Losses	**-**	-	**(1,061)**	(1,090)
	-	-	**(1,061)**	(1,090)

Notes *continued*

18. CALLED UP SHARE CAPITAL

	2004 £000	2003 £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
Allotted, called up and fully paid up		
204,394,191 ordinary shares of 1p each – equity	**2,044**	1,927
137,674,431 deferred shares of 4p each – non equity	**5,507**	5,507
	7,551	7,434

The deferred 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.

During the year the Company issued 11,650,000 ordinary shares of 1p for cash. This comprised two placings, being 9,000,000 shares at 1.65p per share on 10 May 2004 and 2,650,000 shares at 1.75p per share on 1 November 2004

Ultima Networks plc 2004 Share Option Scheme

This new scheme was approved by the AGM held on 28 May 2004. During the year ended 31 December 2004 no options to subscribe for ordinary shares of 1p each were granted.

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 2004 no options were granted, no options lapsed and no options were exercised. At 31 December 2004 options were outstanding on 250,000 ordinary shares as follows:

Dates exercisable	*No. of shares*	*Price*
25 July 2002 – 24 July 2009	150,000	2.75p
16 April 2003 – 15 April 2010	100,000	7.5p

Notes *continued*

19. RESERVES

	Share premium £000	Revaluation Reserve £000	Other Reserves £000	Profit and Loss Account £000
GROUP				
At beginning of year	5,520	1,080	1,334	(16,157)
Issue of ordinary shares	78	-	-	-
Freehold property revaluation	-	1,084	-	-
Exchange movements	-	-	-	16
Profit for the financial year	-	-	-	285
Transfer from revaluation reserve	-	(22)	-	22
At end of year	5,598	2,142	1,334	(15,834)

	Share premium £000	Revaluation Reserve £000	Other Reserves £000	Profit and Loss Account £000
COMPANY				
At beginning of year	5,520	1,080	5,618	(18,257)
Issue of ordinary shares	78	-	-	-
Freehold property revaluation	-	1,084	-	-
Retained profit for the financial year	-	-	-	72
Transfer from revaluation reserve	-	(22)	-	22
At end of year	5,598	2,142	5,618	(18,163)

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 (2003: £3,350,000).

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 profit of £72,000 (2003: loss of £747,000) is dealt with in the financial statements of the parent Company.

20. CAPITAL COMMITMENTS

	Group		Company	
	2004 £000	2003 £000	**2004 £000**	2003 £000
Contracted Capital Expenditure	**-**	-	**-**	-

Notes *continued*

21. 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.

22. CONTINGENT LIABILITIES

The Company and Group have given fixed and floating charges over Group borrowings of £0.9 million from Akhter Group plc.

23. PENSIONS

The Group did not contribute to any pension schemes in respect of any of its employees or directors.

24. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW

	2004 **£000**	2003 £000
Operating profit	**519**	215
Exceptional gain (see note 7b)	**-**	175
Foreign currency translation	**16**	-
Depreciation charge	**86**	99
Loss/(profit) on disposal of fixed assets	**22**	(152)
Decrease in stocks	**1**	25
Decrease/(increase) in debtors	**184**	(130)
(Decrease)/ increase in creditors	**(527)**	58
Net cash inflow from operating activities	**301**	290

Notes *continued*

25. ANALYSIS OF CASHFLOWS

	2004 £000	2003 £000
Returns on investment and servicing of finance		
Interest paid	**(209)**	(205)
Interest received	**3**	-
Net cash outflow from returns on investment and servicing of finance	**(206)**	(205)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(63)**	(131)
Sale of tangible fixed assets	**-**	252
Net cash (outflow)/inflow from capital expenditure investment	**(63)**	121
Financing		
Issue of ordinary share capital	**195**	-
Bank loan drawdowns	**500**	-
Other loan drawdowns	**250**	-
Repayment of bank loans	**(196)**	(145)
Repayment of other loans	**(90)**	(75)
Repayment of loan notes	**(584)**	-
Net cash inflow/(outflow) from financing	**75**	(220)

26. ANALYSIS OF NET DEBT

	At beginning of year £000	Cash flow £000	At end of year £000
Cash at bank and in hand	85	152	**237**
Bank loans and overdrafts	(1,563)	(304)	**(1,867)**
Other loans	(782)	(160)	**(942)**
	(2,260)	(312)	**(2,572)**
Loan notes	(1,101)	584	**(517)**
Total	(3,361)	272	**(3,089)**

Notes *continued*

27. 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 99,375,176 shares representing 48.6% 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 15).

During the year the Group made purchases from Akhter Group plc totalling £157,000 (2003: £488,000) and, of this amount, £117,000 (2003: £63,000) was payable to Akhter Group plc at 31 December 2004. 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 Executive Chairman, Mr H.A. Mughal, made purchases from the Company totalling £31,000 (2003: nil) and this amount (2003: nil) was payable to the Company at 31 December 2004. These purchases have been made on an arm's length basis under normal commercial terms.

28. POST BALANCE SHEET EVENTS

In February 2005 the company bought out the minority interest in its telecoms start-up subsidiary company C2 Communications Limited by purchasing all of the issued ordinary share capital held by the minority shareholders. On subscription, the company acquired 55% of the ordinary share capital and has now purchased the remaining 45% at par for £45,000.

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Five Year Summay

	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
Turnover	1,906	1,770	2,206	4,391	6,952
Profit/(loss) before taxation	313	185	165	513	(783)
Net assets/(liabilities)	836	(789)	(935)	(1,168)	(3,989)
Net assets/(liabilities) per share	0.41p	(0.41)p	(0.49)p	(0.61)p	(2.1)p
Basic earnings/ (loss) per share	0.14p	0.09p	0.10p	0.30p	(0.41)p
Dividends on ordinary shares	-	-	-	-	-